## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the Prospectus), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them at any time you receive any information from us as a result of such access.**

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. IN ORDER TO BE ELIGIBLE TO READ THE PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES DESCRIBED THEREIN, YOU MUST NOT BE A "U.S. PERSON" AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (A U.S. PERSON).**

**WITHIN THE UNITED KINGDOM, THE PROSPECTUS MAY NOT BE PASSED ON EXCEPT TO INVESTMENT PROFESSIONALS OR OTHER PERSONS IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (AS AMENDED) DOES NOT APPLY TO THE ISSUER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS RELEVANT PERSONS). THE PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.**

**THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**Confirmation of your representation: The Prospectus is being sent at your request and by accepting the email and accessing the Prospectus, you shall be deemed to have represented to us that you are not a U.S. Person and that you consent to delivery of the Prospectus by electronic transmission.**

**You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.**

**The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Bookrunner (as defined below) or any affiliate of a Joint Bookrunner is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Bookrunner or such affiliate on behalf of the issuer in such jurisdiction.**

**The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Joint Bookrunners, nor any person who controls the Joint Bookrunners,**

**nor any director, officer, employee or agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from the Joint Bookrunners.**

**NWEN FINANCE PLC**

(*a public company incorporated with limited liability in England and Wales with registered number 8374655*)

£180,000,000 5.875% Guaranteed Senior Secured Notes due 2021
Issue price: 100%
unconditionally and irrevocably guaranteed on a joint and several basis by

**NORTH WEST ELECTRICITY NETWORKS (HOLDINGS) LIMITED**
(*a company incorporated in England and Wales with limited liability with registered number 6428534*)

and

**NORTH WEST ELECTRICITY NETWORKS (FINANCE) LIMITED**
(*a company incorporated in England and Wales with limited liability with registered number 6428374*)

NWEN Finance plc, a public limited company incorporated under the laws of England and Wales (the **Issuer**), will issue £180,000,000 aggregate principal amount of 5.875% Guaranteed Senior Secured Notes due 2021 (the **Notes**). Interest on the Notes will be payable on 21 June and 21 December of each year, beginning on 21 June 2013. The Notes will mature on 21 June 2021.

The Notes will be senior secured obligations of the Issuer. The payment of all amounts owing in respect of the Notes will be unconditionally and irrevocably guaranteed on a joint and several basis (the **Guarantees**) by North West Electricity Networks (Holdings) Limited and North West Electricity Networks (Finance) Limited (the **Guarantors** and each a **Guarantor**, respectively) as described herein. The Notes and the Guarantees will be secured by certain fixed security interests and floating security interests over all of the assets of the Issuer and the Guarantors, including first priority security interests in the share capital of the Issuer, North West Electricity Networks (Holdings) Limited and NWEN Group Limited, which are intermediate holding companies of the Issuer Financing Group (as defined below).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 as amended (**FSMA**) (the **UK Listing Authority** or **UKLA**) for the Notes to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the **Market**). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and the Council on markets in financial instruments.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 21 March 2013 (the **Closing Date**) with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 30 April 2013, upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

The Notes have been rated BB+ by Standard & Poor's (as defined below). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Standard & Poor's Credit Market Services Europe Limited (**Standard &**

**Poor's**) is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

**The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the Securities Act), or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may be offered, sold or delivered only outside the United States to persons who are not "U.S. persons" as defined in Regulation S under the Securities Act (Regulation S) (each, a U.S. person) in offshore transactions in reliance on Regulation S (see Chapter 19 "*Subscription and Sale*").**

**See Chapter 3 "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.**

*Sole Global Coordinator, Sole Arranger and Joint Bookrunner*
**Barclays**

*Joint Bookrunner*
**HSBC**

PROSPECTUS DATED 19 March 2013

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## Important Notice

This Prospectus constitutes a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which include the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**) and for the purpose of giving information with regard to the Issuer, the Guarantors and the Guarantees which, according to the particular nature of the Issuer, the Guarantors, the Notes and the Guarantee, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantors.

The Issuer and the Guarantors accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantors, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the Issuer, the Guarantors any member of the NWEN Financing Group or the ENW Group (each as defined below) or the offering or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Guarantors, any member of the NWEN Financing Group or the ENW Group, the Joint Bookrunners, the Note Trustee or the Security Trustee. Neither the delivery of this Prospectus nor any offering or sale of the Notes made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer, the Guarantors or any member of the NWEN Financing Group or the ENW Group since the date hereof. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus. This Prospectus does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Guarantors or the Joint Bookrunners to subscribe, or purchase, any of the Notes.

None of the Joint Bookrunners, the Note Trustee or the Security Trustee nor the Principal Paying Agent or any other Agent (each as defined below and, together, the **Other Parties**) has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Bookrunners, the Note Trustee or the Security Trustee or any Other Party as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Notes or their distribution. None of the Joint Bookrunners, the Note Trustee, the Security Trustee or the Other Parties expressly undertakes to review the financial condition or affairs of any of the Issuer or the Guarantors after the date hereof or to advise any investor in the Notes of any information coming to their attention. The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer and the Guarantors. Each person receiving this Prospectus acknowledges that such person has not relied on the Joint Bookrunners, the Note Trustee or the Security Trustee or any Other Party nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantors, any member of the NWEN Financing Group or the ENW Group, the Joint Bookrunners, the Note Trustee, the Security Trustee or any of the Other Parties that any recipient of this Prospectus should purchase any of the Notes.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of the financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and the Guarantors and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Notes should consult independent professional advisers.

**THE NOTES AND THE GUARANTEES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND REGULATIONS THEREUNDER).**

**THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF NOTES AND DISTRIBUTION OF THIS PROSPECTUS SEE "SUBSCRIPTION AND SALE".**

**THE NOTES AND THE GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY\ STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

None of the Issuer, the Guarantors, the Joint Bookrunners, the Note Trustee, the Security Trustee or the Agents accept responsibility to investors for the regulatory treatment of their investment in the Notes (including (but not limited to) whether the issue of the Notes is or will be regarded as constituting a "securitisation" for the purpose of the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU as amended by Directive 2009/111/EC) by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Notes is relevant to any investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator.

**IN CONNECTION WITH THE ISSUE OF THE NOTES, BARCLAYS BANK PLC AS STABILISING MANAGER (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## DEFINITIONS

All references herein to:

**pounds**, **sterling** or **£** are to the lawful currency of the United Kingdom;

**U.S. dollars** and **dollars** are to the lawful currency of the United States of America; and

**euro** or **€** are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer and/or the Guarantors to differ materially from the information presented herein. When used in this Prospectus, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Issuer Financing Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Neither the Issuer nor the Guarantors undertake any obligations to publicly release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

# CHAPTER 1: PARTIES

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| **Issuer** | NWEN Finance plc, a public company incorporated in England and Wales with limited liability (registration number 8374655) is a funding vehicle for raising funds to support the long-term debt financing requirements of the Issuer Financing Group. The shares of the Issuer are 100% beneficially owned by North West Electricity Networks (Holdings) Limited. The Issuer is tax resident in the United Kingdom. |
| **Guarantors** | Senior HoldCo and Finance HoldCo.<br><br>The Guarantors are not members of the NWEN Financing Group or the ENW Group. |
| **Senior HoldCo** | North West Electricity Networks (Holdings) Limited is a company incorporated in England and Wales with limited liability (registration number 6428534).<br><br>Senior HoldCo holds 100% of the shares in the Issuer and NWEN HoldCo. Senior HoldCo is tax resident in the United Kingdom. |
| **Finance HoldCo** | North West Electricity Networks (Finance) Limited is a company incorporated in England and Wales with limited liability (registration number 6428374).<br><br>Finance HoldCo holds 100% of the shares in Senior HoldCo. Finance HoldCo is tax resident in the United Kingdom. |
| **Issuer Financing Group** | Finance HoldCo and its Subsidiaries from time to time. See Chapter 7 "*Overview of the Financing Structure – Ownership Structure*" for a diagram of the Issuer Financing Group. |
| **NWEN** | North West Electricity Networks Limited, a company incorporated on 15 November 2007 in England and Wales with limited liability (registration number 6428375). The shares of NWEN are 100% legally and beneficially owned by NWEN HoldCo. NWEN is tax resident in the United Kingdom. |
| **NWEN HoldCo** | NWEN Group Limited, a company incorporated in England and Wales with limited liability (registration number 06872880). The shares of NWEN HoldCo are 100% legally and beneficially owned by Senior HoldCo. NWEN HoldCo is tax resident in the United Kingdom. |

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| **NWEN Issuer** | ENW Capital Finance plc, a public company incorporated in England and Wales with limited liability (registration number 6873051) is the main funding vehicle under the £1,000,000,000 debt programme for the issuance of notes for raising funds to support the long-term debt financing requirements of the NWEN Financing Group. The shares of the NWEN Issuer are 100% beneficially owned by NWEN. The NWEN Issuer is tax resident in the United Kingdom. |
| **NWEN Financing Group** | NWEN HoldCo and each of NWEN HoldCo's Subsidiaries from time to time. See Chapter 7 "*Overview of the Financing Structure – Ownership Structure*" for a diagram of the NWEN Financing Group. |
| **ENW** | Electricity North West Limited, a company incorporated in England and Wales with limited liability (registration number 2366949). ENW is UK tax resident. The shares of ENW are 100% legally and beneficially owned by NWEN. ENW owns a regulated electricity distribution network and operates under a licence to distribute electricity throughout the North West of England and such other parts of Great Britain as approved by Ofgem from time to time (the **Licence**). |
| **ENW Issuer** | ENW Finance plc, a public company incorporated in England and Wales with limited liability (registration number 06845434) is the main funding vehicle under the £1,000,000,000 debt programme for the issuance of notes for raising funds to support the long-term debt financing requirements of the ENW Group. The shares of the ENW Issuer are 100% beneficially owned by NWEN. The ENW Issuer is tax resident in the United Kingdom. |
| **ENW Group** | The ENW Issuer, ENW and each of ENW's Subsidiaries from time to time. |
| **Sole Global Coordinator, Sole Arranger and Joint Bookrunner** | Barclays Bank PLC. |
| **Joint Bookrunner** | HSBC Bank plc (and, together with Barclays Bank PLC in its capacity as Joint Bookrunner, the **Joint Bookrunners**). |
| **Note Trustee** | Law Debenture Trustees Limited (or any successor trustee appointed pursuant to the Trust Deed (as defined below)) (the **Note Trustee**) will act as Note Trustee for and on behalf of the holders of the Notes (each a **Noteholder**). |
| **Security Trustee** | The Law Debenture Trust Corporation p.l.c. (or any successor trustee appointed pursuant to the Intercreditor Agreement (as defined below)) will act as security trustee (the **Security Trustee**) for itself and on behalf of the Secured Creditors and will hold, and will be entitled to enforce, the Security subject to the terms of the Intercreditor Agreement (as defined in the |

Conditions).

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| **Secured Creditors** | The Secured Creditors will comprise any person who is a party to, or has acceded to, the Intercreditor Agreement as a Secured Creditor. |
| **Paying Agents** | HSBC Bank plc will act as principal paying agent (or any successor principal paying agent appointed pursuant to the Agency Agreement) (the **Principal Paying Agent**) and, together with any other paying agents appointed by the Issuer from time to time (each a **Paying Agent**), will provide certain issue and paying agency services to the Issuer in respect of the Notes, pursuant to an Agency Agreement to be entered into on or before the Closing Date by, inter alia, the Issuer and the Principal Paying Agent (the **Agency Agreement**). |
| **Rating Agency** | Standard & Poor's. |
| **Regulator** | The Gas and Electricity Markets Authority (**GEMA**), operating through the Office of Gas and Electricity Markets (**Ofgem**) and any successor thereto. |

## CHAPTER 2: OVERVIEW

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| **Notes** | £180,000,000 aggregate principal amount of 5.875% Guaranteed Senior Secured Notes due 2021 (the **Notes** which expression shall, unless the context otherwise requires, include any Further Notes issued pursuant to Condition 16 (Further Issues) and forming a single series with the Notes)). |
| **Guarantee** | The Guarantors will unconditionally and irrevocably on a joint and several basis guarantee the payment of all amounts owing in respect of the Notes in favour of the Note Trustee.<br><br>The obligations of the Guarantors under the Guarantees will be direct, unconditional, joint and several and secured obligations of the Guarantors. In relation to the security provided by the Guarantors, see "Security" below in this Chapter 2 (Overview).<br><br>The Guarantors and the Issuer will each cross-guarantee the obligations of each other under the Transaction Documents in favour of the Note Trustee.<br><br>None of NWEN, NWEN HoldCo, NWEN Issuer, ENW, ENW Issuer nor any of ENW's Subsidiaries will be obligors under the Notes or provide any guarantees in connection with the Notes. |
| **Closing Date** | The Notes will be issued on 21 March 2013. |
| **Maturity Date** | The Notes will mature on 21 June 2021. |
| **Interest Rate** | The Notes will bear interest at a rate of 5.875% per annum. |
| **Interest Payment Dates** | 21 June and 21 December of each year, commencing on 21 June 2013. |
| **Denominations** | The Notes will have a minimum denomination of £100,000 and any integral multiple of £1,000 in excess thereof. Notes in denominations of less than £100,000 will not be available. |
| **Source of Funds for Required Payments by the Issuer and the Guarantors** | The payment by Senior HoldCo of interest, principal and other amounts to the Issuer under the Issuer/Senior HoldCo Loan Agreement and payments under the Guarantees by the Guarantors will be the principal sources of funds for the Issuer to make its required payments in respect of the Notes outstanding from time to time.<br><br>Senior HoldCo will be reliant upon the payment by its Subsidiaries (including ENW) of dividends and certain other distributions to meet its payment obligations in respect of interest and principal due to the Issuer under the Issuer/Senior HoldCo Loan Agreement. In addition, the Guarantors will be substantially reliant on the cashflow of ENW in fulfilling their respective obligations under the Guarantee. |
| **Issue Price** | 100%. |
| **Form of Notes** | The Notes will be in bearer form.<br><br>The Notes will initially be represented by a temporary global note (the **Temporary** |

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| | **Global Note**), without interest coupons. Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 30 April 2013, upon certification as to non-U.S. beneficial ownership.<br><br>Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see "*Summary of Provisions relating to the Notes while represented by the Global Notes*". |
| **Clearing Systems** | Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and Euroclear Bank SA/NV (**Euroclear**). |
| **Initial Delivery of Notes** | The Global Notes will be deposited on or about 21 March 2013 (the **Closing Date**) with a common depositary for Euroclear and Clearstream, Luxembourg. |
| **Final Redemption** | Unless previously redeemed or purchased and cancelled in accordance with Condition 7.1 (Final Redemption), the Notes will be redeemed at their principal amount on the Maturity Date. |
| **Optional Redemption** | The Issuer may, at its option, redeem all, or some only, of the Notes at any time after the Closing Date at the relevant redemption amount described under Condition 7.2(a) (Optional Redemption). |
| **Early Redemption for Taxation Events** | In the event of the Issuer or a Guarantor becoming obliged to make any deduction or withholding from payments in respect of the Notes, the Issuer may (a) use its reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to the consent of the Note Trustee and certain other conditions) and, failing this, (b) redeem (subject to certain conditions) all (but not some only) of the Notes at their principal amount together with accrued but unpaid interest. See Condition 7.2(b) (Redemption Upon Changes in Withholding Taxes). |
| **Change of Control Put Option** | If there is a Change of Control Event, Noteholders will be entitled to request the Issuer to redeem some or all of their Notes at 101% of their principal amount together with accrued but unpaid interest. See Condition 7.3 (Change of Control Put). |
| **Status of Notes** | The Notes will constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and at all times shall rank *pari passu* and without any preference among themselves and in relation to any Secured Liabilities.<br><br>The Notes will be structurally subordinated to all existing and future indebtedness of the NWEN Financing Group. |
| **Status of Guarantee** | The Guarantees are joint and several, unconditional, irrevocable and unsubordinated secured obligations of each relevant Guarantor. Claims of Noteholders under the Guarantees shall at all times rank *pari passu* and without any preference in relation to any other Secured Liabilities of the Guarantors.<br><br>In relation to the security provided by the Guarantors, see "*Security*" below in this Chapter 2 (Overview). |
| **Negative Pledge** | See "*Terms and Conditions of the Notes – Negative Pledge and Covenants*". |

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| **Cross Acceleration** | See "*Terms and Conditions of the Notes – Events of Default*". |
| **Financial Covenants** | See "*Terms and Conditions of the Notes – Events of Default*". |
| **Lock-Up** | See "*Overview of the Financing Agreements – Trust Deed – Lock-Up*". |
| **No Acquisitions** | See "*Overview of the Financing Agreements – Trust Deed – Covenants of the Issuer and the Guarantors*". |
| **No Merger** | See "*Overview of the Financing Agreements – Trust Deed – Covenants of the Issuer and the Guarantors*". |
| **No Disposal of ENW** | See "*Overview of the Financing Agreements – Trust Deed – Covenants of the Issuer and the Guarantors*". |
| **No Loans or Credit** | See "*Overview of the Financing Agreements – Trust Deed – Covenants of the Issuer and the Guarantors*". |
| **No Guarantees** | See "*Overview of the Financing Agreements – Trust Deed – Covenants of the Issuer and the Guarantors*". |
| **Modification, Waiver and Substitution** | The Note Trustee may, without the consent of holders of the Notes, agree to (i) any modification of (subject to certain exceptions), or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Trust Deed or the Agency Agreement or (ii) the substitution in place of the Issuer as principal debtor under the Notes, in each case in the circumstances and subject to the conditions described in Condition 14 (Meetings of Noteholders, Modification, Waiver and Substitution). |
| **Ratings** | The Notes have been rated BB+ by Standard & Poor's. Standard & Poor's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended).<br><br>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. |
| **Taxation** | All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the United Kingdom unless the withholding is required by law. In such event, the Issuer or the Guarantors shall, subject to customary exceptions (including the ICMA Standard EU Tax Exemption Tax Language), pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding been required, all as described in "*Terms and Conditions of the Notes – Taxation*". |
| **Transaction Security** | The security granted to the Security Trustee pursuant to the Transaction Security Documents. |

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| **Transaction Security Documents** | The Security Agreement and any other document entered into at any time by the Issuer, a Guarantor or any further entity which has acceded to the Intercreditor Agreement as an obligor which grants any Security in favour of the Security Trustee (to be held on trust for the Secured Creditors). The claims of the Secured Creditors in respect of the Transaction Security will be regulated by the Intercreditor Agreement.<br><br>None of NWEN, NWEN HoldCo, NWEN Issuer, ENW, ENW Issuer nor any of their Subsidiaries will grant Security pursuant to the Transaction Security Documents. |
| **Security** | Pursuant to the Security Agreement:<br><br>(a) Senior HoldCo will grant, as security for its obligations under the Guarantee, (i) fixed security over all its shares in the Issuer and NWEN HoldCo and all its real property, book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets;<br><br>(b) Finance HoldCo will grant, as security for its obligations under the Guarantee, (i) fixed security over all its shares in Senior HoldCo and all its real property, book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets; and<br><br>(c) the Issuer will grant, as security for its obligations under the Notes, (i) an assignment of its rights in respect of the Transaction Documents, (ii) a fixed charge over all its book debts, bank accounts and investments, present and future and (iii) a floating charge over all of its property, undertaking and assets. |
| **Note Documents** | The Notes, the Trust Deed, the Agency Agreement, the Subscription Agreement and the Issuer/Senior HoldCo Loan Agreement. |
| **Transaction Documents** | The Transaction Security Documents, the Intercreditor Agreement, the Note Documents, the Additional Note Documents (if any), the Additional Finance Documents (if any) and the Hedging Agreements (if any) entered into from time to time pursuant to the Intercreditor Agreement. |
| **Issuer/Senior HoldCo Loan Agreement** | A loan agreement which will be entered into between the Issuer and Senior HoldCo (the **Issuer/Senior Holdco Loan Agreement**), pursuant to which the Issuer will grant an initial intra-group loan to the Senior HoldCo in an amount equal to the proceeds of the Notes issued by the Issuer on the Closing Date (the **Issuer/Senior HoldCo Loan**). Funds received by the Issuer under the Issuer/Senior HoldCo Loan from Senior HoldCo will enable the Issuer to make payments on the Notes and fund its costs and expenses. |

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| **Intercreditor Agreement** | The Intercreditor Agreement which will be entered into between the Secured Creditors (and, in the case of the Noteholders, the Note Trustee on behalf of the Noteholders), certain Subordinated Lenders, the Issuer and the Guarantors to regulate the claims of the Secured Creditors in relation to any Secured Liabilities and the rights of the Issuer and the Guarantors (the **Intercreditor Agreement** or Intercreditor Agreement). See "*Overview of the Financing Agreements – Intercreditor Agreement*". |
| **Secured Creditors** | (a) the Note Trustee (on its own behalf and on behalf of the relevant Noteholders), the Noteholders, the Principal Paying Agent and any other Paying Agent;<br>(b) any Additional Note Parties;<br>(c) any Additional Finance Parties;<br>(d) any Hedge Counterparties;<br>(e) the Security Trustee; and<br>(f) any other person who accedes to the Intercreditor Agreement as a Secured Creditor by executing a Secured Creditor Accession Deed. |
| **Secured Liabilities** | All the Liabilities and all other present and future obligations at any time due, owing or incurred by any of the Issuer or the Guarantors to any Secured Creditor under the Transaction Documents, both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity. |
| **Selling Restrictions** | There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area and the United Kingdom. See "*Subscription and Sale*". |
| **United States Selling Restrictions** | The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom) only in compliance with applicable laws and regulations. See "*Subscription and Sale*" below.<br><br>The Issuer is a Category 2 issuer for the purposes of Regulation S under the Securities Act.<br><br>The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the **D Rules**) |
| **Risk Factors** | There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes and/or the Guarantors' ability to fulfil their obligations under the Guarantee.<br><br>These are set out in Chapter 3 "*Risk Factors*". |

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| **Purchase of Notes** | The Issuer, the Guarantors and other members of the Issuer Financing Group will be permitted to purchase Notes in the open market. Upon such purchase, such Notes may be, but are not required to be, surrendered and cancelled (and if so cancelled a corresponding amount of the advances made under the Issuer/Senior HoldCo Loan Agreement(s) will be treated as prepaid).<br><br>The voting rights of Notes held by the Issuer, the Guarantors and any member of the Issuer Financing Group will be limited in accordance with the provisions of the Trust Deed. |
| **Use of Proceeds** | The net proceeds of the issue of the Notes will be will be on-loaned to Senior HoldCo who shall apply such funds in prepayment in full of existing indebtedness and payment of fees and thereafter applied for general corporate purposes. |
| **Listing and Trading** | Application has been made to the Financial Services Authority for the Notes to be admitted to listing on the Official List and to trading on the Market. There is no assurance that the Notes will be admitted to the Market. |
| **Governing Law** | The Notes and the Trust Deed and all non-contractual obligations arising from or in connection with the Notes and the Trust Deed will be governed by the laws of England and Wales. |
| **ISIN** | XS0904707287 |
| **Common Code** | 090470728 |

# CHAPTER 3: RISK FACTORS

*This section of the Prospectus describes all material risks that are known to the Issuer and the Guarantors as at the date of this Prospectus. This section of the Prospectus is not intended to be exhaustive and prospective Noteholders should read the detailed information set out elsewhere in this Prospectus prior to making any investment decision. The risks described below are not the only ones faced by ENW, the Issuer or the Guarantors. Additional risks not presently known to the Issuer and the Guarantors or which the Issuer and the Guarantors currently believe to be immaterial may also adversely affect its business. In the event of any material adverse impact of one of or more of the risks described herein, the value of the Notes could decline, and the Issuer may not be able to pay all or part of the interest or principal on the Notes and investors may lose all or part of their investment. Prospective Noteholders should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Prospectus and their personal circumstances.*

*The risks described in this "Risk Factors" section have been grouped as follows:*

*(a) risks that arise out of the business of ENW, the electricity industry and regulatory environment within which ENW operates;*

*(b) risks that reflect of the nature of the Issuer and the Guarantors; and*

*(c) financial, tax or legal risks, including those that arise as a consequence of the terms of the Transaction Documents.*

*In addition, whilst the various structural elements described in this Prospectus are intended to lessen some of the risks discussed below for the Noteholders, there can be no assurance that these measures will ensure that the Noteholders receive payment of interest or repayment of principal from the Issuer on a timely basis or at all.*

**Risk Factors relating to the Electricity Industry and ENW**

The sole operating company within the Issuer Financing Group is ENW which, for regulatory reasons, will not provide any guarantee or any security in connection with the Notes and Secured Creditors will have no recourse to it (see "*Holding company structure and limited recourse to ENW*" below). The Issuer's ability to make payments under the Notes is dependent on Senior HoldCo's ability to make payments under the Issuer/Senior HoldCo Loan Agreement which in turn is dependent on (i) ENW and its ability to generate sufficient income through its regulated electricity distribution business to pay dividends and/or upstream loan payments to NWEN and (ii) NWEN and its ability to finance the indebtedness of the NWEN Financing Group and therefore to pay dividends and/or upstream loan payments, directly or indirectly, to Senior HoldCo.

The UK electricity distribution industry is subject to extensive legal and regulatory controls and ENW is required to comply with all applicable laws, regulations and regulatory standards, some of which are described in Chapter 13 "*Regulation of Electricity Distribution in Great Britain*". The application of these laws, regulations and standards and the policies of Ofgem could have a material adverse impact on the business, financial condition or results of operations of ENW, but generally provide a recognised, stable and protected operating environment.

In this context, in particular, prospective investors should be aware of the following matters:

### *The Licence*

In the electricity industry, the licences granted to distribution network operators (**DNOs**) all have a similar structure in that each licence comprises a set of standard licence conditions (see Chapter 14 "*Ringfencing*" for a discussion of the standard licence conditions) and a set of special licence conditions (one of which is the price control for the specific licensee). There are also examples of a specific DNO having the benefit of a waiver from Ofgem of the requirements of a specific standard condition.

### *Modification of the Licence*

Any amendment to a licence condition can only be implemented by Ofgem after a consultation period and licence holders (and, in certain circumstances, other stakeholders) can challenge the modifications by making an appeal to the Competition Commission. As part of a scheme for the transfer of property, rights and liabilities following an Energy Administration Order (an **Energy Transfer Scheme**), the Energy Administrator has the ability to make modifications to the licence of the existing licensee (see "*Energy Administration Orders*" below).

### *Termination of the Licence*

While a licence is for an indefinite period, it can be terminated on 25 years' notice given by the Secretary of State. A licence can also be revoked in certain circumstances, including where the licensee fails to comply with an enforcement order made by Ofgem.

### *Licence enforcement, breaches and sanctions*

Breach of a licence condition can attract fines of up to ten per cent. 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's Licence (like those granted to other DNOs) contains financial ringfencing provisions (see Chapter 14 "*Ringfencing*") under which Ofgem can also make an order preventing either payment of a dividend (if it is not satisfied that a licensee has sufficient available resources) or intragroup payments or loans where these are not on an arm's-length basis on normal commercial terms. The Licence does, however, state that any repayment of, or payment of interest on, an intragroup loan (such as the NWEN/ENW Loan Agreement) which is (i) entered into on an arm's length basis on normal commercial terms and applied for a "Permitted Purpose", and (ii) entered into prior to the date of the relevant event giving rise to the payment lock-up, would be permitted under the Licence, provided that any such payment is not made earlier than the original due date for payment in accordance with its terms.

On 17 December 2012, Ofgem published formal consultations on proposed modifications to the ringfence conditions in DNO licences. Having considered the responses to its consultations, Ofgem has now announced modifications to the standard conditions of the electricity distribution licences, effective 1 April 2013.

The effects of the proposed modifications include providing assurance that charges will only be granted over the receivables of a relevant licensee in appropriate circumstances and extending the scope of the annual certification of resources availability by each licensee's board so that it covers operational as well as financial resources and compliance with certain licence conditions. Further modifications include:

(a) licensees are required to maintain an intervention plan containing important financial and operational information;

(b) licensees are required to provide Ofgem with a schedule of its ultimate controllers and to reappraise those ultimate controllers of the terms of undertakings which they have given to the licensee on an annual basis;

(c) DBRS Ratings Ltd and its affiliates are added to the list of specified credit rating agencies;

(d) the definition of parties specified in restrictions placed on the licensee is extended by the inclusion of a new defined term of "Associate";

(e) additional circumstances in which a licensee could be subject to restrictions on the payments it can make to its associates are specified; and

(f) licensees are, from 1 April 2014, required to have two sufficiently independent directors.

Ofgem can intervene in order to address *ex-post facto* breaches of regulation, in particular, with regard to licence conditions. In particular, Ofgem monitors the quality of performance and, in appropriate cases, will take enforcement action. For example in 2007 Ofgem found subsidiaries of CE Electric UK in breach of their electricity distribution licence conditions for misreporting quality of service data. Ofgem required a £2.1 million reduction in the price control revenue of the company, in addition to the £5.5 million reduction already ordered to correct the financial impact of the misreporting.

The modification, termination, non-renewal or transfer of the Licence could have a material adverse impact on ENW's ability to pay dividends and its ability to meet its obligations (including the payment of principal and interest) under any intragroup loans (including the NWEN/ENW Loan Agreement) and, therefore, Senior HoldCo's ability to meet its obligations under the Issuer/Senior HoldCo Loan Agreement and in turn, the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Notes.

***Price controls and changing regulatory obligations could adversely affect profitability***

The UK has a stable and transparent regulatory regime well tested since privatisation in 1990. The principal driver of allowable revenue is Regulated Asset Value (**RAV**).

From April 2015 the existing regulatory framework relating to price controls (Distribution Price Control Review Five or **DPCR5**) will change with a view to incentivising DNOs to invest in greater innovation and to deliver specific outputs. Ofgem's key objective is to encourage energy network companies to play a full role in the delivery of a low carbon sustainable energy sector. Under the evolved regulatory regime, each price control period will last for eight years rather than the five year period under the existing regulatory framework.

The new regulatory price control model – setting Revenue using Incentives to deliver Innovation and Outputs (known as **RIIO**) – sets out the principles that the regulator will employ in agreeing future price controls with distribution companies. The model includes a number of changes from the principles employed in previous price controls, putting much greater emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers today and in the future. The new regulatory price control model for electricity distribution is referred to as **RIIO-ED1**.

ENW is delivering strongly against the regulatory period (DPCR5) contract – in relation to outputs, cost efficiencies and financial outperformance. Success in RIIO-ED1 means companies will be rewarded with revenues coming from demonstrated innovation; incentives for performance (customer performance and cost efficiency); and delivery of outputs. RIIO-ED1 represents an evolution of what has already been implemented in the current regulatory period. It will see ongoing focus on outputs and driving efficiency and incentives for customer delivery. The key incentives regarding customer interruptions, customer minutes lost and customer satisfaction have been implemented in DPCR5 and will remain in RIIO-ED1.

There will be a change in depreciation lives to 45 years for new asset investment from 1 April 2015, coupled with a move to all expenditure being eligible for inclusion in the RAV at a fixed capitalisation rate. A cost of debt index will create focus on financeability of investment plans. Ofgem is open to transition arrangement(s) if needed (as demonstrated in the most recent price review for transmission which was undertaken according to the RIIO Methodology).

There is a risk that Ofgem's revised framework may adversely affect the cash flow, financeability and/or valuation of ENW, if implemented in an unfavourable manner. ENW is actively monitoring the Transmission and Gas Distribution price reviews and it is pro-actively working with Ofgem and the industry on influencing RIIO-ED1 policy.

***ENW might not secure a sustainable outcome at the RIIO-ED1 price review***

In order to maximise the likelihood that price control reviews end in a positive pricing determination, ENW has introduced a robust process for undertaking and managing the price control review and regular reports are provided to ENW's board of directors. ENW has developed a detailed regulatory strategy and will continue to engage with Ofgem to secure a sustainable outcome when the RIIO-ED1 initial "Business Plan" assessment takes place in 2013. Notwithstanding these measures, should there be a negative pricing review, this may have an adverse effect on ENW's ability to pay dividends and/or service its obligations under any intragroup loan agreement (including the NWEN/ENW Loan Agreement), which in turn may ultimately affect the Issuer's ability to meet its obligations under the Notes and the other Transaction Documents to which it is a party.

***Risk that Retail Price Index (RPI) fluctuations could adversely affect net cashflow***

The revenues of ENW's electricity distribution business are linked to RPI. The bulk of ENW's revenue from its distribution business is subject to a price control framework set by Ofgem. Under the existing price control framework, ENW is permitted to increase prices by an average of 8.5% plus inflation (measured by RPI) in each of the five years to 2015.

Fluctuations in RPI therefore impact ENW's revenues. There is a risk that ENW's cost base may increase at a faster rate than RPI (if inflation as measured by RPI is less than the rate of inflation on components of ENW's cost base). If that were to happen and, if the differential between RPI-linked inflation and cost-base inflation were sufficiently marked, it could adversely affect ENW's profitability and financial position and, therefore, the Issuer's ability to meet its obligations under the Notes.

***Failure to deliver network investment plans and outputs could adversely affect ENW's financial position***

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 Regulatory Period and the associated funding costs. ENW has agreed its network investment requirements for the Regulatory Period to 31 March 2015 with Ofgem. These plans include a significant increase in the volume of activity particularly with respect to the refurbishment and renewal of overhead lines from both an operational and safety perspective.

There is a risk that, if ENW fails to deliver the network investment plans, Ofgem may factor such failure into future price reviews and, as a result, ENW's profitability may suffer. In addition, there is a risk that such failure might lead, in some circumstances, to non-compliance with safety legislation and perceived non-delivery by Ofgem and ENW's customers, leading to potential penalties under the current regulatory regime and/or loss of credibility for future regulatory submissions any of which could adversely affect ENW's profitability and financial position. This, in turn, might affect the ability of the Issuer to meet its obligations under the Notes.

ENW has developed implementation plans to ensure sufficient contractor resources are procured, work content of projects is designed in a timely manner and processes are in place to deliver ENW's outputs efficiently.

***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. However, historically, although there has been no compliance failure which has had a material adverse consequence, ENW has not been in total compliance and there can be no assurance in the future that it will be in total compliance at all times with these existing laws and regulations. There is a risk that should ENW fail to comply with these laws and regulations, it could incur cost in bringing the business into compliance or face fines imposed by the courts or otherwise face sanctions imposed by Ofgem or another regulator, any of which could adversely affect ENW's profitability and financial position.

Environmental laws and regulations are complex and change frequently. These laws, and their enforcement, have tended to become more stringent over time. Although ENW has taken into account the future capital and operating expenditure necessary to achieve and maintain compliance with current and known future changes in laws and regulations, it is possible that new or stricter standards could be imposed, or current interpretation of existing legislation amended, which will increase ENW's operating costs by requiring changes or modifications to the assets in order to comply with any new environmental laws and regulations. Although these costs may be recoverable in part through the regulatory process of setting appropriate future price limits, there can be no assurance of this. Therefore, there is a risk that the costs of complying with, or discharging its liabilities under, potential future environmental and health and safety laws could adversely affect ENW's profitability or financial position which, in turn, would affect the Issuer's ability to meet its obligations under the Notes.

***Pension scheme obligations may require ENW to make additional contributions to the pension scheme which would reduce cashflow in a given period***

ENW sponsors a pension scheme with both defined benefit (closed to new members since 2006) and defined contribution sections. The bulk of the liabilities sit in the defined benefit section, the assets of which are held in trust, independent of ENW finances. There is a risk, as with all funded defined benefit pension schemes, that under-performance of the pension scheme investments and/or an increase in the scheme's pension liabilities will give rise to a future increase in the pension scheme deficit which may in turn require increased contributions from ENW. Currently, efficient pension contributions for pre 1 April 2010 deficits, as assessed by Ofgem with expert advice from independent advisors (such as the Government Actuary Department), are recoverable through the price controls set by Ofgem. Costs for post 1 April 2010 deficits and ongoing future service costs are funded through expenditure allowances if considered efficient. Active monitoring of the performance of the scheme's investments is carried out formally on a quarterly basis by the pension trustee. The pension trustee engages external professional legal, actuarial and investment advice for all decisions taken and regularly consults with ENW. The last funding valuation as at 31 March 2010 identified a funding deficit of £145m (31 March 2008: £107m). Following constructive engagement between ENW and the pension trustee, a revised deficit repair contribution schedule was agreed over a period of 15 years to 31 March 2025, in line with Ofgem's funding assumptions. The next valuation is due at 31 March 2013 and there is a risk that any future increase in contributions to the pension scheme may be in excess of those recoverable through Ofgem price controls. This could adversely affect ENW's profitability or financial position which, in turn, would affect the Issuer's ability to meet its obligations under the Notes.

*Financing ENW's investment needs*

ENW and the ENW Group are financed to a large extent by long term external funding. There is no guarantee that new external funding requirements will be financed by external debt providers. Forecast operating cash flows, the present cash position and committed undrawn facilities provide sufficient liquidity to meet ENW's anticipated financial and operating commitments for at least the next 12 months. ENW has in place a financing strategy to meet future financing needs, including a regular dialogue with the main institutional debt investors. As a result of the dependence on debt for long term finance, interest is a significant cost to ENW and the ENW Group. However the NWEN Financing Group adopts a policy of fixing or hedging at least 85% of interest costs for each price review period.

*Counterparty insolvency*

There is a risk that failure of one of ENW's counterparties in the current economic climate could result in a financial loss for the business. This is controlled through the use of a list of approved counterparties with financial limits of investment by ENW established based on credit rating and overall spread of the total available invested cash.

*The losses incentive mechanism may result in revenue reduction*

There is a risk that revenues will be adjusted downwards in the years 2014/15 and 2015/16 as a result of the electricity Losses Rolling Retention Mechanism (**LRRM**). This mechanism (part of the previous price control, **DPCR4**) allows for a final reconciliation of losses benefits achieved during the DPCR4 period, based on the cumulative losses performance achieved at the end of this period.

The final year of DPCR4, which is central to the calculation of the LRRM, saw major fluctuations in settlement data due to corrections being applied by electricity suppliers. This has been recognised at an industry level and Ofgem has stated that they will take steps to ensure there are no windfall gains or losses arising from settlement data corrections, including the restatement of 2009-10 data where it is shown to be abnormal. Ofgem has issued their "minded to" position for all DNOs in a consultation on the LRRM calculation. For ENW this is a credit of +£0.5m to previously allowed revenue, which is expected to be settled in 2014/15.

There may be a challenge to Ofgem's proposals in consultation responses, leaving the residual risk of a change from Ofgem's "minded to" position. The worst case scenario for ENW is that it is not allowed to restate 2009-10 data.

*Retail contingent liability*

ENW previously held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. ENW assigned the majority of these to a third party. As at 31 March 2012 ENW retained a potential liability for lease obligations for 39 of those premises with lease expiry dates ranging from 2013 to 2021. As a result of marketing these properties following the Comet Group administration, ENW currently retains a potential liability for lease obligations for 36 of these properties of which 28 are currently vacant.

A Contingent Liability was detailed in the ENW financial statements for 31 March 2012 and in the half year financial statements for NWEN. In the remote event of all property leases for which ENW retained a potential liability at 31 March 2012 reverting to ENW, the maximum total accommodation cost (which includes rent, rates, service charge, insurance and maintenance), based on certain leases extending until 2021, would be approximately £59.6m profiled over an eight year period from 2013 to 2021 (£72m undiscounted).

Based on ENW's risk assessment which considers the location and size of the stores, expectations regarding the ability to both defend its position and also to re-let the properties, cash exposure is forecast to peak at approximately £7m in the first year with a total long term probable total exposure of between £20m and £25m spread over a period to 2021. A provision of £21.9m has been included within ENW's internal Management Accounts at 31 December 2012. The assessment is subject to uncertainty as it involves making judgements on individual retail premises, the period of vacant possession and negotiations with individual landlords, letting agents and tenants.

***Operating risk***

Managing the ENW Group's businesses is dependent upon the ability to process a large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, employee errors, failure to properly document transactions or to obtain proper internal authorisation, failure to comply with regulatory requirements and business principles, resource shortages, equipment failures, natural disasters or the failure of external systems. Although the ENW Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks faced by the ENW Group.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

***Special administration regime applicable to ENW as a holder of an electricity distribution license***

The Energy Act 2004 provides for a special administration regime for the holders of electricity distribution licences. This regime makes provisions for Energy Administration Orders (**EAOs**) and is designed to ensure the uninterrupted operation of electricity networks essential to secure supply of electricity in the event of actual or threatened insolvency of such a licence holder. An application for an EAO can only be made by the Secretary of State, or by GEMA with the consent of the Secretary of State. Upon application, a court can only make an EAO if it is satisfied that the DNO is or is likely to be unable to pay its debts or that, on a petition from the Secretary of State under the Insolvency Act 1986, it would be just and equitable (aside from the objective of energy administration) to wind up the DNO in the public interest.

Where an ordinary administration application under the Insolvency Act is made in relation to a licensee by a person other than the Secretary of State, the court must dismiss the application if: (a) an EAO is in force in relation to the licensee; or (b) an EAO has been made in relation to the licensee but is not yet in force. Where either of (a) or (b) does not apply, the court, on hearing the application for an ordinary administration, is not entitled to exercise its powers under paragraph 13 of Schedule B1 to the Insolvency Act (other than its power of adjournment) unless: (a) notice of the application has been served both on the Secretary of State and on GEMA; (b) a period of at least 14 days has elapsed since the service of the last of those notices to be served; and (c) there is no application for an EAO that is outstanding. Upon the making of an EAO in relation to a licensee, the court must dismiss any ordinary administration application made in relation to that company which is outstanding.

No step may be taken by the holder of a floating charge or by the company itself to appoint an administrator to a licensee under paragraph 14 or 22 of Schedule B1 to the Insolvency Act) if: (a) an EAO is in force in relation to the licensee; (b) an EAO has been made in relation to the licensee but is not yet in force; or (c) an application for such an EAO is outstanding. Where these requirements have not been met, the appointment takes effect only if: (a) a copy of every document in relation to the appointment that is filed or lodged with the court in accordance with paragraph 18 or 29 of Schedule B1 to the Insolvency Act (documents to be filed or lodged for appointment of administrator) has been served both on the Secretary of State and on GEMA; (b) a period of 14 days has elapsed since the service of the last of those copies to be served; (c) there is no outstanding application to the court for an EAO in relation to the licensee in question; and (d) the making of an application for such an order has not resulted in the making of an EAO which is in force or is still to come into force.

The objective of an energy administrator appointed pursuant to an EAO is to ensure that a DNO's distribution network is maintained and developed efficiently and economically, and to preserve the DNO as a going concern or to transfer its undertakings as a going concern to one or more other companies. This objective takes precedence over the protection of the respective interests of members and creditors of the DNO. Therefore, in the event that an EAO was made in respect of ENW, this could adversely affect the ability of the Issuer to meet its obligations under the Notes given the dependence of the Issuer and the Guarantors on payments made indirectly to them by ENW.

## Risk Factors relating to the Issuer and the Guarantors

### *Special purpose vehicle Issuer*

The Issuer is a special purpose financing entity with no business operations other than raising external funding for the Issuer Financing Group through the issuance of the Notes and other debt finance permitted under the terms of the Intercreditor Agreement. After the Closing Date, other than the proceeds of the issuance of the Notes, the Issuer's principal source of funds will be pursuant to the Issuer/Senior HoldCo Loan Agreement.

The Issuer's dependence on payments from Senior HoldCo under the Issuer/Senior HoldCo Loan Agreement is subject to all the same risks relating to revenues and expenses to which Senior HoldCo is subject. Such risks could limit funds available to the Issuer to enable the Issuer to satisfy in full and on a timely basis its obligations under the Notes.

### *Holding company structure and limited recourse to ENW*

The Guarantors are holding companies with no material direct business operations. The Guarantors’ rights to participate in the assets of any Subsidiary if it is liquidated will be subject to the prior claims of the creditors of such Subsidiary. The Guarantors' ability to make payments on debt obligations (including, in the case of Senior HoldCo, the Issuer/Senior HoldCo Loan Agreement) and pay certain operating expenses is dependent on the receipt of dividends and/or payments of principal, interest and other amounts under intra-group loans from Subsidiaries, particularly ENW. Accordingly, risks that have an impact on the Subsidiaries of the Guarantor and in particular ENW, could affect the amount of funds available to the Guarantors to enable the Guarantors to satisfy in full and on a timely basis their obligations under the Issuer/Senior HoldCo Loan Agreement and the Guarantees and as a result, the Issuer's ability to fulfil its obligation under the Notes.

The Issuer's and the Guarantors' ability to make payments on their indebtedness and to fund their other obligations is dependent not only on the ability of ENW to generate cash, but also on the ability of Senior HoldCo's other direct and indirect Subsidiaries to distribute that cash in the form of dividends, fees, interest, loans or otherwise. However, Senior HoldCo's direct and indirect Subsidiaries face various restrictions in their ability to distribute cash. In particular, the NWEN Financing Group must satisfy certain restricted payment covenants and other conditions before NWEN may make distributions. Business performance and accounting and tax rules may limit the amount of retained earnings, which is in many cases the basis of dividend payments. In addition, NWEN's ability to make dividend payments, payments on debt obligations and payment of certain operating expenses is dependent on the receipt of dividends from ENW and/or payments of interest and principal under the NWEN/ENW Loan Agreement.

ENW is subject to regulatory restrictions that can limit the payment of dividends and certain other payments (see "*The Licence - Licence enforcement, breaches and sanctions*" above) and for regulatory reasons neither ENW nor any member of the ENW Group will provide cross-guarantees or any security for the Notes. In addition, the terms of the NWEN Finance Documents provide that neither NWEN nor any member of the

NWEN Financing Group will provide cross-guarantees or any security for the Notes. Therefore, although the Issuer and the Guarantors will be reliant on ENW's ability to generate each and distribute such each, the obligations of the Issuer and the Guarantors under the Transaction Documents will not be obligations or responsibilities of, or guaranteed by, NWEN, NWEN HoldCo, NWEN Issuer, ENW, ENW Issuer or ENW's Subsidiaries.

Under the terms of the Intercreditor Agreement, each of the Secured Creditors, the Issuer and the Guarantors will agree that, notwithstanding any other provision of any Transaction Document, NWEN, NWEN HoldCo, NWEN Issuer, ENW, ENW Issuer and each of ENW's Subsidiaries are not obligors. Therefore, no Secured Creditor nor the Issuer or Guarantors shall have any recourse to or may bring any claim against any of them in respect of any amounts owing to such Secured Creditors, the Issuer or the Guarantors (as the case may be) which remain unpaid pursuant to the Transaction Documents (save in respect of any dividends or intercompany loan payments due to Senior HoldCo).

***Noteholders are structurally subordinated to claims of creditors of the Guarantors' subsidiaries, including the secured creditors of NWEN and ENW***

The Subsidiaries of the Guarantors are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to any debt incurred by the Issuer or the Guarantors to make any funds available whether by dividends, fees, loans or other payments. Any right of the Guarantors to receive any assets of any of its Subsidiaries upon liquidation, dissolution, winding up, receivership, reorganisation, assignment for the benefit of creditors, marshalling of assets and liabilities or any bankruptcy, insolvency or similar proceedings (and the consequent right of the holders of the Issuer's or the Guarantors' indebtedness to participate in the distribution of, or to realise proceeds from, those assets) will be effectively subordinated to the claims of any such Subsidiary's creditors (including trade creditors and holders of debt issued by such subsidiary). To the extent that a Guarantor is recognised as a creditor of such Subsidiaries, such Guarantor's claims may still be subordinated to any security interest in or other lien on the assets of such subsidiaries and to any of their debt or other obligations.

***If share security granted in respect of the financing of the NWEN Financing Group is enforced, the Guarantors and the Issuer may no longer be an indirect shareholder of ENW***

NWEN has granted share security over shares in its direct subsidiary, ENW. In addition, NWEN HoldCo has granted share security over shares in its direct subsidiary, NWEN. If NWEN's secured creditors in respect of the financing of the NWEN Financing Group elect to enforce their rights thereunder, then such security over the shares in ENW or NWEN may be enforced and such enforcement may result in a sale of ENW or NWEN, and subsequently, the Guarantors and the Issuer no longer being indirect shareholders of ENW.

***High Leverage***

As of the Closing Date, the ENW Group, the NWEN Financing Group and the Issuer Financing Group will have indebtedness that is substantial in relation to shareholders' equity.

As at 30 September 2012, the Regulated Asset Ratio (being the ratio of Net Debt to RAV) was 0.85:1 and the NWEN Financing Group Regulated Asset Ratio (calculated as the ratio of the consolidated net debt of NWEN as at 30 September 2012 to RAV) was 0.76:1.

Although the Issuer is permitted to increase its leverage, a Regulated Asset Ratio in excess of 0.95:1 or an NWEN Financing Group Regulated Asset Ratio in excess of 0.83:1 will, subject to application of an Equity Cure, result in certain restrictions on payments made by the Issuer and the Guarantors. Furthermore, a Regulated Asset Ratio in excess of 0.97:1 will, subject to application of an Equity Cure, constitute an Event of Default under the Notes.

In addition, the ENW Group and the NWEN Financing Group are also subject to similar restrictions should their respective net debt to regulated asset value ratios breach certain limits determined in the documentation relating to the financing arrangements of the ENW Group and the NWEN Financing Group (in relation to which, see Chapter 10 "*NWEN, NWEN Issuer and the NWEN Programme*" and Chapter 11 "*ENW*"). If such financial ratios are breached at the ENW Group and NWEN Financing Group level, this may materially impact the ability of the Issuer to meet its payment obligation under the Notes.

The Issuer Financing Group will depend on ENW's operating performance and financial results, which in turn will depend upon economic, financial, competitive, regulatory and other factors beyond its control, including fluctuations in interest rates and general economic conditions in the United Kingdom.

Accordingly, there can be no assurance of ENW's ability to meet its financing requirements, nor as to its ability to pay dividends or intercompany loan payments to NWEN, in order, indirectly, to enable the Issuer to pay amounts due and owing in respect of the Notes. Incurrence of additional indebtedness by ENW, the ENW Issuer, NWEN, the NWEN Issuer, Senior HoldCo or the Issuer which is permitted under the Transaction Documents, the NWEN Finance Documents or the ENW Finance Documents may increase the overall leverage of the Issuer Financing Group which will increase the demand on ENW to generate distributable cashflows.

***Future Financing***

The Issuer Financing Group might need to raise further debt from time to time in order, inter alia:

(a) to finance future capital enhancements to ENW's asset base;

(b) on each Interest Payment Date and on the Maturity Date, to refinance the Notes; and

(c) to refinance any other debt the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the Maturity Date of the Notes.

Although the Intercreditor Agreement contemplates the terms and conditions on, and circumstances under, which such additional indebtedness can be raised, there can be no assurance that the Issuer Financing Group will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and in particular such that all amounts then due and payable on the Notes or any other maturing indebtedness will be capable of being so paid when due.

***Interests of ultimate shareholders may be inconsistent with interests of holders of Notes***

The ultimate shareholders of the Issuer and the Guarantors have, and will continue to have, directly or indirectly, the power, *inter alia*, to affect the Issuer Financing Group's legal and capital structure and its day-to-day operations, as well as the ability to elect and change management and to approve other changes to the Issuer Financing Group's operations. The interests of the Issuer Financing Group's ultimate shareholders are generally aligned with the interests of investors in the Notes in seeking sustainable stable cash flow distributions but could conflict with the interests of investors in the Notes particularly if the Issuer Financing Group encounters financial difficulties or is unable to pay its debts when due.

***Security and Insolvency Considerations***

The Issuer and the Guarantors will enter into the Transaction Security Documents pursuant to which they will grant the Transaction Security in respect of their respective obligations under the Notes and the Guarantee. If certain insolvency proceedings are commenced in respect of the Issuer or a Guarantor, the ability to realise the Transaction Security might be delayed and/or the value of the Transaction Security impaired.

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and the Guarantors and granted by way of security to the Security Trustee. However, as this is partly a question of fact, if it were not possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent which might delay the realisation and/or impair the value of the Transaction Security.

In addition, it should be noted that, to the extent that the assets of the Issuer and the Guarantors are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the Insolvency Act, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Security Agreement or other Transaction Security Documents may be used to satisfy any claims of unsecured creditors. Although certain of the covenants given by the Issuer and the Guarantors in the Transaction Documents are intended to ensure that they have no significant creditors other than the Secured Creditors under the Transaction Security Documents, it will be a matter of fact as to whether the Issuer or the Guarantors have any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Transaction Security.

Although the transaction structure is designed to minimise the likelihood of the Issuer and the Guarantors becoming insolvent, there can be no assurance that none of the Issuer or the Guarantors will become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the applications of insolvency laws (including English insolvency law).

***Fixed charges may take effect under English law as floating charges***

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the assets subject to such charge. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets.

The interests of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Transaction Security. Section 250 of the Enterprise Act 2002 abolishes Crown Preference in relation to all insolvencies and thus reduces the categories of preferential debts that are to be paid in "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

***Noteholders' rights are subject to the Intercreditor Agreement***

The Noteholders' rights against the Issuer and the Guarantors are subject to the Intercreditor Agreement, which is described in detail in Chapter 15 "*Overview of the Financing Agreements – Intercreditor Agreement*". Although the Note Trustee's rights to take any action to enforce its rights against the Issuer and/or the Guarantors following an Event of Default are partially restricted under the Intercreditor Agreement, the taking of Permitted Enforcement Action by the Note Trustee is not restricted. The taking of Permitted Enforcement Action by the Note Trustee will trigger an automatic acceleration of the Secured Liabilities. Following such automatic acceleration, the Security Trustee will be required to enforce the

Transaction Security in accordance with the instructions of the Majority Secured Creditors (which might not include the Noteholders) and the proceeds of such enforcement shall be distributed in accordance with the order of payments set out in the Intercreditor Agreement. As a result, Noteholders can be bound by the process of enforcement that is determined by the Majority Secured Creditors, which may differ from the interests of Noteholders. Noteholders can, therefore, be bound by the result of a particular matter that they voted against, including, for the avoidance of doubt, in relation to the enforcement of the Transaction Security.

***Potential disenfranchisement of Noteholders***

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the **decision**) to be made pursuant to the Intercreditor Agreement, the Security Trustee will be required to notify the Issuer and the Guarantors and each Secured Creditor Representative (including the Note Trustee) of the matter in question and shall also inform each Secured Creditor Representative (including the Note Trustee) of the date on or before which votes must be provided in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the **Decision Date**). If the Note Trustee has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the Majority Secured Creditors, the Commitments in respect of the Notes shall be excluded from:

(a) the Total Commitments to be considered as voting in favour of the relevant decision (the numerator); and

(b) the Total Commitments to be used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right of the Noteholders is affected. Noteholders can therefore be bound by the result of a particular decision in respect of which they have not voted, including, for the avoidance of doubt, a decision (as defined in this risk factor) in relation to the enforcement of the Transaction Security, even where the Note Trustee, representing the Noteholders, would (but for the requirement to provide a vote by the Decision Date as described in Chapter 15 "*Overview of the Financing Agreements – Intercreditor Agreement*", whether by itself or with one or more other Secured Creditor Representatives, constitute the Majority Secured Creditors.

**Risk Factors relating to the Notes**

***Modification, waivers and substitution***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. As a result, Noteholders can be bound by the result of a particular matter that they voted against.

The Terms and Conditions of the Notes also provide that the Note Trustee may, without the consent of Noteholders, agree to (i) any modification (except as mentioned in the Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Trust Deed, the Terms and Conditions or any other Transaction Document or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor or guarantor under any Notes in place of the Issuer or the Guarantors respectively, in the circumstances described in Condition 14 (Meetings of Noteholders, Modification, Waiver and Substitution) of the Terms and Conditions of the Notes.

*Liability under the Notes*

The Notes are obligations of the Issuer and will be guaranteed by the Guarantors. For the avoidance of doubt, the Notes will not be the responsibility of, or guaranteed by, any other person. In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, the Joint Bookrunners, the Note Trustee, the Security Trustee, the Principal Paying Agent or any other company in the same group of companies as, or affiliated to, the Issuer or the Guarantors.

*Limited Liquidity of the Notes; Absence of Secondary Market for the Notes*

Notwithstanding the fact that an application has been made to admit the Notes to trading on the London Stock Exchange, there is currently no market for the Notes. There can be no assurance that a secondary market will develop, or, if a secondary market does develop for the Notes, that it will provide the Noteholders with liquidity or that any such liquidity will continue for the life of the Notes. Consequently, any purchaser of the Notes must be prepared to hold such Notes until final redemption or maturity of the Notes.

The liquidity and market value at any time of the Notes is affected by, inter alia, the market view of the credit risk of such Notes and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events, the performance and financial condition of ENW, developments and trends in the electricity industry generally and events in the appointed area of ENW.

*Trading in the Clearing systems – integral multiples of less than £100,000*

The Notes have denominations consisting of a minimum of £100,000 plus one or more higher integral multiples of £1,000. It is possible that the Notes may be traded in amounts that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to £100,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

*Rating of the Notes*

The rating assigned by the Rating Agency to the Notes reflects only the views of the Rating Agency and in assigning the ratings the Rating Agency takes into consideration the credit quality of the Issuer and the Guarantors and structural features and other aspects of the transaction.

The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A rating is not a recommendation to buy, sell or hold securities and will depend, inter alia, on certain underlying characteristics of the business and financial condition of the Issuer Financing Group, including ENW and circumstances relating to the electricity industry generally.

There can be no assurance that any such rating will continue for any period of time or that it will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agency as a result of changes in, or unavailability of, information or if, in the Rating Agency' judgment, circumstances so warrant. If the rating assigned to the Notes is lowered or withdrawn, the market value of the Notes may be reduced. Future events, including events affecting ENW and/or circumstances relating to the electricity industry generally, could have an adverse impact on the rating of the Notes.

***Inability to repurchase Notes on Change of Control Event***

Upon a Change of Control Event, the Issuer will be required to offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the Notes will be the Issuer's available cash or other sources, including borrowings, sales of assets or sales of equity. The Issuer may not be able to satisfy its obligations to repurchase the Notes upon a Change of Control Event because it may not have sufficient financial resources to purchase all of the Notes that are tendered upon a Change of Control Event.

***Optional redemption of the Notes by the Issuer***

The Terms and Conditions of the Notes allow for the Issuer to redeem the Notes at its option. Such an optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Fixed Rate Notes***

The Notes bear interest at a fixed rate and, therefore, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

***Notes not in physical form***

Unless the Global Notes are exchanged for definitive Notes, which exchange will only occur in the limited circumstances set out under Chapter 17 "*Summary of Provisions relating to the Notes while in Global Form*" below, the beneficial ownership of the Notes will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg. The fact that the Notes are not represented in physical form could, among other things:

(a) result in payment delays on the Notes because distributions on the Notes will be sent by or on behalf of the Issuer to Euroclear or Clearstream, Luxembourg directly to Noteholders;

(b) make it difficult for Noteholders to pledge the Notes as security if Notes in physical form are required or necessary for such purposes; and

(c) hinder the ability of Noteholders to resell the Notes because some investors may be unwilling to buy Notes that are not in physical form.

***Secondary Tax Liabilities and VAT***

Where a company fails to discharge certain tax liabilities within a specified time period, UK tax law imposes, in certain circumstances, secondary liability for those overdue taxes on other companies that are or have been members of the same group of companies, or are or have been under common control, for tax purposes with the company that has not discharged its tax liabilities.

If any secondary tax liabilities arise in the Issuer or other members of the Issuer Financing Group, which are not discharged by other members of the wider ENW Group, and are of significant amounts, the Issuer or other members of the Issuer Financing Group could be adversely affected.

The Issuer is a member of a value added tax (**VAT**) group that also includes members of the wider corporate group of which ENW is the representative member and so may have exposure to VAT liabilities of other members of the wider ENW Group.

***EU Savings Directive***

Under EC Council Directive 2003/48/EC regarding the taxation of savings income (the **Savings Directive**) Member States are required to provide to the tax authorities of another Member State details of payments of interest or similar income paid by a person within its jurisdiction to, (or for the benefit of), an individual or to certain other persons in that other Member State, except that Luxembourg and Austria instead impose a withholding system for a transitional period (the ending of such transitional period being dependant upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise. A number of third countries (including Switzerland) and certain dependent or associated territories of certain Member States have adopted similar measures to the Savings Directive (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

The European Commission has proposed certain amendments to the Savings Directive, which may if implemented broaden the scope of the requirements described above.

***Change of Law***

The structure of the transaction and, inter alia, the issue of the Notes and ratings assigned to the Notes are based on English law (including UK tax law) and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date hereof which change might impact on the Notes and the expected payments of interest and repayment of principal.

***European Monetary Union***

Prior to the redemption in full of the Notes, the United Kingdom may become a participating Member State in the Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. Adoption of the euro by the United Kingdom may have the following consequences:

(a) all amounts payable in respect of the Notes may become payable in euro; and

(b) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed.

The introduction of the euro could also cause a volatile interest rate. It cannot be predicted with certainty what effect, if any, adoption of the euro by the United Kingdom would have on investors in the Notes.

The potential costs to the Issuer Financing Group of implementing procedures to deal with any possible future adoption of the euro by the United Kingdom are unclear, but could be significant.

### *Changes in Financial Reporting Standards*

Certain provisions of the Transaction Documents contain certain conditions and/or triggers which are based upon an assessment of the financial condition of the Issuer Financing Group calculated by reference to the financial statements produced in respect of the companies in the Issuer Financing Group. These financial and other covenants have been set at levels which are based on the current accounting principles, standards, conventions and practices adopted by the relevant companies.

It is possible that any future changes in these accounting principles, standards, conventions and practices which are adopted by the companies in the Issuer Financing Group may result in significant changes in the reporting of its financial performance. This, in turn, may necessitate that the terms of the conditions and triggers referred to above be renegotiated.

# CHAPTER 4: SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below present:

(a) consolidated income statement, consolidated and non-consolidated statement of financial position and consolidated and non-consolidated cash flow data for Senior HoldCo for and as at the years ended 31 March 2010, 31 March 2011 and 31 March 2012; and

(b) income statement, statement of financial position and cash flow data for Finance HoldCo for and as at the years ended 31 March 2010, 31 March 2011 and 31 March 2012.

The information below should be read together with the financial statements and the notes to those statements contained at Annex 1 "*Financial Statements*".

## Senior HoldCo

References in this section to "Group" are to Senior HoldCo and its consolidated subsidiaries.

*Consolidated Income Statement*

| | **Group 2012 £m** | Group 2011 £m | Group 2010 £m |
|---|---|---|---|
| **Revenue** | **404.6** | 393.7 | 323.6 |
| Employee costs | **(35.3)** | (33.9) | (6.7) |
| Depreciation and amortisation expense (net) | **(90.9)** | (77.8) | (70.3) |
| Other operating costs | **(98.5)** | (81.3) | (100.9) |
| **Total operating expenses** | **(224.7)** | (193.0) | (177.9) |
| **Operating profit** | **179.9** | 200.7 | 145.7 |
| Investment income | **4.5** | 2.2 | 0.6 |
| Finance expense | **(185.8)** | (118.9) | (174.7) |
| **(Loss) / profit before taxation** | **(1.4)** | 84.0 | (28.4) |
| Taxation | **40.2** | 8.7 | (4.6) |
| **Profit / (loss) for the year attributable to the owners of the company** | **38.8** | 92.7 | (33.0) |

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

*Consolidated Statements of Financial Position*

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Intangible assets and goodwill | **224.4** | **-** | 216.6 | - | 207.8 | - |
| Property, plant and equipment | **2,445.7** | **-** | 2,325.0 | - | 2,200.7 | - |
| Investments | **-** | **3.0** | - | 3.0 | - | 3.0 |
| Deferred tax asset | **-** | **1.9** | - | 1.2 | - | 0.9 |
| | **2,670.1** | **4.9** | 2,541.6 | 4.2 | 2,408.5 | 3.9 |
| **Current assets** | | | | | | |
| Inventories | **6.8** | **-** | 5.6 | - | - | - |
| Trade and other receivables | **53.7** | **670.2** | 78.3 | 669.7 | 35.4 | 669.2 |
| Money market deposits | **25.0** | **-** | 76.2 | - | - | - |
| Cash and cash equivalents | **59.7** | **0.1** | 127.8 | - | 111.7 | 0.1 |
| Derivative financial instruments | **-** | **-** | 1.0 | - | 1.1 | - |
| Current income tax asset | **15.0** | **0.1** | - | 0.4 | - | - |
| | **160.2** | **670.4** | 288.9 | 670.1 | 148.2 | 669.3 |
| **Total assets** | **2,830.3** | **675.3** | 2,830.5 | 674.3 | 2,556.7 | 673.2 |

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | |
| **Current liabilities** | | | | | | |
| Borrowings ................................... | **(509.7)** | **(509.7)** | (508.7) | (508.7) | - | - |
| Trade and other payables ............... | **(131.8)** | **(10.8)** | (146.0) | (11.4) | (619.8) | (538.6) |
| Current income tax liabilities......... | **(0.1)** | **-** | (9.5) | - | (5.5) | - |
| | **(641.6)** | **(520.5)** | (664.2) | (520.1) | (625.3) | (538.6) |
| **Net current (liabilities)/assets** ..... | **(481.4)** | **149.9** | (375.3) | 150.0 | (477.1) | 130.7 |
| **Non-current liabilities** ................. | | | | | | |
| Borrowings ................................... | **(1,483.4)** | **(140.1)** | (1,490.5) | (139.7) | (1,350.9) | (128.7) |
| Derivative financial instruments.... | **(149.9)** | **(7.6)** | (97.3) | (4.5) | (70.6) | (3.1) |
| Deferred tax liabilities .................. | **(368.0)** | **-** | (402.8) | - | (412.0) | - |
| Customer contributions................. | **(157.6)** | **-** | (126.5) | - | (90.7) | - |
| Refundable customer deposits ....... | **(3.4)** | **-** | (1.6) | - | (3.5) | - |
| Retirement benefit obligation ........ | **(14.2)** | **-** | (41.3) | - | (142.8) | - |
| | **(2,176.5)** | **(147.7)** | (2,160.0) | (144.2) | (2,070.5) | (131.8) |
| **Total liabilities**............................. | **(2,818.1)** | **(668.2)** | (2,824.2) | (664.3) | (2,695.8) | (670.4) |
| **Net assets / (liabilities)** | **12.2** | **7.1** | 6.3 | 10.0 | (139.1) | 2.8 |
| **EQUITY** | | | | | | |
| Share capital ................................. | **3.0** | **3.0** | 3.0 | 3.0 | 3.0 | 3.0 |
| Retained earnings .......................... | **15.0** | **9.9** | 6.6 | 10.3 | (142.1) | (0.2) |
| Hedging Reserve........................... | **(5.8)** | **(5.8)** | (3.3) | (3.3) | - | - |
| **Total equity** ................................. | **12.2** | **7.1** | 6.3 | 10.0 | (139.1) | 2.8 |

*Consolidated Statements of Cash Flows*

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | |
| Cash generated from operations .... | **248.6** | **(0.6)** | 243.6 | - | 218.1 | - |
| Interest paid .................................. | **(95.7)** | **(27.2)** | (97.4) | (25.3) | (95.4) | (25.8) |
| Tax paid......................................... | **(15.3)** | **(0.1)** | (20.7) | - | (6.1) | - |
| **Net cash generated from/(used in) operating activities** .............. | **137.6** | **(27.9)** | 125.5 | (25.3) | 116.6 | (25.8) |
| **Investing activities** | | | | | | |
| Interest received and similar income ....................................... | **1.6** | **27.0** | 1.0 | 25.2 | 0.6 | 25.4 |
| Dividend received.......................... | **-** | **15.0** | - | 14.0 | - | 2.4 |
| Purchase of property, plant and equipment .................................. | **(222.0)** | **-** | (173.9) | - | (168.9) | - |
| Acquisition of subsidiary, net of cash acquired ............................. | **(2.0)** | **-** | (14.3) | - | - | - |
| Purchase of intangible assets ......... | **(0.8)** | **-** | (3.0) | - | (5.0) | - |

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|---|---|
| Customer contributions received ... | **30.3** | **-** | 37.1 | - | 43.9 | - |
| Proceeds from sale of property, plant and equipment.................... | **0.6** | **-** | 0.6 | - | 0.2 | - |
| **Net cash (used in)/generated from investing activities**............ | **(192.3)** | **42.0** | (152.5) | 39.2 | (129.2) | 27.8 |
| **Financing activities** | | | | | | |
| Dividend paid ................................ | **(15.0)** | **(15.0)** | (5.7) | (5.7) | - | - |
| Transfer from / (to) money market deposits ...................................... | **51.2** | **-** | (76.2) | - | - | - |
| Proceeds from borrowings............. | **28.6** | **1.0** | 150.0 | 10.1 | 572.3 | 0.1 |
| Repayment of borrowings.............. | **(80.0)** | **-** | (25.0) | (18.4) | (490.7) | - |
| Decrease in Group borrowings | **-** | **-** | - | - | - | (2.4) |
| Receipt on close out of swap ......... | **1.8** | **-** | - | - | - | - |
| **Net cash (used in)/generated from financing activities**........... | **(13.4)** | **(14.0)** | 43.1 | (14.0) | 81.6 | (2.3) |
| **Net (decrease)/increase in cash and cash equivalents**................. | **(68.1)** | **0.1** | 16.1 | (0.1) | 69.0 | (0.3) |
| **Cash and cash equivalents at beginning of the year** ................ | **127.8** | **-** | 111.7 | 0.1 | 42.7 | 0.4 |
| **Cash and cash equivalents at end of the year**........................... | **59.7** | **0.1** | 127.8 | - | 111.7 | 0.1 |

Within the interest paid figure there is a £20.5m (2011: £20.4m, 2010: £20.6m) cost attributable to interest paid to Group undertakings. These costs reflect interest payable on loans advanced by Senior HoldCo for the purpose of repaying interest on loan notes held by the ultimate shareholders of the Group.

## Finance HoldCo

*Income Statement*

| | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| **Operating profit** | **-** | - | - |
| Investment income | **35.5** | 26.2 | 20.6 |
| Finance expense | **(20.5)** | (20.5) | (20.6) |
| **Profit before taxation** | **15.0** | 5.7 | - |
| Taxation | **-** | - | - |
| **Profit for the year and attributable to equity holders** | **15.0** | 5.7 | - |

All the results shown in the Income Statement, for both the current and preceding years, derive from continuing operations.

There are no other recognised gains and losses for the current or previous financial years other than the result shown above.

*Statement of Financial Position*

| | 2012 £m | 2011 £m | 2010 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments | **3.0** | 3.0 | 3.0 |
| **Current assets** | | | |
| Trade and other receivables | **520.2** | 519.1 | 537.3 |
| Cash and cash equivalents | **0.1** | 0.2 | 0.2 |
| | **520.3** | 519.3 | 537.5 |
| **Total assets** | **523.3** | 522.3 | 540.5 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | **(10.1)** | (10.1) | (10.0) |
| Borrowings | **(509.7)** | (508.7) | (537.0) |
| **Net current assets** | **0.5** | 0.5 | 0.5 |
| **Total liabilities** | **(519.8)** | (518.8) | (537.0) |
| **Net assets** | **3.5** | 3.5 | 3.5 |
| **EQUITY** | | | |
| Share capital | **3.0** | 3.0 | 3.0 |
| Retained earnings | **0.5** | 0.5 | 0.5 |
| **Total equity** | **3.5** | 3.5 | 3.5 |

*Statement of Cash Flows*

| | **2012** **£m** | 2011 £m | 2010 £m |
|---|---|---|---|
| **Operating profit** | **-** | - | - |
| Interest paid | **(20.5)** | (20.5) | (20.6) |
| **Net cash used in operating activities** | **(20.5)** | (20.5) | (20.6) |
| **Investing activities** | | | |
| Interest received | **20.5** | 20.5 | 20.6 |
| Dividends received | **15.0** | 5.7 | - |
| **Net cash generated from investing activities** | **35.5** | 26.2 | 20.6 |
| **Financing activities** | | | |
| Proceeds from intercompany borrowings | **1.0** | - | - |
| Dividends paid | **(15.0)** | (5.7) | - |
| Proceeds on issue of intercompany borrowings | **(1.1)** | - | (0.1) |
| **Net cash used in financing activities** | **(15.1)** | (5.7) | (0.1) |
| **Net decrease in cash and cash equivalents** | **(0.1)** | - | (0.1) |
| **Cash and cash equivalents at beginning of the year** | **0.2** | 0.2 | 0.3 |
| **Cash and cash equivalents at end of the year** | **0.1** | 0.2 | 0.2 |

Within the interest paid figure there is a £20.5m (2011: £20.5m, 2010: £20.6m) cost attributable to interest paid to Group undertakings. These costs reflect interest payable on loans advanced by Finance HoldCo for the purpose of repaying interest on loan notes held by the ultimate shareholders of the Group.

# CHAPTER 5: CAPITALISATION

The following table sets out the actual cash and cash equivalents and debt of Senior HoldCo (on a consolidated basis) as at 30 September 2012 and Finance HoldCo (on a non-consolidated basis) as at 31 March 2012, on both an accounting value (as included within the relevant Guarantor's statement of financial position on that date) and nominal value basis.

| **Senior HoldCo (Consolidated)** | **As at 30 September 2012** | |
|---|---|---|
| | Accounting value £ million | Nominal value £ million |
| Current borrowings | | |
| Inter-company loan | 509.7 | 509.7 |
| Total current borrowings | 509.7 | 509.7 |
| Total non-current borrowings | 1,507.4 | 1,354.6 |
| Total debt | 2,017.1 | 1,864.3 |
| Cash and cash equivalents | (70.3) | (70.3) |
| Total net debt | 1,946.8 | 1,794.0 |

| **Finance HoldCo (Entity only)** | **As at 31 March 2012** | |
|---|---|---|
| | Accounting value £ million | Nominal value £ million |
| Current borrowings | | |
| Inter-company loan | 509.7 | 509.7 |
| Total current borrowings | 509.7 | 509.7 |
| Non-current borrowings | - | - |
| Total non-current borrowings | - | - |
| Total debt | 509.7 | 509.7 |
| Cash and cash equivalents | (0.1) | (0.1) |
| Total net debt | 509.6 | 509.6 |

Notes:

- the difference between the accounting value and the nominal value of Total non-current borrowings at Senior HoldCo are due to unamortised bond discounts and transaction costs, accretion on index-linked instruments and fair value adjustments on bonds designated at fair value in the financial statements.

- the "Total net debt" figure shown above is calculated on a different basis to Net Debt as defined in this Prospectus and as used in the calculation of the Regulated Asset Ratio.

# CHAPTER 6: USE OF PROCEEDS

The Issuer will on-lend the proceeds of the Notes to Senior HoldCo pursuant to the Issuer/Senior HoldCo Loan Agreement. Senior HoldCo will apply the proceeds of the Issuer/Senior HoldCo Loan (together with other moneys available to it) in prepayment in full of existing indebtedness and thereafter applied for general corporate purposes.

## CHAPTER 7: OVERVIEW OF THE FINANCING STRUCTURE

As at the Closing Date, the Issuer Financing Group will consist of Finance HoldCo, Senior HoldCo, the Issuer, NWEN, NWEN HoldCo, the NWEN Issuer, ENW, the ENW Issuer and each of ENW's Subsidiaries as at that date. After the Closing Date, it will include any additional direct or indirect Subsidiaries of Senior HoldCo from time to time.

**Figure 1 – Ownership Structure**

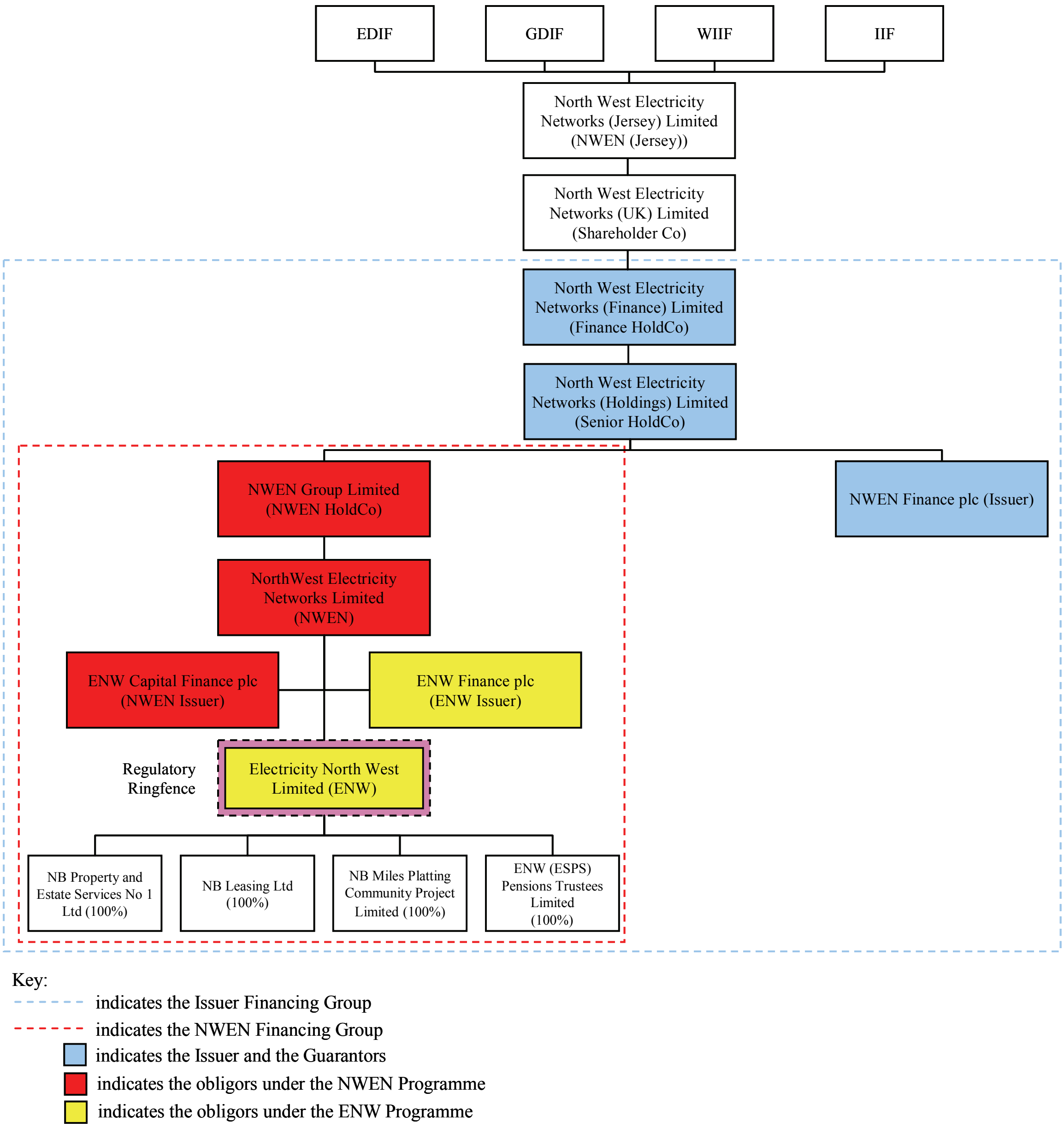



Figure 1 illustrates the ownership structure of the Issuer Financing Group, together with an outline of the upstream shareholding structure, as of the Closing Date:

- The Issuer is a special purpose vehicle whose entire share capital is beneficially owned by Senior HoldCo.

- On the Closing Date, the entire ordinary share capital of Senior HoldCo will be held by Finance HoldCo, whose entire issued share capital is held by North West Electricity Networks (UK) Limited, which is outside the Issuer Financing Group.

- The ultimate parent of the Issuer Financing Group is NWEN (Jersey), which is owned by the following entities:

  (a) Citicorp Nominees Pty Limited as custodian for CFS Managed Property Limited as the responsible entity for CFS Global Diversified Infrastructure Fund Limited (**GDIF**) – 7.71 per cent. ownership interest in NWEN Jersey;

  (b) Citicorp Nominees Pty Limited as custodian for CFS Managed Property Limited as the responsible entity for the Colonial First State Wholesale Infrastructure Income Fund (**WIIF**) – 8.53 per cent. ownership interest in NWEN Jersey;

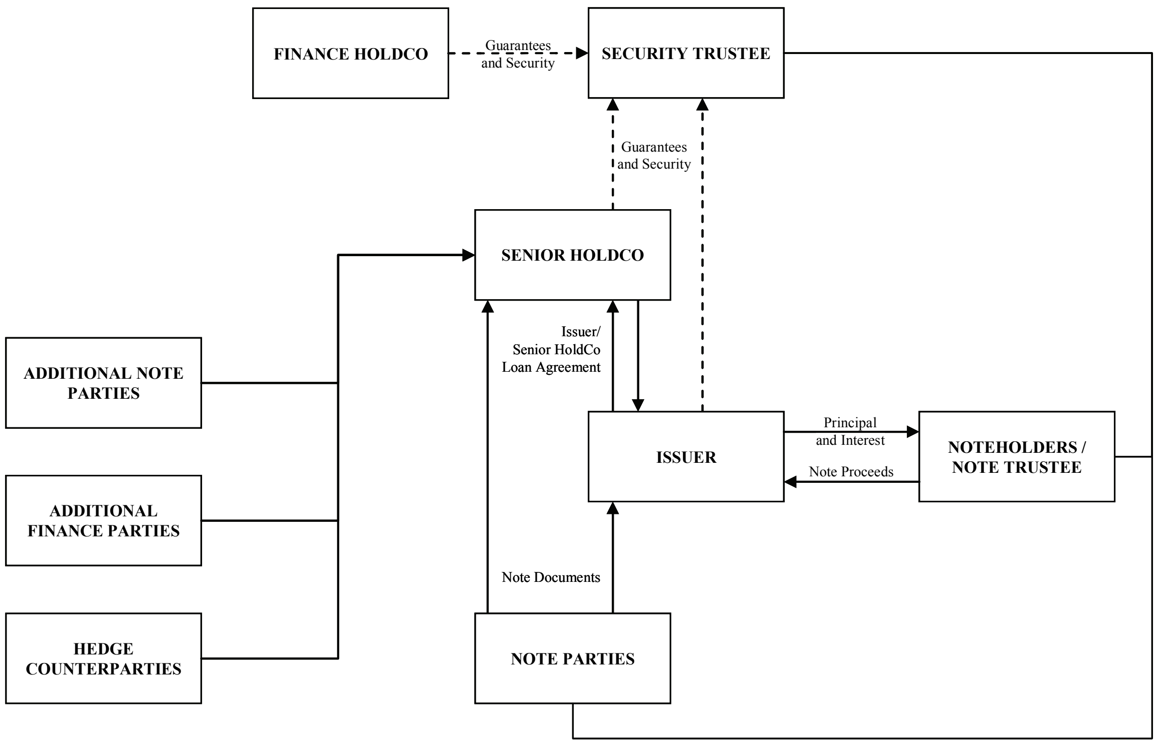
  (c) First State Investments Fund Management Sàrl on behalf of First State European Diversified Infrastructure Fund as the responsible entity for First State European Diversified Infrastructure Fund FCP-SIF (**EDIF**) – 33.76 per cent. ownership interest in NWEN Jersey; and

  (d) IIF Int'l NWEN UK Cayman Ltd (**IIF**) – 50 per cent. ownership interest in NWEN Jersey.

- Senior HoldCo is a special purpose vehicle which is the immediate holding company of NWEN HoldCo and is the immediate holding company of the Issuer. Senior HoldCo will, amongst other things, enter into the Transaction Documents as Guarantor and will grant security over the shares of the Issuer and NWEN HoldCo pursuant to the Security Agreement.

- Finance HoldCo is a special purpose vehicle which is the immediate holding company of Senior HoldCo. Finance HoldCo will, amongst other things, enter into the Transaction Documents as Guarantor and grant security over the shares of Senior HoldCo pursuant to the Transaction Security Documents.

**Figure 2 – Note issuance structure**




- On the Closing Date, the Issuer intends to issue the Notes.
- The Issuer will on-lend to Senior HoldCo the proceeds of the Note issuance pursuant to the Issuer/Senior HoldCo Loan Agreement.
- Senior HoldCo will apply the proceeds of the Note issuance towards prepayment in full of existing indebtedness and payment of fees and thereafter applied for general corporate purposes.
- The Issuer's obligations to repay principal and pay interest and other amounts in respect of the Notes are intended to be met primarily from the payments of principal and interest received from Senior HoldCo under the Issuer/Senior HoldCo Loan Agreement. The Issuer/Senior HoldCo Loan Agreement will provide for payments to become due from Senior HoldCo to the Issuer on dates and in amounts that match the obligations of the Issuer under the Notes.
- Finance HoldCo and Senior HoldCo will guarantee the obligations of the Issuer under the Transaction Documents in favour of the Security Trustee and Finance HoldCo, Senior HoldCo and the Issuer will each guarantee the obligations of each other under the Transaction Documents in favour of the Security Trustee.
- On and from the Closing Date, the obligations of each of Finance HoldCo, Senior HoldCo and the Issuer will be secured in favour of the Security Trustee under the terms of the Security Agreement.
- The guarantees and security to be granted by the Issuer and the Guarantors will be held by the Security Trustee for itself and on behalf of the Secured Creditors under the terms of the Intercreditor Agreement, which regulates the rights and claims of the Secured Creditors against the Issuer and the Guarantors and the duties and discretions of the Security Trustee.

# CHAPTER 8: THE ISSUER

The legal name of the Issuer is NWEN Finance PLC. The Issuer was incorporated in England and Wales on 24 January 2013 (registered number 8374655), as a public company with limited liability under the Companies Act 2006. The registered office of the Issuer is at 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG. The telephone number for the Issuer is 01925 846999. The Issuer has no subsidiaries or employees.

***Principal Activities***

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation and registration as a public limited company under the Companies Act 2006, the issue of the Notes, the execution of the documents referred to in this Prospectus to which it is a party and the other matters referred to or contemplated in this Prospectus, and matters which are incidental or ancillary to the foregoing.

The Issuer has covenanted to observe certain restrictions on its activities (see Chapter 15 "*Overview of the Financing Arrangements*" and Chapter 16 "*Terms and Conditions of the Notes*").

***Directors and Secretary***

The directors of the Issuer and their respective business addresses and other principal activities are:

| Name | Business Address | Principal Activities |
|---|---|---|
| Stephen Johnson | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Director |
| Michael McCallion | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Director |
| John Gittins | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Non-Executive Director |
| Niall Mills | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Non-Executive Director |
| Surinder Toor | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Non-Executive Director |
| Robert O'Malley | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Head of Treasury |

The company secretary of the Issuer is Chantal Forrest. The business address of the company secretary is 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG.

### *Audit Committee*

The Issuer board established an audit committee of the Board at its meeting on 10 March 2013. The members are John Gittins, Niall Mills and Surinder Toor. The audit committee terms of reference are based on the Institute of Chartered Secretaries and Administrators "ICSA Guidance on Terms of Reference – Audit Committee" (the **ICSA Guidelines**).

The duties of the committee include:

(a) monitoring the integrity of the financial statements of the company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance;

(b) reviewing significant financial reporting issues and judgements contained in the financial statements of the company;

(c) reviewing whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

(d) keeping under review the effectiveness of the company's internal controls and risk management systems; and

(e) monitoring and reviewing the effectiveness of the company's internal audit function in the context of the company's overall risk management system.

### *Conflicts of Interest*

No actual or potential conflicts of interest exist at the date of this Prospectus between the duties of the Directors of the Issuer or the company secretary of the Issuer and their private interests or other duties.

### *UK Corporate Governance Code*

As a public company, having listed bonds but not listed equity, the Issuer is not bound by the UK Corporate Governance Code (the **Corporate Governance Code**) and does not comply with all aspects of the Corporate Governance Code.

### *Capitalisation*

The capitalisation of the Issuer as at the date of this Prospectus is as follows:

### *Share Capital*

| Authorised Share Capital £ | Issued Share Capital £ | Value of each Share £ | Shares Fully Paid Up | Shares Quarter Paid Up | Paid Up Share Capital £ |
|---|---|---|---|---|---|
| 50,000 | 50,000 | 1 | 0 | 50,000 | 12,500 |

The issued share capital of the Issuer is 100 per cent. owned by Senior HoldCo.

### *Auditors*

Deloitte LLP are chartered accountants and registered auditors and have been appointed as the auditors for the Issuer. Deloitte LLP are members of the Institute of Chartered Accountants in England and Wales.

## *Financial Statements*

The Issuer has not published any financial statements since its incorporation on 24 January 2013. The Issuer has not commenced operations since its incorporation on 24 January 2013.

# CHAPTER 9: THE GUARANTORS

The Guarantors are Senior HoldCo and Finance HoldCo.

## Senior HoldCo

The legal name of Senior HoldCo is North West Electricity Networks (Holdings) Limited. Senior HoldCo was incorporated in England and Wales on 15 November 2007 (registered number 6428534), as a company with limited liability under the Companies Act 1985. The registered office of Senior HoldCo is at 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG. The telephone number for Senior HoldCo is 01925 846999.

### *Principal Activities*

The principal objects of Senior HoldCo are set out in Clause 3 of its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company (including raising and borrowing money with or without security, to lend money and to give guarantees).

Senior HoldCo was incorporated for the purposes of acquiring, and funding the acquisition of, ENW and its Subsidiaries.

### *Directors and Secretary*

The directors of Senior HoldCo and their respective business addresses and other principal activities are:

| Name | Business Address | Principal Activities |
|---|---|---|
| Stephen Johnson | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Director |
| Michael McCallion | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Director |
| Robert O’Malley | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Head of Treasury |

The company secretary of Senior HoldCo is Chantal Forrest. The business address of the company secretary is 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG.

### *Audit Committee*

Senior HoldCo does not have an audit committee as it is a special purpose vehicle with no business other than acting as a holding company and in connection with the financing arrangements contemplated by the Transaction Documents and the NWEN Finance Documents.

### *Conflicts of Interest*

No actual or potential conflicts of interest exists at the date of this Prospectus between the duties of the Directors of Senior HoldCo or the company secretary of Senior HoldCo and their private interests or other duties.

***UK Corporate Governance Code***

As a private company with no listed securities, Senior HoldCo is not bound by the Corporate Governance Code and does not comply with all aspects of the Corporate Governance Code. The directors of Senior HoldCo are of the opinion that, in the instances where Senior HoldCo does not comply with certain provisions of the Corporate Governance Code, this approach is justifiable given Senior HoldCo's privately held status and that such provisions of the Corporate Governance Code are disproportionate or less relevant in Senior HoldCo's case.

***Capitalisation***

The capitalisation of Senior HoldCo as at the date of this Prospectus is as follows:

***Share Capital***

| Authorised Share Capital £ | Issued Share Capital £ | Value of each Share £ | Shares Fully Paid Up | Shares Quarter Paid Up | Paid Up Share Capital £ |
|---|---|---|---|---|---|
| 3,000,000 | 3,000,000 | 1 | 3,000,000 | 0 | 3,000,000 |

The issued share capital of Senior HoldCo is 100 per cent. owned by Finance HoldCo.

***Auditors***

Deloitte LLP are chartered accountants and registered auditors and have been appointed as the auditors for Senior HoldCo. Deloitte LLP are members of the Institute of Chartered Accountants in England and Wales.

***Financial Statements***

The unaudited Half Year Condensed Consolidated Financial Statements of Senior HoldCo for the period ended 30 September 2012 and the Annual Report and audited Consolidated Financial Statements of Senior HoldCo for the years ended 31 March 2012 and 31 March 2011 are contained at Annex 1 "*Financial Statements*".

***Credit Rating***

Senior HoldCo has been assigned a long term corporate credit rating of BB+ by Standard and Poor’s.

**Finance HoldCo**

The legal name of Finance HoldCo is North West Electricity Networks (Finance) Limited. Finance HoldCo was incorporated in England and Wales on 15 November 2007 (registered number 6428374), as a company with limited liability under the Companies Act 1985. The registered office of Finance HoldCo is at 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG. The telephone number for Finance HoldCo is 01925 846999.

***Principal Activities***

The principal objects of Finance HoldCo are set out in Clause 3 of its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company (including raising and borrowing money with or without security, to lend money and to give guarantees).

Finance HoldCo was incorporated for the purposes of acquiring, and funding the acquisition of, ENW and its Subsidiaries.

***Directors and Secretary***

The directors of Finance HoldCo and their respective business addresses and other principal activities are:

| Name | Business Address | Principal Activities |
|---|---|---|
| Stephen Johnson | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Director |
| Michael McCallion | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Director |
| Robert O'Malley | 304 Bridgewater Place<br>Birchwood Park<br>Warrington WA3 6XG | Head of Treasury |

The company secretary of Finance HoldCo is Chantal Forrest. The business address of the company secretary is 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG.

***Audit Committee***

Finance HoldCo does not have an audit committee as it is a special purpose vehicle with no business other than acting as a holding company and in connection with the financing arrangements contemplated by the Transaction Documents and the NWEN Finance Documents.

***Conflicts of Interest***

No actual or potential conflicts of interest exists at the date of this Prospectus between the duties of the Directors of Finance HoldCo or the company secretary of Finance HoldCo and their private interests or other duties.

### *UK Corporate Governance Code*

As a private company with no listed securities, Finance HoldCo is not bound by the Corporate Governance Code and does not comply with all aspects of the Corporate Governance Code. The directors of Finance HoldCo are of the opinion that, in the instances where Finance HoldCo does not comply with certain provisions of the Corporate Governance Code, this approach is justifiable given Finance HoldCo's privately held status and that such provisions of the Corporate Governance Code are disproportionate or less relevant in Finance HoldCo's case.

### *Capitalisation*

The capitalisation of Finance HoldCo as at the date of this Prospectus is as follows:

### *Share Capital*

| Authorised Share Capital £ | Issued Share Capital £ | Value of each Share £ | Shares Fully Paid Up | Shares Quarter Paid Up | Paid Up Share Capital £ |
|---|---|---|---|---|---|
| 3,000,000 | 3,000,000 | 1 | 3,000,000 | 0 | 3,000,000 |

The issued share capital of Finance HoldCo is 100 per cent. owned by North West Electricity Networks (UK) Limited.

### *Auditors*

Deloitte LLP are chartered accountants and registered auditors and have been appointed as the auditors for Finance HoldCo. Deloitte LLP are members of the Institute of Chartered Accountants in England and Wales.

### *Financial Statements*

The Annual Report and audited Financial Statements of Finance HoldCo for the years ended 31 March 2012 and 31 March 2011 are contained at Annex 1 "*Financial Statements*".

## CHAPTER 10: NWEN, NWEN ISSUER AND THE NWEN PROGRAMME

**NWEN**

The legal name of NWEN is North West Electricity Networks Limited. NWEN was incorporated in England and Wales on 15 November 2007 (registered number 6428375), as a company with limited liability under the Companies Act 1985. The registered office of NWEN is at 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG. The telephone number for NWEN is 01925 534550.

The principal objects of NWEN are set out in Clause 3 of its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company (including raising and borrowing money with or without security, to lend money and to give guarantees).

NWEN was incorporated for the purposes of acquiring, and funding the acquisition of, ENW and its Subsidiaries. It is party to and exercises its rights and performs its obligations under:

(a) certain of the NWEN Finance Documents (in relation to which see "*Description of the NWEN Programme*" below) including the provision of guarantees of, and granting of security for, NWEN Issuer's obligations in respect of the notes issued by it under the NWEN Programme; and

(b) certain intra group loans between NWEN and ENW permitted pursuant to the terms of the NWEN Finance Documents representing the on-loan of certain amounts to be applied by ENW in respect of capital expenditure.

**NWEN Issuer**

The legal name of NWEN Issuer is ENW Capital Finance plc. NWEN Issuer was incorporated in England and Wales on 8 April 2009 (registered number 6873051), as a public company with limited liability under the Companies Act 1985. The registered office of NWEN Issuer is at 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG. The telephone number for NWEN Issuer is 01925 534550. NWEN Issuer has no subsidiaries or employees.

The principal objects of NWEN Issuer are set out in Clause 4 of its Memorandum of Association and are, *inter alia*, (i) to raise or borrow money and to grant security over its assets for such purpose, to lend money and to take security over the assets of any borrower in connection with such loans; (ii) to accept, draw, make, create, issue, execute, discount, endorse, negotiate and deal in bills of exchange, promissory notes, bills of lading, warrants. debentures and other instruments and securities, whether negotiable, transferable or otherwise; (iii) to enter (whether directly or indirectly, as principal or agent, trustee or beneficiary) into any guarantee, interest rate exchange transaction, currency exchange transaction, option, swaption, repurchase transaction, securities lending transaction, contract for differences, contract of indemnity or suretyship; and (iv) to distribute any of its property or assets among its creditors and members in specie or kind.

NWEN Issuer was incorporated in connection with the establishment of the NWEN Programme. It is party to and exercises its rights and performs its obligations under certain of the NWEN Finance Documents (in relation to which, see "Description of the NEW Programme below"), in particular the issuance of notes and the granting of security in respect of its obligations under the notes issued by it under the NWEN Programme.

## Description of the NWEN Programme

### *Definitions*

In this section "Description of the NWEN Programme", the following terms shall have the following meanings and, unless specified to the contrary elsewhere in this Prospectus, are not relevant to any other section of this Prospectus:

**Adjusted ICR** means, in respect of a Relevant Period, the interest cover ratio, which shall be calculated as the ratio of Net Cash Flow less Regulatory Depreciation (in respect of such Relevant Period) to Net Interest Service (in respect of such Relevant Period).

**Change of Control** means:

(a) on and from the Programme Date, NWEN HoldCo ceasing to hold legally and beneficially 100 per cent. of the issued share capital of NWEN; or

(b) NWEN ceasing to hold (i) legally and beneficially 100 per cent. of the issued share capital of ENW or (ii) beneficially, 100 per cent. of the issued share capital of the Issuer.

**Covenant Calculation Date** means the last day of each financial year and last day of each financial half year of the NWEN Financing Group.

**DUoS Billing Adjustment** means an amount of money received by ENW within a period of five Business Days following a Covenant Calculation Date, as payment for services provided no later than the Covenant Calculation Date for which payment was due to ENW on or prior to the Covenant Calculation Date or where payment has been delayed or due within five (5) Business Days of the Covenant Calculation Date as a result of delays in the billing process in the month ending on the Covenant Calculation Date.

**Enforcement Order** means any order, direction, or decision issued by the Regulator under Section 25 of the Electricity Act to enforce ENW's compliance with the terms of its Licence.

**ENW Conditions** means the terms and conditions of the ENW Issuer Notes issued pursuant as set out in the trust deed dated 17 July 2009 between, inter alios, ENW, the ENW Issuer and The Law Debenture Trust Corporation p.l.c.

**ENW Event of Default** means in respect of ENW or any member of the ENW Group, an event of default under the ENW Note Programme.

**ENW Net Debt to RAV Ratio** means with respect to ENW on any Covenant Calculation Date, the ratio of Net Debt to RAV (each term as defined in the ENW Conditions) as at such Covenant Calculation Date, or in the case of forward-looking ratios for Relevant Periods ending after such Covenant Calculation Date, as at 31 March falling in such Relevant Period.

**Majority Creditors** means the representatives in respect of more than 50 per cent. of the Voted Qualifying Senior Debt, as determined on a "pound for pound" basis.

**Net Cash Flow** means:

(a) in respect of any historical element of a Relevant Period, the aggregate EBITDA of the NWEN Financing Group as determined in accordance with the applicable accounting principles in respect of such period:

  (i) adjusted to exclude any exceptional, one off or non-cash items and any over or under recoveries of ENW's regulated entitlement calculated in accordance with the price control formulae set out in its Licence;

  (ii) plus any net working capital decrease less any DUoS Billing Adjustment made in the previous Relevant Period, minus any net working capital increase plus any DUoS Billing Adjustment in the current Relevant Period;

  (iii) minus corporation tax paid; and

  (iv) adding the amount of any cash receipts during that period in respect of any Tax rebates or credits; and

(b) in respect of any forward looking element of a Relevant Period, the aggregate of anticipated EBITDA of the NWEN Financing Group in respect of such period, adjusted to exclude any anticipated exceptional, one off or non-cash items and any over or under recoveries of ENW's regulated entitlement calculated in accordance with the price control formulae set out in its Licence, plus any anticipated net working capital decrease, minus any anticipated net working capital increase and minus anticipated corporation tax payable, and adding the amount of any anticipated cash receipts during that period in respect of Tax rebates or credits.

**Net Debt** means, as at any particular time, the aggregate principal amount of all outstanding (or, in respect of a future date, forecast to be outstanding) obligations of the NWEN Financing Group (on a consolidated basis) in respect of Borrowings:

(a) including in the case of finance leases, only the capitalised value thereof; and

(b) excluding (for the avoidance of doubt) any un-crystallised mark to market amount relating to any Hedging Agreement,

less (i) cash of the NWEN Financing Group; (ii) Authorised Investments of the NWEN Financing Group; and (iii) any DUoS Billing Adjustment of the NWEN Financing Group.

**Net Debt to RAV Ratio** means on any Covenant Calculation Date, the ratio of Net Debt to RAV as at such Covenant Calculation Date, or in the case of forward-looking ratios for Relevant Periods ending after such Covenant Calculation Date, as at 31 March falling in such Relevant Period.

**NWEN Event of Default** means an event specified as such in the Common Terms Agreement.

**Out-turn Inflation** means, in respect of any period for which the relevant indices have been published, the actual inflation rate applicable to such period determined by reference to movements in the Retail Price Index.

**Periodic Review** means any review of electricity distribution price controls conducted by the Regulator from time to time.

**Qualifying Senior Debt** means the aggregate outstanding principal amount of NWEN Senior Debt entitled to be voted by the relevant representatives of the providers of the NWEN Senior Debt.

**Qualifying Senior Debt Provider** means a provider of Qualifying Senior Debt.

**RAV** means, in respect of ENW in relation to any date, the aggregate of:

(a) the regulatory asset value for such date as last determined and notified to ENW by the Regulator at the most recent Periodic Review or such interim determination or other procedure through which the Regulator may make such determination of regulatory asset value on an equally definitive basis to that of a Periodic Review or interim determination; and

(b) such other sum so determined and notified which the Regulator has determined may not be wholly recovered from customers within the regulatory period to which the determination relates and which may only be so recovered over a period of time extending beyond the end of that regulatory period,

in each case, adjusted for Out-turn Inflation and, where necessary, by interpolation.

**Regulator** means the Gas and Electricity Markets Authority (GEMA), operating through the Office of Gas and Electricity Markets (Ofgem) and any successors thereto.

**Regulatory Depreciation** means, in relation to any period for which it is being calculated, the amount equal to the depreciation value used to calculate movements in the RAV as determined by Ofgem at the most recent Periodic Review or such interim determination or other procedure through which Ofgem may make such determination of regulatory asset value on an equally definitive basis to that of an electricity distribution price control review or interim determination (pro rated as necessary and adjusted as necessary for Out-turn Inflation).

**Regulatory Financial Statements** means the individual financial statements of ENW, prepared in the form required by the "accounts condition" to the Licence.

**Regulatory Period** means the period in respect of which a set of price control conditions are fixed by (currently) the Regulator (currently a five year period).

**Relevant Period** means:

(a) the period of 12 Months ending on a Covenant Calculation Date; or

(b) the period of 12 Months starting on the first day after a Covenant Calculation Date.

**Restricted Payments** means in respect of a member of the NWEN Financing Group broadly any payment (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise and any payment under any Subordinated Debt) (in cash or in kind) to any direct or indirect affiliate of such company, other than (a) payments pursuant to and in accordance with any contracts entered into with any other person in the ordinary course of business in compliance with the NWEN Finance Documents and (b) in respect of ENW, payments of intra-group debt service distributions and (c) any payments by ENW for group relief surrendered to ENW provided that, if the Restricted Payment Conditions are not satisfied at such time, the amount of such group relief payment is left outstanding as a debt until such time as the Restricted Payment Conditions are satisfied (and accordingly that such amount shall not actually be paid out of ENW prior to such time), and (d) payments between ENW and the ENW Issuer which are due under the ENW Note Programme.

**Senior Debt** means any financial accommodation that is for the purposes of the STID to be treated as Senior Debt.

**Voted Qualifying Senior Debt** means the aggregate outstanding principal amount of Qualifying Senior Debt voted by representatives of NWEN Senior Debt Providers in accordance with the STID.

***General***

Pursuant to the NWEN Programme:

(a) the NWEN Issuer issued £300,000,000 6.75 per cent. notes due 2015 (the **NWEN Issuer Notes**) (the proceeds of which were on lent to NWEN pursuant to an inter-company loan agreement (the **NWEN Issuer/NWEN Loan Agreement**) on terms which correspond to the terms of the NWEN Issuer Notes); and

(b) NWEN entered into a £150,000,000 capex facility agreement due 2016 (the **NWEN Capex Facility Agreement**) under which there is currently £28,600,000 outstanding and a £40,000,000 liquidity facility agreement renewable annually (the **DSR Liquidity Facility Agreement**), which is currently undrawn,

such indebtedness together the **NWEN Financing Group Indebtedness**.

NWEN HoldCo, NWEN and the NWEN Issuer (each an **NWEN Obligor**) will guarantee the obligations of each other under the NWEN Programme's finance documents (the **NWEN Finance Documents**) in favour of The Law Debenture Trust Corporation p.l.c. as security trustee (the **NWEN Security Trustee**). The obligations of NWEN and the NWEN Issuer are secured by substantially all the assets of each of the members of the NWEN Financing Group (other than ENW, the ENW Issuer and ENW's Subsidiaries).

A common terms agreement (the **CTA**) sets out the common warranties, covenants, trigger events or loan events of default applicable to the NWEN Financing Group Indebtedness. The NWEN Secured Creditors have also entered into intercreditor arrangements, contained in a security trust and intercreditor deed (the **STID**). These are described below.

If the NWEN Financing Group fails to make payments or comply with the covenants in respect of its financing, this may result in a default under the NWEN Financing Group financing and the insolvency of the NWEN Financing Group. The Notes will be subordinated to all liabilities of the NWEN Financing Group and so in such circumstances the Issuer's ability to make payments under the Notes would be severely restricted and there might be no return in relation to the Notes.

***CTA***

*General*

The CTA contains certain positive, negative and financial covenants from each of the NWEN Obligors and certain additional covenants from ENW relating to its regulated electricity distribution business. These covenants are subject, in some cases, to agreed exceptions, de minimis amounts and qualifications as to materiality and reservations of law and include covenants which apply to all NWEN Obligors and specific covenants that apply to ENW to reflect its regulated status and specific covenants which apply to the NWEN Issuer. There is no cross-default to ENW for breach of covenant by an NWEN Obligor, although Trigger Events and the consequences of a Trigger Event which are applicable on a consolidated group basis might be applied to ENW where an NWEN Obligor is in default, provided that such consequences do not amount to a breach of ENW's Licence.

A copy of the CTA is available on request through the ENW website: http://www.enwl.co.uk/about-us/investor-relations.

*Covenants*

The covenants are positive, negative, informational and financial in nature. They include an undertaking by NWEN to provide:

(a) consolidated audited financial statements of NWEN and the non-consolidated audited financial statements of the NWEN Issuer and NWEN HoldCo;

(b) consolidated unaudited Financial Statements of NWEN for the first financial half year in each Financial Year;

(c) ENW's audited annual financial statements; and

(d) to the extent that preparation of Regulatory Financial Statements is required pursuant to ENW's Licence, its Regulatory Financial Statements.

NWEN is required to supply an annual investor report within 150 days after the end of each financial year which includes a general update on the NWEN Financing Group, regulatory and business developments and capital expenditure.

Each NWEN Obligor has undertaken not to incur any financial indebtedness other than certain categories of permitted financial indebtedness. The incurrence of additional indebtedness is subject to certain conditions including that:

(a) the Net Debt to RAV Ratio for each Relevant Period calculated by reference to the then most recently occurring Covenant Calculation Date, taking into account the proposed additional indebtedness, must not be more than 90 per cent.; and

(b) the Adjusted ICR for each Relevant Period calculated by reference to the then most recently occurring Covenant Calculation Date, taking into account the proposed additional indebtedness, must not be less than 1.1x.

In addition, there are restrictions on the amount of financial indebtedness which may fall due (i) within any 24 month period to 30 per cent. of RAV at the relevant test date and (ii) within any five year regulatory period to 40 per cent. of RAV at the relevant test date.

The CTA also contains a number of covenants which regulate the activities of the NWEN Obligors including, among others:

(a) limitations on non-permitted businesses;

(b) limitations on joint ventures;

(c) restrictions on disposals;

(d) a negative pledge; and

(e) maintenance of investment grade ratings.

*Trigger Events*

The CTA sets out certain Trigger Events which include (subject to agreed exceptions, materiality qualifications, grace periods and remedies) the occurrence of any of the following events:

(a) on any date when any of the following ratios are calculated in accordance with the CTA to breach the relevant level specified below (each a **Trigger Event Ratio Level**) as at the most recently occurring Covenant Calculation Date:

(i) the Net Debt to RAV Ratio in respect of any Relevant Period applicable to the relevant Covenant Calculation Date is or is estimated to be more than 85 per cent.;

(ii) the Adjusted ICR in respect of any Relevant Period applicable to the relevant Covenant Calculation Date is or is estimated to be less than 1.1x;

(iii) the ENW Net Debt to RAV Ratio in respect of any Relevant Period applicable to the relevant Covenant Calculation Date is or is estimated to be more than 65 per cent;

(b) a failure by NWEN or the NWEN Issuer to pay any amounts due under any NWEN Senior Debt;

(c) as at any Covenant Calculation Date, the aggregate of:

(i) the NWEN Financing Group's operating cash flows available or forecast to be available to meet capital expenditure and working capital requirements for the next 12 months;

(ii) Authorised Credit Facilities (excluding DSR Liquidity Facilities) available to be drawn in the next 12 months; and

(iii) any credit facility of ENW as permitted in accordance with the terms of the ENW Note Programme and ENW's Licence which are available to be drawn in the next 12 months,

is less than the aggregate of:

(A) the NWEN Financing Group's forecast capital expenditure projected for the next 12 month period;

(B) the NWEN Financing Group's forecast working capital requirements projected for the next 12 month period;

(C) the total amount of interest in respect of Senior Debt which is or is projected to fall due and payable during the next succeeding 12 month period and all amounts in respect of interest which are or are projected to fall due and payable during the next succeeding 12 month period in respect of any permitted financial indebtedness which is unsecured (excluding subordinated debt and interest thereon); and

(D) the amount NWEN estimates, in its reasonable opinion, is equal to the net amount payable by any member of the NWEN Financing Group to a hedge counterparty following the termination of a treasury transaction as permitted by the Hedging Policy;

(d) an Enforcement Order is issued against ENW which would have a Material Adverse Effect if not complied with and ENW is not in the process of taking all reasonable steps to comply with such Enforcement Order;

(e) any indication arising from notices and/or correspondence issued by, or during correspondence with, the Regulator or any other circumstance of which ENW is aware that would reasonably be expected to lead to an application for an Energy Administration Order to be made in respect of ENW;

(f) the giving of a notice to terminate the ENW Licence;

(g) an NWEN Event of Default or NWEN Potential Event of Default has occurred and is continuing;

(h) an ENW Event of Default has occurred and is continuing;

(i) a qualification by the auditors to their report on any audited statutory accounts of any member of the NWEN Financing Group in a manner which causes the financial ratios calculated in accordance with the CTA to no longer reflect the true position of the NWEN Financing Group and would, when recalculated, result in a breach of the relevant financial covenant;

(j) the commencement of the final reading of draft legislation which (if enacted) could reasonably be expected to lead to a breach of the financial ratios referred to in paragraph (a) above;

(k) if within six months of an announcement setting out clear proposals by the Regulator for the modification or replacement of the Licence which, if implemented, could reasonably be expected to have a material adverse effect, such modification or replacement has not been implemented;

(l) a final price determination by the Regulator which, in NWEN's reasonable opinion is likely to have a Material Adverse Effect;

(m) any of the Rating Agencies downgrades the ratings given to the NWEN Issuer Notes to below investment grade; and

(n) the permitted non-appointed business limits are breached.

The occurrence of a Trigger Event gives rise to various consequences including a block on Restricted Payments, the preparation of remedial plans, a right for the NWEN Security Trustee to participate in discussions with the Regulator and, if the relevant Trigger Event has not otherwise been remedied or waived within six months from the date of its occurrence, the Security Trustee will be entitled to procure the appointment of two additional independent non-executive directors to the board of NWEN.

*Loan Events of Default*

The CTA contains a number of Loan Events of Default (subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods) including:

(a) non-payment by a member of the NWEN Financing Group on the due date of any amount payable by it under the NWEN Finance Documents;

(b) non-compliance by a member of the NWEN Financing Group in any material respect with any term of the Finance Documents;

(c) a representation made or repeated by a member of the NWEN Financing Group in any Finance Document or in any document delivered by or on behalf of that member of the NWEN Financing Group under any Finance Document being incorrect or misleading in any material respect when made or deemed to be repeated;

(d) the occurrence of an ENW Event of Default;

(e) an insolvency event in relation to any member of the NWEN Financing Group;

(f) any attachment, sequestration, distress, execution or analogous event involving sums in excess of £5,000,000 (indexed) that affects any asset(s) of any member of the NWEN Financing Group and is not discharged within 30 days;

(g) it becoming unlawful for any member of the NWEN Financing Group to perform any of its material obligations under any NWEN Finance Document;

(h) the Security created by a Security Document entered into by an Obligor ceasing to be in full force and effect;

(i) a member of the NWEN Financing Group not having the legal power to perform its material obligations under the relevant Finance Documents or to own any material asset or to carry on its business;

(j) at any time any obligation of a member of the NWEN Financing Group under a relevant Finance Document ceasing to be legal, binding and enforceable;

(k) certain changes in law;

(l) the Net Debt to RAV ratio being greater than 92 per cent.;

(m) the Adjusted ICR being less than 1.0x; and

(n) the occurrence of a Change of Control.

In respect of each Loan Event of Default requiring any action or discretion on the part of the relevant creditor, the security trustee under the NWEN Financing Group Indebtedness will act in accordance with the relevant provisions of the STID.

***Hedging Policy***

The NWEN Financing Group is subject to a hedging policy (the **NWEN Hedging Policy**) which is set out in the CTA. The purpose of the NWEN Hedging Policy is to limit the NWEN Financing Group's exposure to fluctuations in interest rates, currencies and inflation. The NWEN Financing Group may enter into various interest rate, inflation-linked and currency hedging transactions in conformity with the Hedging Policy. In addition, the NWEN Financing may enter into hedging arrangements in the ordinary course of business for non-speculative purposes.

***Security Trust And Intercreditor Deed (STID)***

The intercreditor arrangements in respect of the NWEN Financing Group (the **Senior Intercreditor Arrangements**) are contained in the STID and the CTA. The Senior Intercreditor Arrangements bind each of the NWEN Secured Creditors and each of the Obligors. Unsecured creditors of the NWEN Financing Group are not and will not become parties to the Senior Intercreditor Arrangements and will not be subject to their terms. However, the aggregate amount of such financial indebtedness is restricted under the CTA.

The purpose of the Senior Intercreditor Arrangements is to regulate, among other things (a) the claims of the NWEN Secured Creditors; (b) the exercise, acceleration and enforcement of rights by the NWEN Secured Creditors; (c) the rights of the NWEN Secured Creditors to instruct the NWEN Security Trustee; (d) the rights of the NWEN Secured Creditors during a Standstill Period; (e) the Entrenched Rights and the Reserved Matters of the NWEN Secured Creditors; and (f) the giving of consents and waivers and the making of modifications to the NWEN Programme transaction documents. The Senior Intercreditor

Arrangements also provide for the ranking in point of payment of the claims of the NWEN Secured Creditors, both before and after any enforcement of the security created for the benefit of the NWEN secured Creditors (the **NWEN Security**).

The STID contains provisions which enable the NWEN Security Trustee to give consents and waivers in relation to the making of modifications to the NWEN Programme transaction documents (principally where it determines that the consent, waiver or modification will not be materially prejudicial to NWEN Secured Creditors). Where the NWEN Security Trustee is not willing or able to exercise its discretion, subject to "Entrenched Rights" and "Reserved Matters" (which always requires the consent of all of the relevant NWEN Secured Creditors who are affected), the NWEN Security Trustee may only concur in making any modification of or grant any consent or waiver under the NWEN Finance Documents or take Enforcement Action with the consent of or if so instructed by the Majority Creditors provided that the relevant quorum requirement has been met. Voting is effected on a "pound for pound" basis.

# CHAPTER 11: ENW

## ENW

The legal name of ENW is Electricity North West Limited. ENW was registered in England and Wales on 1 April 1989, with registered number 2366949 under the name NORWEB plc, to succeed to the North Western Electricity Board for the purposes of privatisation of the electricity industry in 1990. It was acquired by United Utilities PLC, formerly North West Water Group plc (**UU**)) in November 1995, and was renamed United Utilities Electricity PLC in 2001. On 31 August 2007, it re-registered as a private company. On 19 December 2007, UU disposed of its interest in United Utilities Electricity Limited to North West Electricity Networks Limited, and, on 20 December 2007, United Utilities Electricity Limited's name was changed to Electricity North West Limited.

The principal objects of ENW as set out in clause 3 of its Memorandum of Association are to carry on all or any of the business of purchasing, importing, generating, transmitting, transforming, converting, distributing, supplying, exporting and dealing in electricity and all other forms of energy and products or services associated therewith; to do anything which a public electricity supplier is empowered or required to do under or by virtue of or under a licence or other authorisation granted under the Electricity Act 1989 or any statutory instrument made thereunder or any statutory modification or re-enactment thereof; to provide or procure the provisions of such facilities and services as may be necessary or desirable to forecast electricity/energy demand and to satisfy such demand; to borrow or raise money or secure or discharge any debt or obligation (whether of ENW or of any other person) in such manner as ENW thinks fit and, in particular (but without prejudice to the generality of the foregoing) by the creation or issue, upon such terms as to priority or otherwise as ENW thinks fit, of securities of any kind or mortgages or charges (fixed or floating) founded or based upon all or any part of the undertaking, property, assets and rights (present and future) of ENW, including its uncalled capital, or without any such security and to receive money on deposit and advance payments with or without allowance of interest.

For further information in relation to ENW's business, see Chapter 12 "*Description of the ENW Business*".

### *Board of Directors*

The board of directors of ENW (the **ENW Board**) and their functions within ENW are as follows:

| **Name** | **Position** |
|---|---|
| Stephen Johnson | Chief Executive Officer |
| Michael McCallion | Chief Financial Officer |
| Mike Nagle | Non-Executive Director |
| Surinder Toor | Non-Executive Director |
| Niall Mills | Non-Executive Director |
| Mark Rogers | Non-Executive Director |
| John Gittins | Non-Executive Director |

None of the directors of ENW performs activities outside the Issuer Financing Group which are significant with respect to the Issuer Financing Group. Except for certain cross-group directorships, there are no actual or potential conflicts of interest between the directors' duties to ENW and/or their private interests or other duties.

The company secretary of ENW is Chantal Forrest.

The business address of each of the directors is ENW's registered office, which is 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG.

| Name | Experience |
|---|---|
| Stephen Johnson<br>Chief Executive | Joined ENW in September 2008 from Morrison plc where he was Managing Director, having previously been with UU as Managing Director of its Industrial and Commercial Business. Stephen previously worked for Norweb and Yorkshire Electricity and is a member of the Institute of Engineering and Technology. |
| Michael McCallion<br>Chief Financial Officer | Joined ENW in 2007 as Commercial Director to manage the out-sourcing contract with United Utilities. He was appointed Chief Financial Officer in September 2010. Michael was previously Head of Capital Programme Finance for United Utilities' regulated businesses and prior to that, he was a Marketing Finance Director with AstraZeneca plc. He is a Fellow of the Institute of Chartered Accountants, having qualified with PricewaterhouseCoopers. |
| Mike Nagle | Member of the North West Electricity (Jersey) board of directors representing IIF Int'l Holding GP Ltd, Mike Nagle was the Group Company Secretary and Solicitor of SEEBOARD plc and Senior Vice President, Legal Services at Metronet Rail. Having now retired as a solicitor, Mike is also a non-executive director on the Boards of Greensands Holdings Limited (the parent company of Southern Water) and Zephyr Investments Limited. |
| Surinder Toor | Non-executive director joined the ENW Board in June 2009, representing the ultimate controller IIF Int'l Holding GP Ltd. Surinder is a Managing Director at JP Morgan Asset Management and the global head of asset management for JP Morgan's Infrastructure Investments Group. In addition to Electricity North West, he holds a directorship in the holding company of Southern Water. Previously, he was the Chief Financial Officer at Scotia Gas Networks plc and prior to that he was Managing Director of American Electric Power's European operations. He has also held positions with Arthur Andersen, PowerGen plc and at PricewaterhouseCoopers, where he started his career. Surinder holds an MA in Engineering, Economics and Management from the University of Oxford and he is a Chartered Accountant. |
| Niall Mills | Non-executive director joined the ENW Board in June 2009, member of the North West Electricity (Jersey) board of directors representing Commonwealth Bank of Australia. Niall is Head of Infrastructure Asset Management, Europe for First State Investments UK. He is also a board director of Anglian Water Group and has more than 20 years of infrastructure and engineering/project management experience. His most recent role was as Asset Director for Southern Water in the UK. Prior to this, he held senior roles with Novar Projects (airport sector), Bechtel (rail and water sectors) and North West Water Engineering (water sector). |

Niall has a Masters of Business Administration from the London Business School, an Institute of Directors Diploma in Company Directorship, a Bachelor of Engineering (Hons) and is a Fellow of the Institution of Civil Engineers.

| | |
|---|---|
| Mark Rogers | Non-executive director joined the ENW Board in September 2012. Mark is Asset Manager for the Australian Infrastructure Investment team for Colonial First State Global Asset Management. Mark is also a director of Anglian Water Group and Healthcare Support (Newham) in the UK, a partner representative for Hazelwood Power and a director of Hazelwood Power Corporation and joint venture representative for the Somerton Pipeline Joint Venture and is Deputy Chairman of the Australian Green Infrastructure Council.<br><br>Mark has over 15 years of infrastructure experience including roles with the Federal Government privatising the major capital city airports, consulting work on major infrastructure projects such as the Victorian Regional Fast Rail Project, the Gold Coast Airport and Canberra Airport runway extension projects and the M5 toll road project. Mark has a Masters of Legal Studies, Bachelor of Economics and Bachelor of Arts Degrees from the Australian National University. |
| John Gittins | Independent Non-Executive Director joined the ENW Board in July 2009. John is Finance Director at Fairpoint Group plc. Prior to that he had been Group Finance Director of NCC Group plc, Begbies Traynor Group plc, Vertex Data Science Ltd and of Spring Group plc. John is a graduate of the London School of Economics and qualified as a Chartered Accountant with Arthur Andersen. |

***Audit Committee***

The committee monitors the integrity of the ENW Group's financial statements, including its annual and half-yearly financial reports and any other formal announcement relating to its financial performance, including whether the company has followed appropriate accounting standards and made appropriate estimates and judgements.

The role of the committee also includes:

- reviewing the effectiveness of the external and internal audit processes, to ensure that the ENW Board and all stakeholders have confidence in the company's financial reporting;

- providing recommendations to the ENW Board in relation to the appointment, reappointment and remuneration of the external auditor and assesses the external auditor's independence and the level of non-audit services provided to ENW; and

- ensuring that ENW's policies and practices relating to the assurance of risks are prudent and compliant with the Company's banking facilities together with providing oversight of the impact of, and compliance with, externally imposed regulatory rules on the operations of the business.

The Audit Committee Chair is John Gittins and its members are Niall Mills, Surinder Toor, John Gittins, Mike Nagle and Mark Rogers.

The Committee's terms of reference are based on the Institute of Chartered Secretaries and Administrator's Guidance on Terms of Reference for Audit Committees and are reviewed annually. This is to ensure they reflect the Financial Reporting Council's Guidance on Audit Committees and any relevant amendments to the UK Corporate Governance Code relating to Audit Committees.

The Terms of Reference include the following stipulations:

- all members of the committee shall be non-executive directors, at least one of whom shall have recent and relevant financial experience;

- the external auditors will be invited to attend meetings of the committee on a regular basis; and

- the committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

The company is required to comply with the FSA's Disclosure and Transparency Rules, a requirement of which is for the Audit Committee to have a member who is an independent non-executive director, and John Gittins fulfils this requirement.

***UK Corporate Governance Code***

As a private company, having listed bonds and no listed equity, ENW is not bound to comply with the Corporate Governance Code. It is, however, required by standard condition 44.12 of its Electricity Distribution Licence, to include a corporate governance statement in its annual report that has the coverage and content of the corporate governance statement that a quoted company is required to prepare under the Corporate Governance Code.

The ENW Board is committed to effective corporate governance commensurate with its status as a public interest company. Where necessary, the ENW Board has taken steps to align its governance with the Corporate Governance Code.

***Capitalisation***

The capitalisation of ENW as at the date of this Prospectus is as follows:

*Share Capital*

| **Type of Share Capital** | **Authorised Share Capital** £ | **Issued Share Capital** £ | **Value of each Share** £ | **Shares Fully Paid Up** | **Shares Quarter Paid Up** | **Paid Up Share Capital** £ |
|---|---|---|---|---|---|---|
| Ordinary shares | 284,999,998.00 | 238,410,670.50 | 0.50 | 476,821,341 | 0 | 238,410,670.50 |
| ‘A’ Ordinary shares | 2.00 | 2.00 | 0.50 | 4 | 0 | 2.00 |
| Special rights redeemable preference share | 1.00 | 1.00 | 1.00 | 0 | 0 | 0 |

**ENW financial indebtedness**

Pursuant to the ENW Note Programme, the ENW Issuer issued £200,000,000 6.125 per cent. notes due 2021 (the **ENW Issuer Notes**) (the proceeds of which were on lent to ENW pursuant to an inter-company loan agreement (the **ENW Issuer/ENW Loan Agreement**) on terms which correspond in the terms of the ENW Issuer Notes). ENW has guaranteed the obligations of the ENW Issuer under the ENW Issuer Notes.

In addition, ENW has outstanding indebtedness under its £100,000,000 1.4746 per cent. index-linked bonds due 2046, its £450,000,000 8.875 per cent. bonds due 2026 and its £135,000,000 index-linked term facility with the European Investment Bank due 2024. ENW also has an undrawn £50,000,000 revolving credit facility due 2017. All of the indebtedness incurred by ENW and ENW Issuer is unsecured.

**Credit Rating**

ENW has been assigned a long term corporate credit rating of BBB+ by Standard and Poor's, BBB+ by Fitch Ratings Limited (**Fitch**) and Baa1 by Moody's Investors Service Limited (**Moody's**) and a short term corporate credit rating of A-2 by Standard and Poor's and F2 by Fitch.

Each of Standard & Poor's, Fitch and Moody's is a credit rating agency established and operating in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such each of Standard & Poor's, Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

## CHAPTER 12: DESCRIPTION OF THE ENW BUSINESS

ENW owns one of the 14 regulated electricity distribution networks in England, Wales and Scotland, which were privatised along with other parts of the electricity industry during the 1990s. The electricity market is regulated by the Gas and Electricity Markets Authority (GEMA) which governs and acts through the Office of Gas and Electricity Markets (Ofgem).

The offer of the Notes presents an opportunity to invest in the holding company for a high quality regulated UK electricity distribution business that benefits from:

- strong and predictable operating cash flow;
- no volume risk;
- positive cash flow generation before financing;
- inflation-linked earnings;
- a stable, well established and transparent regulatory regime;
- industry leading delivery of Ofgem output targets; and
- excellent progress in delivering its investment programme.

Senior HoldCo benefits from sustainable cash flows to service debt and pay distributions to equity and the operating and intermediary companies have strong liquidity and limited debt maturities before 2020. The business consistently outperforms its regulatory targets and is well positioned and prepared for the next regulatory price review.

The company features a highly experienced management team focused on maximising value.

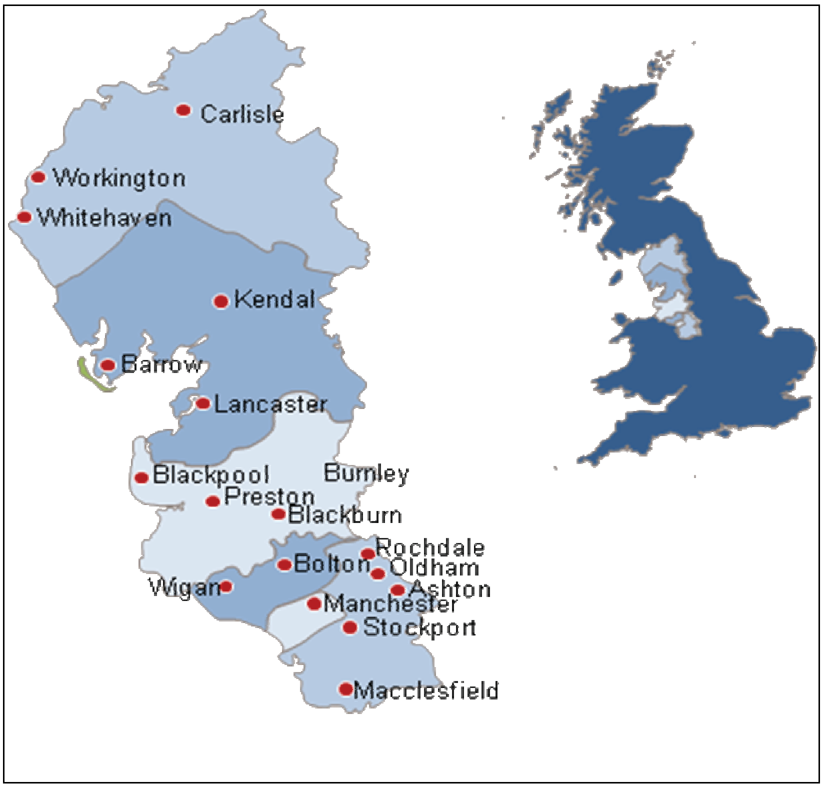
The principal activity of ENW is the distribution of electricity in the north west of England (which covers the Greater Manchester conurbation, the easterly fringes of the County of Merseyside, Lancashire, Cumbria and parts of Cheshire). The southern part of the region is largely urban whereas the north is more rural and contains the Lake District National Park. ENW's responsibilities as a licensed DNO are defined by the Electricity Act 1989 (as amended by the Utilities Act 2000) and the Licence granted under that legislation.

ENW's distribution network (please see diagram below) carries electricity from the National Grid along power lines to consumers' premises on behalf of the electricity supply companies who are ENW's principal customers.[1]

The network is made up of overhead lines, underground cables and items of plant, such as switchgear and transformers, which are used to distribute electricity to consumers' premises. As at 31 March 2012, the distribution network comprised 12,923 kilometres (km) of overhead lines, 44,193 km of underground cables, 84,313 items of switchgear and 34,488 transformers. These assets delivered 25 terawatt hours of electricity to approximately 2.4 million consumer premises in the year ended 31 March 2012. ENW does not generate or trade electricity.

[1] Note: the Electricity Distribution Licence uses "customer" to refer, on some occasions, to a source of revenue but far more often to refer to a "consumer" of electricity. In this Prospectus, "customer" refers to a source of revenue (in the main, suppliers of electricity from whom ENW derives more than 90 per cent. of its revenues) and "consumer" refers to a user of electricity.

**Figure – ENW Distribution Network:**




**Source: ENW**

Under its Licence, the revenue which ENW may derive any year from activities other than the conduct of its distribution business (**De Minimis Activities**) is limited to 2.5 per cent. of the revenue from the distribution business. The aggregate investment in De Minimis Activities is also limited by the Licence, broadly to 2.5 per cent. of shareholders funds as shown in the Regulatory Accounts. In this regard, ENW therefore does not currently propose to introduce any significant new products, nor does it currently propose to undertake any new activities outside its core distribution business.

The bulk of ENW's revenue from its distribution business is subject to a price control framework set by the regulator. Historically, these controls have been re-set at the start of each five-year regulatory period. The current price control running from 1 April 2010 to 31 March 2015 was agreed with Ofgem in January 2010. From 2015 the review period will be extended to eight years.

The price control framework governs the amount of income that ENW receives from suppliers and other network users through use of system charges. Under the existing price control framework, ENW is permitted to increase prices by an average of 8.5% plus inflation (RPI) in each of the five years to 2015.

Other than charges for connections to ENW's network, ENW has no direct financial relationship with consumers connected to the network. ENW charges electricity suppliers for the use of the network and suppliers pass these costs on to consumers. Typically, distribution charges account for around 20% of the final electricity bill for domestic consumers.

Profits depend on operational efficiency, achieved by reducing and controlling costs and the provision of high standards of service (for which there are both incentives and regulatory penalties for falling below minimum standards set out in the special licence conditions applicable to ENW for the current five-year regulatory period). In the latter regard, key performance measures for ENW's business relate to quality of supply and, particularly, the availability of supply. Electricity supplies were available for 99.99 per cent. of the time during the financial year ended 31 March 2012 (31 March 2011: 99.99 per cent.), sustaining ENW's high level of performance in managing the network to maintain constant supplies for consumers. ENW has performed at a better level of performance than the targets set by GEMA for quality of supply in every year since the year ending 31 March 2007.

Under the regulatory "Interruptions Incentive Scheme", ENW has been set network performance targets for the number and duration of consumer supply interruptions. The average number of interruptions per 100 connected consumers for the year ended 31 March 2012 was 45.9* (31 March 2011: 49.2), out-performing the regulatory target for the year of 52.7 (31 March 2011: 52.9). The average number of minutes for which consumers were without supply for the year ended 31 March 2012 was 47.6* (31 March 2011: 47.4), better than the regulatory target for the year of 55.6 minutes (31 March 2011: 55.6) (figures denoted by * are subject to Ofgem audit and exclude severe storms and other exclusions in accordance with Ofgem rules).

Capital investment in property, plant and equipment for the year ended 31 March 2012 was £220 million (31 March 2011: £188 million).

All of the investment in the distribution network is designed to ensure the risk of interruption to continuous distribution of electricity on the network is adequately maintained and customers continue to receive an excellent level of service. The company works with customers and stakeholder groups to identify the most effective strategies to meet those needs. To do this, there is a customer strategy in place and ENW strives to continually improve customer satisfaction across all areas of the business in line with this strategy. This has led to the development of the company's "Customer Commitments", underpinned by the company's corporate values and dedication to exceeding customer expectations.

On a monthly average basis, ENW had 1,613 employees during the year ended 31 March 2012.

**Financial Overview**

For the year ended 31 March 2012, revenue increased by 2.8 per cent. to £405 million (31 March 2011: £394 million), resulting from more favourable timing and recovery of allowed revenue. An over-recovery of revenue in the prior year, which arose due to a combination of price mix and volume changes, had been passed back to customers through reduced pricing in the year ended 31 March 2012, partially offsetting a more general increase in allowed revenue. Another contributory factor was an increase of £5.7 million in non trading rechargeable (**NTR**) revenue. Operating profit decreased by 10 per cent. to £189 million at 31 March 2012 (31 March 2011: £210 million), as a result of an increase in network maintenance costs, increasing costs of metal theft and increases in IT costs.

**Distributed generation and demand patterns**

ENW's network is designed to meet peak demand requirement and this is the primary driver of network capacity. Despite reductions in energy distributed over recent years, peak electricity demand has not fallen in the same way and local demand growth is likely to continue in areas of development indentified in the development plans of local planning authorities across the region. In the longer term beyond 2020, other factors such as growth in the use of electric vehicles and connection of heat pumps are likely to contribute significantly to increasing power and energy demand. ENW is undertaking work to better understand and predict trends in demand at an aggregate and local level.

ENW is committed to seeking innovative ways to manage its network to address changing patterns of demand and generation.

**Health and Safety**

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

Underpinning the business' drive to achieving the highest health and safety standards is an OHSAS 18001 certified health and safety management system together with robust health and safety leadership demonstrated at every management level.

ENW continues to support both the Health and Safety Executive's UK five year strategy and the Energy Networks Association's "Powering Improvement" health and safety strategy. As a clear demonstration of ENW's commitment to health and safety, a dedicated Board committee exists with the remit that includes setting the company's health and safety strategy, objectives and targets, reviewing and monitoring performance and reporting to the ENW Board.

**Environmental**

ENW is committed to sustainable development and achieving excellence in environmental performance, minimising any adverse impacts that business operations might have while fulfilling the ENW's obligation to improve the environment it operates in. Underpinning this drive to achieve excellence is the ENW environmental management system. Following a final stage external audit during 2012, the system was accredited to ISO 14001 standard. This has been achieved through significant investment of resources into environmental management.

**Litigation and Regulatory Proceedings**

ENW is not, and has not been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ENW is aware) within a period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of ENW, nor, so far as ENW is aware, are any such proceedings pending or threatened.

As with any other business in the sector, occasionally minor infringements of regulation and law occur, but they are not material in the context of the regulated business.

**Regulated Asset Value (RAV)**

As at 30 September 2012, the Regulated Asset Value was £1,571m.

## CHAPTER 13: REGULATION OF ELECTRICITY DISTRIBUTION IN GREAT BRITAIN

**Overview**

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, the Energy Act 2010, and the Energy Act 2011 (together, the **Energy Act**). The Electricity Act, as amended by the Utilities Act, requires all companies distributing electricity in Great Britain to be licensed unless they are covered by an exemption. Economic regulation pursuant to these licences is the responsibility of the GEMA, which acts through an executive office, Ofgem. Ofgem also exercises powers on behalf of GEMA under UK competition legislation, most significantly the Competition Act 1998 (the **Competition Act**) and the Enterprise Act 2002 (the **Enterprise Act**).

The first priority of Ofgem is protecting consumers by promoting competition, wherever appropriate. Ofgem is charged with regulating the monopoly companies which run the gas and electricity networks. Other stated priorities and influences include:

- helping to secure Britain's energy supplies by promoting competitive gas and electricity markets, as well as regulating them so that there is adequate investment in the networks;
- contributing to the drive to curb climate change and other work aimed at sustainable development by, for example:
  - helping the gas and electricity industries to achieve environmental improvements as efficiently as possible; and
  - taking account of the needs of vulnerable consumers, including older people, those with disabilities and those on low incomes.

In relation to the duties to ensure a regulated company is financeable, the GEMA's powers and duties are largely provided for in statute, principally in the Electricity Act. Under section 3A(2b), GEMA is required to "secure that licence holders are able to finance the activities which are the subject of obligations imposed by or under this Part or the Utilities Act". This has been interpreted in later years that Regulators should set revenues to allow "efficient companies" to finance their functions – a view supported by the Competition Commission in all of its recent determinations.

Ofgem recovers its costs from the licensed companies it regulates, who are obliged to pay an annual licence fee, which covers Ofgem's costs. Ofgem is independent of the companies it regulates. Ofgem currently operates under a five-year cost control regime, with the current regime being 2010-2015, which will be extended to eight year periods from 2015 onwards under RIIO-ED1. This regime pegs Ofgem's expenditure growth at 3 percentage points below the retail price index.

Consultation papers and other documents published by Ofgem are available through Ofgem's website, at the date of this Prospectus being http://www.ofgem.gov.uk (source: Ofgem).

***The Licence***

The current form of electricity distribution licence in Great Britain dates from 2000 (with a number of subsequent amendments being introduced since then). The licences continue in force for an indefinite period, subject to potential termination rights described in Chapter 3 "*Risk Factors - Risk Factors relating to the Electricity Industry and ENW - Termination of the Licence*".

ENW holds a Licence (the **Licence**) that authorises it to distribute electricity in the north west of England. Pursuant to its Licence, ENW distributes electricity across its distribution system covering an area in comprising 2.4 million consumer premises. All electricity distribution licences (including ENW's Licence) incorporate a number of Standard Conditions which are augmented by a series of special licence conditions (known as **Charge Restriction Conditions**).

Standard Conditions impose certain restrictions and obligations upon the licensee in respect of its Distribution Business. These include:

- the obligation to operate the Distribution Business in a way that is calculated to ensure that it does not restrict, prevent or distort competition in the supply of electricity or gas, the shipping of gas, the generation of electricity or participation in the operation of an interconnector (Standard Condition 4);

- obligations as regards connection and metering services, including the obligation to provide non-contestable connection services (i.e. connection services which only the licensee can provide) in relation to the connection of premises to ENW's distribution system (Standard Condition 15), the obligation to enter into an agreement with an applicant which authorises that applicant to connect metering equipment to ENW's distribution system (Standard Condition 16) and the obligation to enter into an agreement with an electricity supplier for the provision of metering point administration services (Standard Condition 17);

- the obligation not to discriminate between any person or class of persons in performing certain activities, including carrying out of works for the purposes of connection to ENW's distribution system, modifying or retaining an existing connection, non-contestable connection services, connecting metering equipment to its distribution system and metering point administration services (Standard Condition 19);

- the obligation to comply with certain industry codes and agreements relating to distribution (Standard Conditions 20-23), including:
  - the "Balancing and Settlement Code" (which contains the rules and governance arrangements for electricity balancing and settlement in Great Britain);
  - the "Connection and Use of System Code" (the contractual framework for connection to, and use of, National Grid's high voltage transmission system);
  - the "Distribution Code" (all DNOs are obliged to maintain a Distribution Code detailing the technical parameters and considerations relating to connection to, and use of, their electrical networks);
  - the "Distribution Connection and Use of System Agreement" (which provides a single centralised document covering the connection to and use of the distribution networks);
  - the "Grid Code" (which is designed to permit the development, maintenance and operation of an efficient, co-ordinated and economical system for the transmission of electricity, to facilitate competition in the generation and supply of electricity and to promote the security and efficiency of the power system as a whole);
  - the "Master Registration Agreement" (the multi-party agreement between all DNOs and electricity suppliers which sets out the inter-operational arrangements that support the processes for the registration of a change of electricity supplier in the UK retail market); and
  - the "Fuel Security Code" (which enables the UK government to direct the electricity industry to provide information on power supplies and to take specific actions to manage a projected deficit between electricity demand and generation);

- the obligation to comply with certain planning standards in order to ensure the integrity and development of its distribution network (Standard Condition 24) and, except as specifically provided for, to restrain from disposing of, or relinquishing control over, any asset forming part of its distribution network (Standard Condition 26);

- restrictions on the payment of dividends - the ENW Board must provide a certificate of compliance before declaring dividends affirming that they are satisfied that ENW is in compliance 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 those obligations in the future (Standard Condition 30);

- ringfencing obligations in respect of financial and management resources of the licensed business (Standard Conditions 29-31);

- restrictions on the indebtedness of ENW and on the transfer of funds to associated companies (Standard Condition 41);

- a requirement to take all appropriate steps to maintain an investment grade credit rating (Standard Condition 40);

- a requirement to prepare yearly audited regulatory accounts containing certain specified information (Standard Condition 44);

- certain information requirements relating to the new "Network Outputs Regime" introduced in April 2010 (Standard Condition 44A);

- certain information requirements relating to the new "Distribution Losses Reporting Regime" introduced in April 2010 (Standard Condition 44B). However, in November 2012, following a consultation in July 2012, Ofgem published a decision cancelling the new losses regime for the current price review period (until 2015) based on concerns about the robustness of the underlying data. Ofgem is currently consulting on a replacement reporting regime to apply until 2015;

- new requirements regarding "Low Carbon Networks Fund" reporting and "Business Carbon Footprint" reporting introduced in April 2010 (Standard Conditions 44C and 46A); and

- annual revenue and cost reporting requirements (Standard Conditions 47 and 48).

See Chapter 14 "*Ringfencing*" above for a further description of certain provisions of the Licence. The full terms of the Licence are available through the licensing section of Ofgem's website, at the date of this Prospectus being: http://www.ofgem.gov.uk/Licensing/Pages/Licensing.aspx.

Licence conditions can be modified by Ofgem after a consultation period. Licence holders (and, in certain circumstances, other stakeholders) can challenge the modifications by making an appeal to the Competition Commission. While a licence is for an indefinite period, it can be terminated on 25 years' notice given by the Secretary of State. A licence can also be revoked in certain circumstances, including where the licensee fails to comply with an enforcement order made by Ofgem. Breach of a licence condition can attract fines of up to 10 per cent. of the licensee'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. As at the date of this Prospectus, Ofgem's statement of policy can be found at: http://www.ofgem.gov.uk/About%20us/Documents1/Utilities%20Act%20-%20Statement%20of%20policy%20with%20respect%20to%20financial%20penalties.pdf

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 company is in breach of the terms of its licence, it has powers to secure compliance by means of an enforcement order. If a company does not comply with the order, as well as potentially giving rise to third party action, compliance can be enforced by the courts, and Ofgem may revoke the licence.

The Energy Act 2004 introduced a special administration regime, applicable to the holders of electricity distribution licences, described further in the section below entitled "*Energy Administration Orders*". Ofgem or the Secretary of State can appoint a special administrator to take over the management and operation of the company to secure its financial recovery in the event of actual or threatened insolvency of the licensee. See "*Energy Administration Orders*" below.

ENW is required to maintain certain standards relating to the quality of supply of electricity and customer service in its Licence area. These standards take the form of guarantees at the individual customer level and are subject to monitoring and compliance audits. Failure to meet guaranteed standards of performance will result in a prescribed compensation payment to the customer concerned. In addition, Ofgem can impose fines on licences which fail to achieve the guaranteed standards or are in breach of other Licence obligations.

***Price control***

Ofgem currently regulates electricity distribution charges by capping regulated revenues. Ofgem conducts a periodic review and sets price caps, historically every five years, though from 2015 this will be extended to 8 years. This price cap, set by reference to inflation as measured by RPI plus an adjustment factor known as "X", is specific to each company and can vary for each year of the review period. The size of a company's "X" factor (which can be positive, negative or zero) reflects the revenues required to reimburse previous investments, 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 primary driver of allowed revenues is the Regulated Asset Value which is a regulatory mechanism by which the costs to customers of expenditure incurred to operate, maintain, upgrade and extend the network can be spread over time. From records of expenditure incurred and forecasts of expenditure required over the next regulatory period a forecast of the annual Regulatory Asset Value is produced by Ofgem. Allowed revenues include a return of this expenditure (determined by an assumption for regulatory depreciation over the relevant period) and a return on the expenditure (determined by a calculated Weighted Average Cost of Capital). The Regulated Asset Value is inflated each year by RPI. The last periodic review (DPCR5) 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 was allowed a real (excluding inflation) average annual price increase of 8.5 per cent.

Price cap regulation as operated in the UK is performance-based. Licensees are incentivised to be efficient both in terms of their operating costs and in the implementation of their capital expenditure programme. The benefit of efficiency savings achieved through effective management is shared with customers. In ENW's case, an adjustment is made to future revenues to allow ENW to keep 45% of the net present value of any such efficiency savings. The costs of any under-performance due to poor management are also shared with customers at the same ratio. Incentive mechanisms, such as the Interruptions Incentive Scheme to encourage behaviour that might otherwise not be observed under a cost controlling regime are also included within the price capping settlement (see Chapter 12 for description of ENW's recent performance). These mechanisms offer cash rewards for companies that perform better than targets and penalties for companies that fail to meet targets. Following DPCR5, Ofgem have decided that they will continue existing incentive schemes and introduced new schemes with the objectives of encouraging DNOs to: (a) play a fuller role in helping tackle climate change, (b) pay more attention to all aspects of customer service (including the quality of service provided by their call centres, the speed and cost of new connections as well as the number and length of any interruptions to customers' supply), and (c) invest efficiently, so that they provide secure and reliable supply at an efficient cost while ensuring that any new assets they install meet customers' needs into the future. In DPCR5, Ofgem also introduced a new incentive regime in 2012-13 that provides incentives or penalties based on DNOs' relative performance on complaints handling, customer satisfaction and stakeholder engagement.

In March 2008 Ofgem launched a comprehensive review of the framework used to regulate gas and electricity networks (the **RPI-X@20 Review**). The final conclusions of the RPI-X@20 Review were published in an Ofgem decision document on 4 October 2010. The key outcome of the RPIX@20 Review was to introduce a new model for price control known as "RIIO": Revenue = Incentives + Innovation + Outputs). RIIO is intended to reinforce the robustness and stability of the regulatory framework under which the DNOs are regulated with the majority of proposals being drawn from DPCR5 and being proposed for other energy infrastructure regulation (e.g. transmission and gas distribution). The proposals include:

(a) the requirement for companies to engage with their stakeholders in developing robust plans;

(b) continuation with *ex-ante* price controls, including the retention of the concept of Regulated Asset Value and its indexation, that are output led and provide transparent upfront and symmetric incentives;

(c) a commitment to continue to use RPI (Retail Price Index) as a basis for determining price controls; and

(d) the introduction of a time limited innovation stimulus across all wider networks to implement new commercial and charging arrangements to help deliver a sustainable energy sector.

RIIO will apply to price controls for transmission (RIIO-T1) and gas distribution (RIIO-GD1) from April 2013. Ofgem's final determinations in relation to price controls for transmission (RIIO-T1) and gas distribution (RIIO-GD1) were both published on 17 December 2012. None of the companies covered by these determinations have appealed the decisions to the Competition Commission.

With regards to electricity distribution, key changes that have been proposed for DNOs (including ENW) in the next price control period from 2015 onwards (RIIO-ED1) and beyond include:

(a) a move to 8 year price controls with a mid-point review restricted to outputs and whether they remain appropriate;

(b) a proposal to more closely align regulatory and physical asset lives on new assets purchased after 2015. This resulted in a decision to change the regulatory depreciation lives for new expenditure on assets installed after 1 April 2015 from 20 years to 45 years. Ofgem also made a commitment to "appropriately targeted transition arrangements" ensuring that efficient network companies remain able to finance their regulated activities;

(c) the introduction of a proportionate treatment concept where the degree of scrutiny of licence holders' business plans for any forthcoming price control period is related to the quality of the business plan and records of previous performance, with the possibility of the some companies achieving limited scrutiny and an early settlement decision (to be known as a "Fast Track" decision); and

(d) more clarity around the cost of capital and capitalisation policies at the beginning of the review period as well as recognising the role of equity in financing network businesses, plus a move to a rolling cost of debt allowance based on trailing averages of corporate bond indices.

ENW considers RIIO to be an evolution of the principles and outputs regime established in DPCR5 and does not expect a material change in the regulatory outcome as a result of the move to RIIO. Once implemented, the RIIO principles will improve the long-term transparency and stability of the regulatory regime for third parties.

Ofgem issued a consultation on the proposed RIIO-ED1 policy in September 2012. Ofgem published its Strategy Decision for RIIO-ED1 on 4 March 2013, which set out the framework of deliverables which DNOs will be expected to cover when they submit their business plans for the 2015 to 2023 period to Ofgem in July

2013. This gave reassurance that the regulatory framework is not changing significantly from the current arrangements for DPCR5. Ofgem does not expect to publish final determinations for RIIO-ED1 until 2014 (February 2014 for DNOs following the fast track procedure and November 2014 for DNOs following the non-fast track procedure).

Having determined the revenue that licencees may collect during a price control period, under the terms of their licences, DNOs must produce and implement charging methodologies for both connection to and use of their distribution systems by which they will collect the allowed revenue. The methodologies are required to set out the principles and methods by which electricity distribution charges will be calculated. The methodologies must be approved by Ofgem. There will be an inevitable variation between the actual revenue and the allowed revenue in any year resulting from actual volumes of electricity distributed differing from forecasts. This is termed an "under-recovery" or "over-recovery" and the DNO will make a compensating adjustment for its allowed revenues in the subsequent financial years. As a result ENW is not exposed to any volume risk other than through medium term cash flow timing differences between allowed revenue and actual revenue in any year.

Ofgem consulted on the future governance of commercial contractual arrangements that were previously governed by the Distribution Use of System Agreements and replaced the bilateral agreements with a single multilateral contract, the Distribution Connection Use of System Agreement, to improve transparency.

***Energy Bill 2012-2013***

In November 2012, the Energy Bill 2012-2013 (the **Bill**) was introduced to Parliament. The Bill implements the government's "Electricity and Market Reform" proposals. The focus of the reforms proposed by the Bill is on energy generation, trading and supply rather than energy distribution. The Bill will, in particular, reform the electricity market in order to "kick-start a renaissance in construction of low-carbon energy infrastructure and in low-carbon manufacturing supply-chains". It also provides for the introduction of the new statutory "Strategy and Policy Statement" in which the government will set out its strategic priorities for the energy sector and identify policy outcomes to be achieved by Ofgem. In addition, it includes powers for Ofgem to compel regulated energy businesses to provide redress to consumers.

Subject to the parliamentary process, the Bill is expected to be passed into law in 2013.

Notwithstanding the Bill passing into law there remains considerable uncertainty about the pace of demand and take-up of low-carbon technologies in the UK, such as demand for electric vehicles and electric heat pumps for domestic heating. The rate of demand could have an impact on the level of re-enforcement investment required on the network by ENW to ensure it can meet demands for higher volumes of electricity.

Credible scenarios for growth in low-carbon technologies continue to be developed by the Department of Energy and Climate Change (**DECC**) in consultation with wide cross industry groups. These scenarios may inform ENW's business plan for RIIO-ED1 but at this stage ENW does not forecast significant higher investment due to low-carbon technologies emerging until RIIO-ED2 (2023-2031).

***Environmental regulation of electricity distribution***

*Under grounding of Overhead Lines*

All electricity companies have a general duty under the Electricity Act to have regard to the desirability of environmental preservation and conservation and the protection of "Sites of Special Scientific Interest" when they formulate proposals for development. ENW may be required to carry out an environmental assessment when it intends to lay cables, construct overhead lines or carry out any other development in connection with its licensed activities. In response to discussions with environmental organisations in ENW's operating area, and with the backing of Ofgem, the company has embarked on a programme of converting from overhead cables to underground lines in designated areas on aesthetic grounds.

*Assisted High Voltage Cables*

ENW, in common with all other UK electricity companies, owns and operates pressure-assisted high voltage cables. These operate at voltages of 33,000V and 132,000V. These cables are filled with either nitrogen gas or light oil. ENW operates both types, having 533 km of the latter type of cable. In the main, the oil is biodegradable, although some older cables are pressured 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 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 Environment Agency and continues to work to minimise losses into the environment.

*Electric and Magnetic Fields (**EMFs**)*

The possibility that EMFs may cause adverse health effects has been a topic of debate and research for many years. Over the last 20 years, major research programmes throughout the world have explored whether EMFs have an adverse impact on health. International bodies such as the World Health Organisation and the International Agency for Research on Cancer and, in the UK, the National Radiological Protection Board (**NRPB**) have investigated this issue and have concluded that there is no established causal link between EMFs and ill health. The NRPB was the UK body with statutory responsibility for advising on EMFs until April 2005 when it was subsumed into the Health Protection Agency (**HPA**), which has taken on its radiation protection functions.

The independent Advisory Group on Non-Ionising Radiation (**AGNIR**), which reports to the board of the HPA, has issued several reports relating to EMFs, considering their possible link to an increased risk of cancer, including childhood leukaemia.

In 2001, AGNIR published a report on extremely low frequency (i.e. including 50Hz, the frequency of electricity supplies in the United Kingdom) EMFs and the risk of cancer. The report noted that there is some epidemiological evidence that prolonged exposure to higher levels of extremely low frequency magnetic fields is associated with a raised risk of leukaemia in children and that this possibility remains unless further research proves that this finding is due to chance or some currently unrecognised factor. However, it was concluded that laboratory experiments had provided no good evidence that EMFs are capable of producing cancer nor do human epidemiological studies suggest that they cause cancer in general.

While the AGNIR continues to keep under review all published research related to health concerns arising from exposure to power frequency electromagnetic fields, its current view is that, at present, there is insufficient new information to justify an update to the 2001 report.

*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 any 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. The Kyoto Protocol to the Climate Change Convention has recognised the need to curb emissions of all greenhouse gases, including SF6.

ENW's strategy is to record levels of leakage accurately, to replace equipment at high leakage rate sites, and to review and develop future targets. ENW is working with the electricity industry and manufacturers to continue developing vacuum and solid insulation for switchgear, and so work towards eliminating the use of SF6 switchgear.

The recently completed project to replace the major substation at Whitegate, which is an early prototype SF6 switchboard, is expected to halve ENW's SF6 emissions. ENW is not currently aware of any requirement or proposal that will result in it being required to reduce leakage or otherwise increase costs, although it is monitoring the situation closely through the Energy Networks Association.

*Environmental Legislation Enforcement*

There are currently no material third party or regulatory proceedings or actions pending against ENW with respect to non-compliance with environmental laws, regulations or permits.

**Competition and merger regulation of electricity distribution**

***Competition***

The Competition Act came into force in March 2000 and introduced two prohibitions concerning anti-competitive agreements and conduct and powers of investigation and enforcement.

The Chapter I prohibition prohibits agreements, decisions by associations of undertakings or concerted practices between undertakings which may affect trade within the UK and which have as their object or effect the prevention, restriction or distortion of competition within the UK. The Chapter II prohibition prohibits the abuse of a dominant market position which may affect trade within the UK.

Ofgem has concurrent powers with the OFT to apply and enforce the Competition Act to deal with anti-competitive agreements or abuses of dominance relating to commercial activities connected with the generation, transmission or supply of electricity or the use of electricity interconnectors, including the power to enforce directions to bring an infringement to an end and to impose fines of up to 10 per cent. of ENW's worldwide group-wide turnover for the infringement up to a maximum of three years. Also, any arrangement which infringes the Competition Act may be void and unenforceable and may give rise to claims for damages from third parties.

Part 4 of the Enterprise Act contains the power for the OFT, Ofgem or (in certain limited circumstances) the Secretary of State to refer a market to the Competition Commission for investigation where it has reasonable grounds for suspecting that any feature(s) of that market prevent, restrict or distort competition. The OFT or Ofgem may accept undertakings in lieu of a reference to the Competition Commission. If the Competition Commission determines that there is an adverse effect on competition, it has wide powers to impose remedies (which may include structural remedies).

***Consumers' Interests***

Under Section 11 of the Enterprise Act, a designated consumer body can make a super-complaint to the OFT or Ofgem when it thinks that any feature or features of a market are, or appear to be, significantly harming the interests of consumers. In the electricity sector, the relevant consumer body is the National Consumer Council (the **Council**) (now part of Consumer Focus). If the OFT or Ofgem decide to act on a super-complaint, potential responses include (but are not limited to) competition or consumer law enforcement, the launch of a market study by the OFT or a reference to the Competition Commission under Part 4 of the Enterprise Act.

In addition to its powers under the Enterprise Act, Section 13 of the Consumers, Estate Agents and Redress Act 2007 provides for the Council to investigate: (a) individual complaints by an electricity consumer against an electricity distributor in respect of the disconnection of, or a threat to disconnect, the consumer's premises; and (b) individual complaints by an electricity consumer against an electricity distributor, following such a disconnection, in respect of a refusal to reconnect the premises. Where it appears to the Council that a consumer complaint relates to a matter in respect of which any of Ofgem's enforcement functions under Section 25 or 27A of the Electricity Act 1989 (breach of a Licence Condition) may be exercisable, the Council must refer the complaint to Ofgem. The Council is not required to investigate the complaint until Ofgem has had a reasonable opportunity to exercise its enforcement functions in relation to the complaint.

Since November 2011, the Council is also required to prepare and keep under review guidance for energy consumers.

The Consumers, Estate Agents and Redress Act 2007 also requires all energy companies which have domestic or small business customers to join an approved dispute resolution scheme. In April 2008, ENW joined the Energy Ombudsman, an independent body that resolves disputes associated with billing and transfer, service and sales and distribution issues. The Energy Ombudsman has the power to require the company to provide a financial award of up to £5,000, a service or some practical action that will benefit the customer, and/or an apology or explanation.

***Merger Regime***

Mergers and acquisitions in the electricity sector in the United Kingdom may be reviewable by the OFT under the Enterprise Act (if certain conditions are met) or, where certain turnover thresholds are met, by the European Commission under Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings (the **EU Merger Regulation**). Where the OFT finds that a transaction has resulted, or may be expected to result in a substantial lessening of competition, it has a duty to refer the transaction to the Competition Commission for detailed investigation. The OFT may accept undertakings in lieu of a reference to the Competition Commission. If the Competition Commission finds that the transaction has resulted in or may be expected to result in a substantial lessening of competition, it has the power to impose remedies or prohibit the transaction. Similarly, the European Commission may prohibit a merger which falls for review under the EC Merger Regulation if the parties do not offer adequate remedies to address a finding that the proposed transaction would significantly impede effective competition in the common market or a substantial part of it. Ofgem is not a merger control authority, but makes representations in relation to the transaction to the merger review authorities, at UK and/or European Commission level, and may also seek modifications to the regulated entity's licence. A merger review by the European Commission under the EU Merger Regulation has a suspensory effect on the merger whilst a review by the UK authorities under the Enterprise Act does not (although the OFT and the Competition Commission can prevent parties from integrating further during the period of the review).

***Enterprise and Regulatory Reform Bill***

The Enterprise and Regulatory Reform Bill (***ERRB***) is currently progressing through Parliament. If implemented in its current form, the ERRB will, amongst other things:

(a) abolish the OFT and the Competition Commission, to be replaced by a single authority, the Competition and Markets Authority (***CMA***). The OFT's and the Competition Commission's current functions (including under the Electricity Act, the Utilities Act, the Energy Act, the Enterprise Act and the Competition Act) will be transferred to the CMA; and

(b) make procedural reforms to the way investigations under the Competition Act 1998 and the Enterprise Act (including merger reviews and market investigations) are conducted.

Subject to the parliamentary process, it is currently expected that the ERRB will be passed into law by May 2013 and that the CMA will be officially operational from April 2014.

## CHAPTER 14: RINGFENCING

In common with the other DNOs, the standard conditions of its Licence (the **Standard Conditions**) impose on ENW certain restrictions and obligations designed to ensure, so far as practicable, that its electricity distribution business (the **Distribution Business**) is ringfenced from other businesses and from financial risks arising otherwise than from the conduct of the Distribution Business. In general, any departure from any of the restrictions is permitted only if ENW has the prior approval of Ofgem (given after full disclosure of all relevant facts).

***Regulatory Ringfencing***

The key principles which give effect to regulatory ringfencing are enshrined in the Standard Conditions of the Licence and are, in summary, as follows:

- *Focus on the Distribution Business*

  With limited exceptions (including non-core activities for which Ofgem has provided its consent and non-core activities within an aggregate limit of 2.5 per cent. of the turnover from its Distribution Business), ENW must confine its activities and investments to the conduct of its Distribution Business (Standard Condition 29).

- *Restrictions on Asset Disposals*

  The disposal or relinquishing of operational control over, assets used in the Distribution Business is controlled with a view to ensuring that the operational integrity of the network is not prejudiced (either immediately or upon the occurrence of a future contingency) (Standard Condition 26).

- *Restrictions on Encumbrances and Guarantees*

  ENW may not grant any mortgage, charge, pledge, lien or other form of security or encumbrance over its assets to a third party, incur any form of indebtedness to such a third party or enter into any guarantee of another's obligations except on arm's length normal commercial terms and for a "Permitted Purpose" (including the purposes of the Distribution Business or a transaction permitted by Standard Condition 41.3, which includes the payment of a dividend or other distribution out of distributable reserves as described below) and if the grant amounted to a disposal for the purposes of Standard Condition 26, it must comply with the requirements of that condition (Standard Condition 41.2).

- *Restrictions on Dealings with Affiliates*

  The transfer, leasing, licensing or lending of any sum, asset, right or benefit to any affiliate or related undertaking is prohibited unless ENW holds at least one investment grade issuer credit rating (which, if it is the lowest investment grade credit rating, is not under review for downgrade or otherwise on credit-watch or rating watch with negative implications) or has received the specific consent of Ofgem to the transaction and the transaction is:

  (a) for the purchase on arm's length terms of goods and services;

  (b) the declaration and payment of a dividend or other distribution out of distributable reserves (including a repayment of capital);

  (c) servicing or redeeming a permitted debt (essentially one raised for a "Permitted Purpose" - see above);

(d) the purchase of tax losses (at no more than their value to ENW); or

(e) an investment allowed by Standard Condition 29 (see above).

(Standard Conditions 41.3-41.9)

- *Restrictions on Paying Dividends and Distributions - Investment Grade Issuer Credit Rating*

  If ENW does not hold at least one investment grade issuer credit rating (or holds the lowest investment grade credit rating and that rating is under review for downgrade, or otherwise on credit-watch or rating watch with negative implications), there are much more extensive restrictions on the transactions it can enter into with an affiliate or related undertaking (including transactions relating to the declaration and payment of dividends and payments under intragroup loans) without the specific consent of Ofgem (Standard Condition 41.10). The Licence does, however, state that any repayment of, or payment of interest on, an intercompany loan (such as the NWEN/ENW Loan Agreement) which is (i) entered into on an arm's length basis on normal commercial terms and applied for a "Permitted Purpose", and (ii) entered into prior to the date of the abovementioned ratings events would be permitted under the Licence, provided that any such payment is not made earlier than the original due date for payment in accordance with its terms (Standard Condition 41.10(c)).

- *No Cross-Default Obligation*

  ENW is subject to restrictions on its ability to enter into (or remain in) any agreement or incur any commitment that incorporates a cross-default obligation (Standard Condition 41.11).

- *Investment Grade Issuer Credit Rating*

  ENW must take all available steps to maintain an investment grade issuer credit rating within the meaning defined by the Licence (Standard Condition 40).

- *Adequacy of Available Resources*

  ENW must act in a manner designed to ensure that it at all times has the resources (financial and non-financial) to conduct its Distribution Business in conformity with all Licence and legal obligations, including the obligation to develop and maintain an efficient, co-ordinated and economical system of electricity distribution. The Licence also requires annual certification to Ofgem by the directors (supported by a statement of the main factors taken into account, a working capital statement and an auditors' report) of their reasonable expectation of the sufficiency of resources (after taking account of anticipated dividend declarations) for the conduct of the Distribution Business for the next 12 months. In addition, before declaration of any dividend (or any other action having an economic effect equivalent to a distribution to shareholders) the directors are required to certify to Ofgem full compliance with the Licence conditions relating to the provision of information to Ofgem (see below) and the establishment and maintenance of the ringfence as summarised in this Chapter, and that the making of the distribution will not (alone or with other circumstances reasonably foreseeable at the date of the certificate) cause ENW to breach those conditions in the future (Standard Condition 30).

  These conditions are set in the context of the following obligations as regards the provision of undertakings, compliance certificates and other forms of information to Ofgem:

- *Ultimate Controller Undertakings*

  Standard Conditions 6 and 31 of the Licence require ENW to secure from each ultimate controller of ENW (defined to include any person who, alone or in conjunction with others, is in a position to exercise significant influence over the policy of ENW) (an **Ultimate Controller**) a legally enforceable undertaking in a form approved by Ofgem that it (and others controlled by it) will both refrain from any action which would be likely to cause ENW to be in breach of any of its obligations under the Electricity Act 1989 or the Licence, and also provide to ENW all such information as it needs to undertake its obligations under the Licence. Standard Conditions 6 and 31 contain provisions that prevent ENW from entering into agreements with an Ultimate Controller if the undertakings contemplated by those conditions are not in place or if there is an (unremedied) breach of those undertakings or of any related direction given by Ofgem.

- *Provision of Information to Ofgem*

  Standard Condition 6 requires ENW to provide information (other than information which attracts legal privilege) to Ofgem upon request. There are also provisions in the Licence imposing on the directors of ENW a positive obligation to provide information to Ofgem (whether or not requested by Ofgem), including any information which causes the directors materially to doubt the continuing validity of any previous certification to Ofgem of their future expectations (Standard Conditions 6, 31 and 30.4).

- *Transparency to the Public*

  Standard Condition 44 requires ENW to prepare and publish (within three months of the end of the year to which they relate) on its web site (and otherwise make freely available) audited Regulatory Accounts in a form similar to the statutory accounts, but including certain additional disclosures.

  One of the practical consequences of these conditions is the full and rapid availability to Ofgem of information of a kind capable of informing its judgments about the financial health of licensees and the exercise of its powers of inquiry and investigation.

# CHAPTER 15: OVERVIEW OF THE FINANCING AGREEMENTS

*The following is a summary of the key financing agreements. The information set out below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the terms of the key financing agreements.*

## Trust Deed

### *General*

The Trust Deed between the Issuer, the Guarantors and the Note Trustee will contain, amongst other things, the following provisions:

(a) the Issuer's covenant to the Note Trustee (who holds the benefit of the covenant on trust for the Noteholders) to pay the principal and interest on the Notes in accordance with the Terms and Conditions;

(b) the Issuer is at liberty from time to time (but subject always to the provisions of the Trust Deed) without the consent of the Noteholders or the Couponholders to create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest in respect of the Notes) and so that such further issues shall be consolidated and form a single series with the outstanding securities of the Notes or upon such terms as the Issuer may determine at the time of their issue;

(c) requirements in relation to Global Notes and Definitive Notes;

(d) the Guarantees given by the Guarantors as further described below;

(e) the covenants and undertakings of the Issuer and the Guarantors as further described below;

(f) the Note Trustee's power to agree approve, authorise or waive any breach or proposed breach of any of the covenants or provisions of the Trust Deed or the Terms and Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Trust Deed provided that the Note Trustee shall not exercise any powers conferred upon it by such provision in contravention of any express direction by an Extraordinary Resolution or of a request pursuant to Condition 11 (Events of Default);

(g) provisions relating to meetings of Noteholders; and

(h) the appointment, retirement, removal, remuneration, indemnification and liability of the Note Trustee.

### *Guarantee*

The Guarantors will unconditionally and irrevocably on a joint and several basis guarantee that if the Issuer does not pay any sum payable by it under the Trust Deed, the Notes or the Coupons at the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise) they will pay or procure the payment of that sum to or to the order of the Note Trustee, according to the terms of the Trust Deed and the Notes and the Coupons. In case of the failure of the Issuer to pay any such sum as and when the same becomes due and payable, the Guarantors will agree to cause such payment to be made as and when the same becomes due and payable, as if such payment were made by the Issuer.

The Guarantors unconditionally and irrevocably on a joint and several basis agree, as an independent primary obligation, that they will pay to the Note Trustee sums sufficient to indemnify the Note Trustee and each Noteholder and Couponholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under the Trust Deed, the Notes or the Coupons not being paid on the date and otherwise in the manner specified in the Trust Deed or any payment obligation of the Issuer under the Trust Deed, the Notes or the Coupons being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Note Trustee, any Noteholder or any Couponholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

The Guarantors' guarantee and indemnity will be a continuing guarantee and indemnity and shall remain in full force and effect until all amounts due in respect of the Notes or Coupons or under the Trust Deed have been paid in full. The Guarantors shall not be discharged by anything other than a complete performance of the obligations under the Trust Deed and the Notes and the Guarantors shall be subrogated to all rights of the Note Trustee and the Noteholders against the Issuer in respect of any amounts paid by the Guarantors pursuant to the Trust Deed.

The Guarantors will, pursuant to the Security Agreement, secure their obligations under the Guarantee. Enforcement of the security created pursuant to the Security Agreement is subject to the Intercreditor Agreement. The payment obligations of the Guarantors in respect of the Guarantees constitute joint and several direct, secured, irrevocable and unconditional obligations of the Guarantors.

***Lock-Up***

Subject to Equity Cure, at any time at which:

(a) the Regulated Asset Ratio for any Relevant Period ending on the date such payment is made (taking into account such payment) is more than 0.95:1; or

(b) the NWEN Financing Group Regulated Asset Ratio for any Relevant Period ending on the date such payment is made (taking into account such payment) is more than 0.83:1; or

(c) any Event of Default is continuing or would occur immediately after the making of the payment; or

(d) a Trigger Event has occurred and is continuing,

the Issuer and the Guarantors will not (and shall procure that no member of the Issuer Financing Group shall make any such payment or distribution referred to below to any direct or indirect shareholder of Finance HoldCo):

(i) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital) or make any payment relating to any intercompany loan or Subordinated Liabilities;

(ii) repay or distribute any dividend or share premium reserve;

(iii) pay any management, advisory or other fee to or to the order of any direct or indirect shareholders of the Issuer;

(iv) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so,

(each of (i), (ii), (iii) and (iv) constituting a **Lock-Up**), other than a Permitted Distribution.

*Covenants of the Issuer and the Guarantors*

So long as any Note or any Coupon is outstanding, each of the Issuer and the Guarantors will covenant that it will:

(a) **No acquisitions**: not (and procure that no Intermediate Subsidiary will not) enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to acquire any assets if such acquisition would, in the reasonable opinion of the Issuer and the Guarantors, be reasonably likely to negatively impact the rating of the Notes;

(b) **No disposal of ENW**: not (and procure that no member of the Issuer Financing Group shall) enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to dispose of any of its (direct or indirect) interests in the Licence Holder where such disposal results in the Issuer Financing Group ceasing to hold beneficially all of the issued share capital of the Licence Holder;

(c) **No merger, consolidation or sale of substantially all assets**: not (and procure that no Intermediate Subsidiary will not) enter into any amalgamation, demerger, merger, consolidation or corporate reconstruction (whether or not the Issuer, the relevant Guarantor or an Intermediate Subsidiary is the surviving entity) or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries) to another person, in each case other than in relation to a Permitted Transaction;

(d) **No Loans**: except in respect of Permitted Transactions and/or Permitted Loans, not be (and shall procure that no Intermediate Subsidiary shall be) a creditor in respect of any Financial Indebtedness.

(e) **No guarantees**: not incur or allow to remain outstanding (and procure that no Intermediate Subsidiary shall incur or allow to remain outstanding) any guarantee or indemnity in respect of any obligation of any person, other than in relation to a Permitted Transaction or any Permitted Guarantee;

(f) **Pari passu ranking**: ensure that at all times any secured and unsubordinated claims of a Noteholder against it under the Note Documents rank at least *pari passu* with the claims of all its unsecured and unsubordinated creditors, except those creditors whose claims are mandatorily preferred by laws of general application to companies;

(g) **Conduct of Business**: at all times carry on and conduct its affairs (and procure its Intermediate Subsidiaries to carry on and conduct their respective affairs) in a proper and efficient manner and not trade or carry on any business other than any business which is in the ordinary course of business for a holding company;

(h) **Opinions**: give or procure to be given to the Note Trustee such opinions, certificates, information and evidence as it shall require and in such form as it shall require, for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under the Trust Deed, any other Transaction Document or by operation of law;

(i) **Accounts**: supply to the Note Trustee:

    (i) as soon as the same become available, but in any event within 150 days after the end of each of its financial years:

        (A) its audited consolidated financial statements for that Financial Year; and

(B) the audited unconsolidated financial statements of ENW for that Financial Year (unless such audited unconsolidated financial statements have already been provided to the Note Trustee by the Issuer or a Guarantor); and

(ii) as soon as the same become available, but in any event within 120 days after the end of the first half of each of its financial years:

(A) its unaudited consolidated financial statements for that financial half year; and

(B) the unaudited unconsolidated interim financial statements of ENW for that financial half year (unless such audited unconsolidated financial statements have already been provided to the Note Trustee by the Issuer or a Guarantor);

(j) **Accounts to comply with stock exchange rules:** cause to be prepared and certified by the Auditors, in respect of each of its financial years, accounts in such form as will comply with all relevant legal and accounting requirements and all requirements for the time being of the London Stock Exchange or such other stock exchange as the Notes may be listed from time to time;

(k) **Books of Account**: at all times keep (and procure its Intermediate Subsidiaries to keep) proper books of account, and allow, and procure its Subsidiaries to allow, after an Event of Default or Potential Event of Default, or if the Note Trustee has reasonable grounds to believe that any such event has occurred or may be about to occur, the Note Trustee and any person appointed by the Note Trustee to whom the Issuer, the Guarantors or the relevant Intermediate Subsidiary (as the case may be) shall have no reasonable objection, free access to such books of account at all reasonable times during normal business hours and make available its annual audited accounts to the Paying Agents at their specified offices for inspection by Noteholders and Couponholders;

(l) **Paying Agents**: in respect of the Issuer only, at all times maintain Paying Agents in accordance with the Terms and Conditions;

(m) **London Stock Exchange**: in respect of the Issuer only, use all reasonable endeavours to maintain the listing of the Notes on the Official List of the Financial Services Authority in its capacity as competent authority under the FSMA and admission to trading on the Market, or, if it is unable to do so having used such reasonable endeavours or if the Note Trustee agrees with the Issuer that the maintenance of such listing is unduly onerous and the Note Trustee is satisfied that to do so would not be materially prejudicial to the interests of the Noteholders, use all reasonable endeavours to obtain and maintain a quotation or listing of the Notes on an EEA Regulated Market or on such other stock exchange or exchanges or securities market or markets as the Issuer may (with the prior written approval of the Note Trustee) decide and shall also upon obtaining a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Note Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange(s) or securities market(s);

(n) **Compliance Certificate**: supply to the Note Trustee a Compliance Certificate signed by two directors of the Issuer and of each Guarantor (in the form set out in Schedule 5 (*Form of Compliance Certificate*) to the Trust Deed) with each set of financial statements supplied to the Note Trustee under paragraph (i) above;

(o) **No Default**: supply to the Note Trustee (i) within 7 Business Days after demand by the Note Trustee therefore, a certificate signed by two directors of the Issuer and each Guarantor, respectively and (ii) (without the necessity for demand) promptly after the publication of its audited financial statements in respect of each year and in any event not later than 180 days after the end of such year, a certificate signed by two directors of the Issuer and each Guarantor, to the effect that there does not exist and has not existed since the certification date of the previous certificate (or in the case of the first such certificate, the Closing Date) any Event of Default or any Potential Event of Default (or if such exists or existed specifying the same);

(p) **Notices**: in respect of the Issuer only, send to the Note Trustee, not less than five Business Days prior to the date on which any such notice is to be given, the form of every notice to be given to the Noteholders in accordance with Condition 17 (Notices) and obtain the prior written approval of the Note Trustee to, and promptly give to the Note Trustee a copy of, the final form of every notice to be given to the Noteholders in accordance with Condition 17 (Notices) (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21 of the FSMA);

(q) **Obligations**: comply with (and procure that each Intermediate Subsidiary complies with) and perform all its obligations under the Note Documents, the Transaction Security Documents and the Intercreditor Agreement and use all reasonable endeavours to procure that the Paying Agents comply with and perform all their respective obligations under the Agency Agreement and any notice given by the Note Trustee pursuant to the Trust Deed;

(r) **Further Assurance**: at all times execute and do (and procure that each Intermediate Subsidiary executes and does) all such further documents, acts and things as may be necessary at any time or times in the opinion of the Note Trustee and the Security Trustee, as the case may be, to give effect to the Note Documents, the Transaction Security Documents and the Intercreditor Agreement and/or for the purpose of the creation, perfection, protection or maintenance of any Security conferred or intended to be conferred pursuant to the Transaction Security Documents;

(s) **Legal Opinions**: prior to making any modification or amendment or supplement to the Trust Deed, the Intercreditor Agreement or any Transaction Security Document, if reasonably requested, procure the delivery of legal opinion(s) as to English and any other relevant law, addressed to the Note Trustee, dated the date of such modification or amendment or supplement, as the case may be, and in a form acceptable to the Note Trustee from legal advisers acceptable to the Note Trustee;

(t) **Notification of Event of Default or Change of Control**: unless the Note Trustee has already been so notified, notify the Note Trustee of the occurrence of any Event of Default, Potential Event of Default or Change of Control relating to it (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence;

(u) **Change of Paying Agent**: give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of a Paying Agent or of any change by a Paying Agent of its specified office and not make any such appointment or removal without the Note Trustee's written approval;

(v) **Amendments**: not amend, vary, novate, supplement, supersede, waive, terminate or permit to become invalid or ineffective any term of a Note Document, Transaction Security Document or the Intercreditor Agreement without the prior written consent of the Note Trustee;

(w) **Set-off**: pay moneys payable by it to the Note Trustee without set-off, counterclaim, deduction or withholding, unless otherwise compelled by law and in the event of any deduction or withholding compelled by law will pay such additional amount as will result in the payment to the Note Trustee of the full amount which would otherwise have been payable by it to the Note Trustee under the Trust Deed;

(x) **Rating Agency**: notify the Rating Agency of any amendment, variation, novation, supplementation, succession, waiver or termination of a Note Document, Transaction Security Document or the Intercreditor Agreement (unless such amendment, variation, novation, supplementation, succession, waiver or termination was agreed by the Note Trustee on the basis that it was (i) of a formal, minor or technical nature, (ii) correcting a manifest error or an error which, in the opinion of the Note Trustee, was proven or (iii) in the opinion of the Note Trustee, not materially prejudicial to the interests of the Noteholders) made in accordance with subparagraph (v) above; and

(y) **Ratings**: furnish, or procure that there is furnished, from time to time, any and all documents, instruments, information and undertakings that may be necessary in order to maintain the current ratings of the Notes by the Rating Agency (save that when any such document, instrument, information and/or undertaking is not within the possession or control of the Issuer or the Guarantors, the Issuer and the Guarantors agree to use all reasonable efforts to furnish, or procure that there is furnished, from time to time any such documents, instruments, information and undertakings as may be necessary in order to maintain the current ratings of the Notes by the Rating Agency).

***Covenants of the Issuer***

The Issuer will covenant with the Note Trustee that, so long as any of the Notes or Coupons remains outstanding, it will:

(a) not incorporate or acquire any Subsidiaries;

(b) not carry on any business or enter into any documents other than those contemplated by or permitted in the Note Documents, the Transaction Security Documents and the Intercreditor Agreement;

(c) not transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(d) hold itself out as a separate entity, conduct its business in its own name and maintain an arm's length relationship with its Affiliates; and

(e) observe all formalities required by, and restrictions contained in, its Articles of Association.

***Covenants of Senior HoldCo***

Senior HoldCo will covenant with the Note Trustee that, so long as any of the Notes or Coupons remains outstanding, it shall hold all of the issued share capital of the Issuer and NWEN HoldCo.

***Covenants of Finance HoldCo***

Finance HoldCo will covenant with the Note Trustee that, so long as any of the Notes or Coupons remains outstanding, it shall hold all of the issued share capital of Senior HoldCo.

***Governing Law***

The Trust Deed (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

**Issuer/Senior HoldCo Loan Agreement**

The Issuer will advance an amount (the **Issuer/Senior HoldCo Loan**) under the Issuer/Senior HoldCo Loan Agreement equal to the principal amount of the Notes issued by the Issuer on the Closing Date. The Issuer's obligations to repay principal and pay interest on the Notes are intended to be met primarily from the repayments of principal and payments of interest received from Senior HoldCo under the Issuer/Senior HoldCo Loan Agreement.

The Issuer/Senior HoldCo Loan will be in the same currency, bear the same rate of interest and be repayable on the same date as the Notes. Interest on the Issuer/Senior HoldCo Loan will accrue from the date of the Issuer/Senior HoldCo Loan.

The Issuer/Senior HoldCo Loan is repayable on demand by the Issuer or may be prepaid by Senior HoldCo in each case together with (i) interest accrued thereon and any other amount due or owing to the Issuer at such time and (ii) an amount equal to the excess of any amounts payable by the Issuer under the Notes over the principal amount of the Issuer/Senior HoldCo Loan (if any).

***Governing Law***

The Issuer/Senior HoldCo Loan Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

***Agency Agreement***

The Agency Agreement will include, amongst other things the following provisions:

(a) the duties of the Principal Paying Agent and the Paying Agents and the terms on which they are appointed, or on which such appointment may be resigned or terminated or any additional or successor Paying Agents may be appointed;

(b) indemnity by the Issuer (failing whom, the Guarantors) of each Paying Agent against any claim, demand, action, liability, damages, cost, loss or expense incurred otherwise than by reason of its own wilful default, gross negligence or fraud, as a result or arising out of or in relation to its acting as the agent of the Issuer and the Guarantors in relation to the Notes;

(c) payment by the Issuer (failing whom, the Guarantors) of principal and/or interest in respect of the Notes, as the same becomes due and payable, to the Principal Paying Agent, before such payment becomes due and the manner and time of such payments;

(d) payment by each Paying Agent of principal and interest to Noteholders in respect of the Notes in accordance with the Terms and Conditions;

(e) provisions relating to the notification of the Note Trustee in the event that the Principal Paying Agent (i) does not receive on the due date for payment in respect of the Notes, the full amount payable, or (ii) receives such amount after the relevant due date for payment in respect of the Notes;

(f) provisions relating to the authentication of the temporary Global Note, the Global Notes and the Definitive Notes, the exchange of the temporary Global Note for a Global Note, the exchange of the Global Note for Definitive Notes and the issue of replacement Notes and Coupons;

(g) the keeping of records of the payment, redemption, replacement, cancellation and destruction of Notes; and

(h) the fees and expenses of the Principal Paying Agent and the Paying Agents.

***Governing Law***

The Agency Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

**Intercreditor Agreement**

The Intercreditor Agreement will not regulate amendments, waivers or releases in respect of the Note Documents or any other underlying credit documents that may be entered into from time to time between a Secured Creditor and the Issuer and/or the Guarantors (the Note Documents and any other underlying credit documents from time to time being the **Underlying Credit Documents**) (see "*Overview of the Financing Agreements – Intercreditor Agreement*" below).

Other parties, including any Additional Note Trustee (on behalf of holders of any Additional Notes), any Additional Finance Parties and any Hedge Counterparty may become Secured Creditors from time to time by acceding to the Intercreditor Agreement as Secured Creditors.

***Secured Creditors and Secured Creditor Representatives***

All Secured Creditors must be party to the Intercreditor Agreement (either directly, or through, in the case of the Noteholders and Couponholders, the Note Trustee). The Intercreditor Agreement allows for the following creditors to accede to the Intercreditor Agreement as Secured Creditors by way of an accession deed:

(a) transferees or assignees of the Secured Creditors; and

(b) any person which becomes a Secured Creditor Representative in accordance with the terms of the relevant Transaction Documents.

For the purposes of the Intercreditor Agreement, the Secured Creditors will be represented as follows by:

(a) in respect of the Notes, the Note Trustee;

(b) in respect of any Additional Notes, the Additional Note Trustee;

(c) in respect of a Loan Facility, the agent in respect of that Loan Facility; and

(d) in respect of a Hedging Agreement, the relevant Hedge Counterparty,

(each, a **Secured Creditor Representative**).

Each Secured Creditor Representative will be deemed to represent 100% of the Commitments of the relevant Secured Creditor Group (with such Secured Creditor Representative being directed in its actions as set out in the terms of the relevant Underlying Credit Documents).

***Claims of the Secured Creditors***

The Intercreditor Agreement will regulate the claims of the Secured Creditors. Amounts received or recovered from time to time by the Security Trustee pursuant to the terms of any Transaction Document or in connection with the realisation or enforcement of all or any part of the Transaction Security are applied in the following order:

(a) **first**, on a pro rata basis:

(i) in payment of all fees, costs, charges, expenses and liabilities (including any taxes required to be paid) incurred by or on behalf of the Security Trustee, any receiver or any delegate appointed by the Security Trustee in connection with carrying out its functions under the Intercreditor Agreement and the other Transaction Documents (including in connection with any realisation or enforcement of the Transaction Security) and any other amount payable to the Security Trustee under the terms of the Intercreditor Agreement; and

(ii) in payment or satisfaction of the fees, costs, charges, expenses and liabilities (including any taxes required to be paid) properly incurred by the Note Trustee or an Additional Note Trustee and any other delegate appointed by it or them in carrying out its or their functions under the Intercreditor Agreement, the Note Documents and/or the Additional Note Documents and any other amount payable to the Note Trustee or an Additional Note Trustee pursuant to the Trust Deed or an Additional Trust Deed;

(b) **second**, on a pro rata basis, in payment or satisfaction of the fees, costs, charges, expenses and liabilities properly incurred by the Principal Paying Agent, any other Paying Agent, any Additional Facility Agent and any other agent in respect of the Notes or any Additional Notes in carrying out its functions under the Intercreditor Agreement, the Note Documents, any Additional Note Documents and/or any Additional Finance Documents applicable to it;

(c) **third**, on a pro rata basis in payment to:

(i) the Note Trustee (on behalf of any Noteholders);

(ii) any Additional Note Trustee, if any (on behalf of any Additional Noteholders);

(iii) any Additional Facility Agent (on behalf of the relevant Additional Finance Parties);

(iv) each Hedge Counterparty, if any,

for application (in accordance with the terms of the relevant Underlying Credit Documents) towards the discharge of the Secured Liabilities;

(d) **fourth**, if the Security Trustee shall have received written notice from the Issuer and the Guarantors that none of the Issuer and the Guarantors are under any further actual or contingent liability under any Transaction Document, in payment to any person to whom the Security Trustee is obliged to pay in priority to any of the Issuer and the Guarantors, as notified in writing by any of the Issuer and the Guarantors to the Security Trustee; and

(e) **fifth**, provided the Security Trustee has received the written notice referred to in (d) above, the balance, if any, in payment to the Issuer and the Guarantors (as shall be confirmed in writing to the Security Trustee by either of the Issuer or the Guarantors) for application by the Issuer or, as the case may be, the Guarantors in their discretion, including if applicable and so decided, towards discharge of the Subordinated Liabilities.

**Enforcement Action**

No Secured Creditor Representative or the Security Trustee (either in relation to the Transaction Security or under the Intercreditor Agreement) may take Enforcement Action in relation to either the Issuer or the Guarantors other than:

(a) Permitted Enforcement Action; or

(b) following a Special Decision of the Majority Secured Creditors approving such action.

Following any Permitted Enforcement Action being taken, the Security Trustee shall promptly upon receiving instructions to take Enforcement Action (other than Permitted Enforcement Action) from the Secured Creditor Representative who has taken such Permitted Enforcement Action (in accordance with the terms of the relevant Underlying Credit Document), where such Secured Creditor Representative does not represent the Majority Secured Creditors, seek a Special Decision from the other Secured Creditors in relation to taking Enforcement Action (other than Permitted Enforcement Action).

Following any Enforcement Action being taken (other than Permitted Enforcement Action by any Hedge Counterparty), the liabilities of all Secured Creditors will be automatically accelerated and, subject to receiving instructions from the Majority Secured Creditors (following a Special Decision of the Majority Secured Creditors) and such indemnities, pre-funding or security as it may require, the Security Trustee shall enforce the Security without need for further instruction.

***Amendments/Waivers and Releases under the Intercreditor Agreement or the Transaction Security Documents***

No amendments, releases or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Majority Secured Creditors and subject to the Entrenched Rights of each Secured Creditor.

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Issuer and the Guarantors.

***Entrenched Rights***

The Intercreditor Agreement will set out that the following constitute "Entrenched Rights" of the Secured Creditors:

(a) any amendment or waiver which would result in an increase in or would adversely modify the obligations or liabilities of a Secured Creditor or materially reduce the rights of a Secured Creditor in each case under the Intercreditor Agreement;

(b) any amendment or waiver which would result in any release of any of the Transaction Security (unless at least equivalent replacement security is taken at the same time or such release is permitted in accordance with the Intercreditor Agreement or the relevant Transaction Security Document);

(c) in respect of the Transaction Security, any amendment or waiver which would adversely alter the rights of priority of or enforcement by a Secured Creditor;

(d) any amendment or waiver which would change any of the Entrenched Rights; or

(e) any amendment or waiver which would change the Secured Creditor decision-making process contained in the Intercreditor Agreement,

(in each case in the opinion of the Security Trustee).

If an Entrenched Right of a Secured Creditor is affected, the relevant Secured Creditor's approval must be obtained in accordance with the provisions of the relevant Underlying Credit Document before the proposed change can be made. No Entrenched Right will prevent enforcement or acceleration instructions given in accordance with the Intercreditor Agreement or prevent anything expressly permitted by the relevant Underlying Credit Documents.

The relevant Secured Creditors may agree to amend or waive the terms of the Underlying Credit Documents in accordance with the terms of those Underlying Credit Documents without the consent of any Secured Creditors that are not party to such documents.

***Voting***

The Intercreditor Agreement will specify that Secured Creditor Representatives may give instructions or directions in respect of:

(a) the exercise by the Security Trustee of any of its rights, powers and discretions; and

(b) subject to Entrenched Rights, amendments, waivers and releases under the Intercreditor Agreement and the Transaction Security Documents.

The Security Trustee may request and must, subject to being indemnified and/or secured and/or prefunded to its satisfaction act on instructions given by such Secured Creditor Representative or Secured Creditor Representatives representing (i) at least in aggregate 66 2/3% of Total Commitments where the instructions relate to a Special Decision or (ii) greater than in aggregate 50% of Total Commitments, where the instructions relate to any Ordinary Decision.

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the **decision**) to be made by the Security Trustee pursuant to the Intercreditor Agreement which requires a vote of some or all of the Secured Creditors, the Security Trustee shall notify the Issuer and the Guarantors and each Secured Creditor Representative of the matter in question and shall also inform each Secured Creditor Representative of the date on or before which votes must be provided in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the **Decision Date**).

Each Secured Creditor Representative shall, by the Decision Date, provide to the Security Trustee a certificate setting out its vote(s) and directions to the Security Trustee as to the decision of its Secured Creditors, and the certificate shall include the Commitments in respect of the relevant Underlying Credit Document.

**Commitments** means:

(a) prior to the taking of Enforcement Action:

   (i) in respect of any Loan Facility, the total commitments under such Loan Facility;

   (ii) in respect of the Notes, the principal amount outstanding under the Notes;

   (iii) in respect of the Notes and any Additional Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes and any Additional Notes; and

   (iv) in respect of any Hedging Agreement, zero; and

(b) following the taking of Enforcement Action:

   (i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;

   (ii) in respect of the Notes and any Additional Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes and any Additional Notes; and

(iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement.

If a Secured Creditor Representative has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the Majority Secured Creditors, the Commitments in respect of the relevant Underlying Credit Document shall be excluded from:

(a) the Total Commitments to be considered as voting in favour of the relevant decision (the numerator); and

(b) the Total Commitments to be used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right is affected.

In respect of Underlying Credit Documents relating to the Notes or any Additional Notes, the holders of the Notes and the Additional Notes will be represented in their entirety by the Note Trustee or the Additional Note Trustee, as applicable, and 100% of principal outstanding will be voted for or against based on the voting mechanics in the Trust Deed or the Additional Trust Deed, as the case may be.

In respect of Underlying Credit Documents relating to a Loan Facility, the lenders will be represented in their entirety by the agent in respect of the relevant facility and 100% of commitments or principal outstanding (as the case may be) will be voted for or against based on the voting mechanics in the Additional Finance Documents.

In respect of the Hedge Counterparties, each Hedge Counterparty will have no vote prior to the taking of Enforcement Action (save in respect of a veto in relation to amendments which would affect the relevant Entrenched Rights). Following the taking of Enforcement Action, each Hedge Counterparty will vote the aggregate Positive Value under the relevant Hedging Agreement.

***Governing Law***

The Intercreditor Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

**Security Agreement**

Pursuant to the Security Agreement, Finance HoldCo will grant, as security for the Secured Liabilities, (i) fixed security over all its shares in Senior HoldCo and all its real property, book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets; and Senior HoldCo will grant, as security for the Secured Liabilities, (i) fixed security over all its shares in the Issuer and NWEN HoldCo and all its book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets.

Pursuant to the Security Agreement, the Issuer will grant, as security for the Secured Liabilities, (i) an assignment of its rights in respect of the Transaction Documents, (ii) a fixed charge over all its book debts, bank accounts and investments, present and future and (iii) a floating charge over all of its property, undertaking and assets.

In addition, each of the Issuer and the Guarantors will give certain undertakings in relation to dealings with the charged property. Pursuant to the terms of the Security Agreement, the proceeds of enforcement are required to be applied by the Security Trustee in accordance with the terms of the Intercreditor Agreement.

***Governing Law***

The Security Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

## CHAPTER 16: TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):*

The £180,000,000 5.875% Guaranteed Senior Secured Notes due 2021 (the **Notes**, which expression shall in these Terms and Conditions, unless the context otherwise requires, include any Further Notes issued pursuant to Condition 16 (Further Issues) and forming a single series with the Notes) of NWEN Finance plc (the **Issuer**) are constituted by a Trust Deed dated 21 March 2013 (the **Trust Deed**) made between the Issuer, North West Electricity Networks (Holdings) Limited (**Senior HoldCo** and a **Guarantor**) and North West Electricity Networks (Finance) Limited (**Finance HoldCo** and a **Guarantor** and, together with Senior HoldCo, the **Guarantors**) and The Law Debenture Trust Corporation p.l.c. (the **Note Trustee**) as trustee for the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons**, respectively). The payment of all amounts owing in respect of the Notes has been secured by the Issuer and the Guarantors pursuant to the Transaction Security Documents and unconditionally and irrevocably guaranteed on a joint and several basis by the Guarantors pursuant to the Trust Deed.

The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 10 March 2013. The entry into the Guarantees was authorised by resolutions of the Board of Directors of Senior HoldCo and Finance HoldCo on 10 March 2013. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Agency Agreement dated 21 March 2013 (the **Agency Agreement**) made between the Issuer, the Guarantors, the Note Trustee, HSBC Bank plc as principal paying agent (the **Principal Paying Agent** and any other paying agents appointed from time to time pursuant to the terms of the Agency Agreement, the **Paying Agents**, which expression shall include the Principal Paying Agent) and the Note Trustee and the Intercreditor Agreement (as defined below) are available for inspection by prior appointment during normal business hours by the Noteholders and the Couponholders at the registered office of the Note Trustee, being at the time of issue of the Notes at Fifth Floor, 100 Wood Street, London EC2V 7EX, and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement, the Security Agreement and the Intercreditor Agreement applicable to them.

Terms used in these terms and conditions (the **Terms and Conditions**) but not otherwise defined shall have the meanings attributed to them in the Trust Deed, unless otherwise stated.

### 1. FORM, DENOMINATION AND TITLE

(a) The Notes are in bearer form, serially numbered, in the denominations of £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000, each with Coupons attached on issue. Notes of one denomination may not be exchanged for Notes of any other denomination.

(b) Title to the Notes and to the Coupons will pass by delivery.

(c) The Issuer, the Guarantors any Paying Agent and the Note Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note and the bearer of any Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

## 2. STATUS

(a) *Status of Notes*. The Notes and the Coupons constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

(b) *Guarantee*. The Guarantors have unconditionally and irrevocably guaranteed on a joint and several basis the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes and the Coupons. The Guarantors obligations in this respect (the **Guarantee**) are contained in the Trust Deed and is secured pursuant to the Transaction Security Documents.

## 3. SECURITY

(a) *Security*. Under the Transaction Security Documents, the Transaction Security has been granted by the Issuer and the Guarantors to secure the payment when due of the Issuer's and the Guarantors' payment obligations under the Trust Deed, the Notes and the Coupons. On the date of the Trust Deed, the Transaction Security consists of:

(i) (A) fixed security over all of Senior HoldCo's shares in the Issuer and NWEN HoldCo and all Senior HoldCo's real property, book debts and bank accounts, present and future, (B) an assignment of Senior HoldCo's rights in respect of the Transaction Documents and (C) a floating charge over all of Senior HoldCo's property, undertaking and assets;

(ii) (A) fixed security over all Finance HoldCo's shares in Senior HoldCo and all Finance HoldCo's real property, book debts and bank accounts, present and future, (B) an assignment of Finance HoldCo's rights in respect of the Transaction Documents and (C) a floating charge over all of Finance HoldCo's property, undertaking and assets; and

(iii) (A) an assignment of the Issuer's rights in respect of the Transaction Documents, (B) a fixed charge over all the Issuer's book debts, bank accounts and investments, present and future and (C) a floating charge over all of the Issuer's property, undertaking and assets.

The Transaction Security securing the Notes and the Guarantees will rank and secure the Notes, the Guarantees and any other Secured Liabilities *pari passu* pursuant to the terms of the Intercreditor Agreement.

The Intercreditor Agreement also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security will after payment of certain fees and expenses of the Note Trustee, the Security Trustee, the Principal Paying Agent and any other Agent be shared equally and rateably in satisfaction of the Secured Liabilities.

Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, shall be deemed (i) to have authorised the Note Trustee and the Security Trustee to enter into the Transaction Security Documents and the Intercreditor Agreement and (ii) to be bound thereby.

Noteholders may not, individually or collectively, take any direct action to enforce any rights in their favour under the Transaction Security Documents. The Noteholders may only act through the Note Trustee or the Security Trustee, as applicable. Subject to Condition 12 (Enforcement of Security) and the terms of the Intercreditor Agreement, the Security Trustee has agreed to the automatic release of the security interests created by the Transaction Security Documents in accordance with these Terms and Conditions and the Trust Deed without requiring any consent of the Noteholders. The Note Trustee has the ability to direct the Security Trustee to commence enforcement action under the Transaction Security Documents, subject to the terms of the Intercreditor Agreement. The enforcement of the Transaction Security provided for under the Transaction Security Documents is subject to the Intercreditor Agreement.

Subject to the terms of the Transaction Security Documents and the Intercreditor Agreement, the Issuer and the Guarantors are entitled (without consent of the Note Trustee or the Noteholders) to exercise any and all voting rights and to receive and retain any and all cash dividends, share dividends, liquidating dividends, non-cash dividends, shares resulting from share splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of the shares that are part of the Transaction Security.

The rights under the Transaction Security Documents with respect to the Notes and the Trust Deed must be exercised by the Security Trustee in respect of all of the Notes outstanding and in accordance with the terms of the Intercreditor Agreement.

(b) *Release of the Transaction Security*. All Security granted to the Security Trustee on behalf of the Noteholders and the Note Trustee under the Transaction Security Documents will be automatically and unconditionally released if all obligations under these Terms and Conditions and the Trust Deed are discharged, in each case in accordance with the terms and conditions in the Trust Deed and the Intercreditor Agreement.

## 4. NEGATIVE PLEDGE AND COVENANTS

(a) *Issuer and Guarantors Negative Pledge:* So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantors will:

(i) other than for Permitted Security or a Permitted Transaction, create or have outstanding any Security upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Financial Indebtedness, or any guarantee or indemnity in respect of any Financial Indebtedness without at the same time or prior thereto procuring that the Issuer's obligations under the Notes and the Coupons or, as the case may be, the Guarantors' obligations under the Guarantee, are secured by (A) the same security as is created or subsisting to secure any such Financial Indebtedness, guarantee or indemnity or (B) such other security as either (i) the Note Trustee shall deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution of the Noteholders; or

(ii) incur any additional Financial Indebtedness unless:

(A) such additional Financial Indebtedness does not rank senior to the Notes;

(B) if such additional Financial Indebtedness is secured (but not otherwise), the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantors; and

(C) no Lock-Up or Event of Default would occur as a result of the incurrence of such Financial Indebtedness.

(b) *No Financial Indebtedness in respect of Intermediate Subsidiaries:* So long as any Note or Coupon remains outstanding, the Guarantors will procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall incur or allow to remain outstanding any Financial Indebtedness, other than in respect of any Permitted Financial Indebtedness;

(c) *Negative Pledge of Intermediate Subsidiaries:* So long as any Note or Coupon remains outstanding, the Guarantors shall procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall create or permit to subsist any Security over any of its respective assets;

(d) *No Quasi-Security:* So long as any Note or Coupon remains outstanding, the Issuer and the Guarantors shall not (and the Guarantors shall procure that no Intermediate Subsidiary shall) grant or create any Quasi-Security except for any Permitted Security or a Permitted Transaction;

(e) *Covenants of the Issuer and Guarantors:* The Issuer and Guarantors have provided certain additional covenants pursuant to clauses 9.1 to 9.4 of the Trust Deed in relation to, without limitation, the financial position, assets, liabilities and business operations of each of them and, in certain cases, made procuring covenants in respect of the Intermediate Subsidiaries. *A summary of these covenants is available to Noteholders in the Prospectus prepared by the Issuer in respect of the Notes under the section "Overview of the Financing Agreements – Trust Deed – Covenants of the Issuer and the Guarantors".*

## 5. THE INTERCREDITOR AGREEMENT

(a) Under the terms of the Intercreditor Agreement, the Transaction Security securing the Notes will rank and secure any Secured Liabilities on a *pari passu* basis. The Intercreditor Agreement also provides, amongst other things, that any proceeds received from enforcement of the Transaction Security Documents will after payment of certain fees and expenses of the Note Trustee, the Security Trustee, the Principal Paying Agent and any other Agent be shared equally and rateably between the Secured Creditors.

(b) Each Noteholder, by subscribing to, purchasing or otherwise acquiring a Note, will be deemed to have:

(i) agreed to be bound by the provisions of the Intercreditor Agreement (whether entered into as of the date of the Trust Deed or thereafter); and

(ii) irrevocably appointed the Note Trustee to act on its behalf to enter into and comply with the provisions of the Intercreditor Agreement as set forth under Condition 14 (*Meetings of Noteholders, Modification, Waiver and* Substitution).

## 6. INTEREST

(a) The Notes bear interest from, and including, 21 March 2013 at the rate of 5.875% per annum, payable semi-annually in arrear on 21 June and 21 December in each year (each an **Interest Payment Date**). The first payment of interest, to be made on 21 June 2013, will be in respect of the period from and including 21 March 2013 to but excluding 21 June 2013 and will amount to £14.69 per principal amount of £1,000 per Note. Each payment of interest thereafter, in respect of each Interest Period from and including 21 June 2013 to but excluding 21 June 2021, will amount to £29.38 per principal amount of £1,000 per Note. Each Note will cease to bear interest from, and including, its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest shall continue to accrue as provided in the Trust Deed.

(b) Where interest is required to be calculated (or paid in respect of overdue principal and other overdue amounts) in respect of a period that is shorter than an Interest Period, the day count shall be computed on the basis of a 360-day year of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

## 7. REDEMPTION AND PURCHASE

### 7.1 Final Redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 21 June 2021 (the **Maturity Date**).

### 7.2 Optional Redemption

(a) *Optional Redemption*. At any time, upon not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), the Issuer may redeem all or some only of the Notes at a redemption price equal to 100% of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest, if any, to but excluding the redemption date.

The Issuer will publish a notice of any optional redemption of the Notes under this Condition in accordance with the provisions of Condition 17 (Notices).

If fewer than all the Notes are to be redeemed at any time pursuant to this paragraph (a) the Issuer will select the Notes by a method that complies with (i) the requirements of the principal securities exchange, if any, on which the Notes are listed at such time and (ii) the requirements of the relevant clearing systems through which the Notes are cleared; *provided, however*, that no such partial redemption shall reduce the portion of the principal amount of a Note to less than £100,000. The Note Trustee shall not be liable for any selections made in accordance with this paragraph.

(b) *Redemption Upon Changes in Withholding Taxes*. The Notes may be redeemed at their principal amount, together with interest accrued to but excluding the date of redemption at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 17 (Notices) (which notice shall be irrevocable), if the Issuer (or, if the Guarantees were to be called, the relevant Guarantor) satisfies the Note Trustee immediately prior to giving such notice that:

(i) it has or will on the occasion of the next payment due in respect of the Notes become obliged to pay Additional Amounts as provided or referred to in Condition 10 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction, or any change in the published application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of the Trust Deed; and

(ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it, *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes (or the Guarantee) then due.

Prior to the publication of any notice of redemption pursuant to this paragraph (b):

(A) the Issuer or the relevant Guarantor shall deliver to the Note Trustee an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the relevant Guarantor, as the case may be) has or will become obliged to pay such Additional Amounts as a result of such change or amendment; and

(B) the Issuer or the relevant Guarantor shall deliver to the Note Trustee an Officer's Certificate stating that (i) the obligation referred to in clause (b)(i) above cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it and (ii) the Issuer has sufficient funds to redeem the Notes at their principal amount, together with interest accrued to but excluding the date of redemption,

and the Trustee shall be entitled to accept such opinion as sufficient evidence of the satisfaction of the condition precedent set out in clause (b)(i) above and shall have no liability for so doing, and such certificate as sufficient evidence of the satisfaction of the condition precedent set out in clause (b)(ii) above and such opinion and certificate (if accepted) shall be conclusive and binding on the Noteholders and the Couponholders.

### 7.3 Change of Control Put

Promptly upon the Issuer or a Guarantor being aware of a Change of Control Event having occurred and in any event within 14 days thereof, the Issuer shall give notice to the Noteholders and the Note Trustee of the occurrence of such Change of Control Event (such notice, a **Change of Control Event Notice**), any such notice to be delivered in accordance with the provisions of Condition 17 (Notices). At any time from the date of giving such Change of Control Event Notice to the date falling 45 days thereafter (such period, the **Put Exercise Period**) upon the Issuer receiving at least five Business Days' notice from any Noteholder (any such notice, a **Put Event Notice**), the Notes of such Noteholder as specified in the Put Event Notice shall become due and repayable and the Issuer will, upon the expiry of the Put Exercise Period (such date, the **Change of Control Redemption Date**), redeem each Note the subject of such Put Event Notice at 101% of its principal amount together with interest accrued to (but excluding) the Change of Control Redemption Date.

In order to exercise the right to require early redemption of any Notes held by it pursuant to this Condition 7.3, such Noteholder must, if such Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the Put Exercise Period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Exercise Notice**) and in which the Noteholder must specify a bank account to which payment is to be made under this Condition 7.3 accompanied by such Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Exercise Notice, be held to its order or under its control. If such Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of such Notes the holder of such Note must, within the Put Exercise Period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg (which may include notice being given on instruction of the relevant Noteholder by Euroclear or Clearstream, Luxembourg, as the case may be, to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear or, as the case may be, Clearstream, Luxembourg from time to time and, if such Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly.

Any Put Exercise Notice or other notice given by a holder of any Note in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg pursuant to this Condition 7.3 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Note Trustee has declared the Notes to be due and repayable pursuant to Condition 11 (Events of Default), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.3 at any time prior to the fifth Business Day preceding the Change of Control Redemption Date.

### 7.4 Open Market Purchases; Cancellation of Notes

(a) The Issuer, the Guarantors and any other member of the Issuer Financing Group may at any time purchase Notes in the open market or otherwise at any price (*provided* that they are purchased together with all unmatured Coupons relating to them). The Trust Deed will contain limitations on, *inter alia*, the right to attend Noteholder meetings and vote on Noteholder resolutions in relation to any Notes which are being held by or on behalf of the Issuer, the Guarantors or any member of the Issuer Financing Group.

(b) All Notes so purchased and any unmatured Coupons attached to or surrendered with them may, but need not, be cancelled at the election of the Issuer. Any Notes or Coupons so cancelled will not be re-issued or resold.

(c) Where Notes redeemed pursuant to this Condition 7 (Redemption and Purchase) are cancelled upon redemption, any unmatured Coupons appertaining to such Notes, whether or not attached thereto or surrendered therewith, shall also be cancelled and may not be resold or re-issued.

## 8. PAYMENTS

(a) Payments of principal and premium (if any) and payments of interest due on each Interest Payment Date will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by transfer to a sterling account maintained by the payee with, a bank in London. Payments of interest due in respect of any Note other than on an Interest Payment Date shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

(b) All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 10 (Taxation). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) Each Note should be presented for payment together with all unmatured Coupons relating to it, failing which the full amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of such missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of such missing Coupon at any time before the expiry of ten years after the relevant payment date in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (Prescription)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

(d) A Note or Coupon may only be presented for payment on a day which is a banking business day in the relevant place of presentation (and, in the case of payment by transfer to a sterling account, in London). No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this paragraph (d) falling after the due date.

(e) The Principal Paying Agent and its initial specified offices are listed below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents; provided that they will at all times maintain:

    (i) a Principal Paying Agent;

(ii) a Paying Agent with a specified office in a European Union member state (a **Member State**) that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(iii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority.

The initial specified office of the Principal Paying Agent is:

HSBC Bank plc
8 Canada Square
London E14 5HQ

Notice of any change in the Paying Agents or their specified offices will promptly be given to the Noteholders by the Issuer in accordance with Condition 17 (Notices).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain limited circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, the Noteholders or the Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## 9. PRESCRIPTION

(a) Claims in respect of principal and premium will become void unless the relevant Notes are presented for payment within a period of ten years from the appropriate payment date.

(b) Claims for interest in respect of Notes shall become void unless the relevant Coupons are presented for payment within five years of the relevant Interest Payment Date, subject to the provisions of paragraph (c) of Condition 8 (Payments).

## 10. TAXATION

All payments by or on behalf of the Issuer or the Guarantors under or with respect to the Notes and the Coupons or under the Guarantees will be made free and clear of and without withholding or deduction for or on account of any present or future Tax imposed or levied on such payments by or within the United Kingdom or by or within any department, political subdivision or governmental authority of or in the United Kingdom having power to tax (each, a **Relevant Taxing Jurisdiction**), unless the Issuer or a Guarantor is required to withhold or deduct Taxes by law. In that event, the Issuer or the relevant Guarantor will pay additional amounts (**Additional Amounts**) as may be necessary to ensure that the net amount received by each Noteholder and Couponholder after such withholding or deduction (including any withholding or deduction in respect of any Additional Amounts) will not be less than the amount the Noteholder or Couponholder, as the case may be, would have received if such Taxes had not been withheld or deducted.

Neither the Issuer, nor the Guarantors will, however, pay Additional Amounts in respect of any Note or Coupon:

(a) held by or on behalf of a holder who is liable to such Taxes, to the extent such Taxes are imposed or levied by a Relevant Taxing Jurisdiction by reason of the holder's present or former connection with such Relevant Taxing Jurisdiction (other than the mere receipt, ownership, holding or disposition of Notes or Coupons, or by reason of the receipt of any payments in respect of any Note or Coupon, or the exercise or enforcement of rights under any Notes or Coupons);

(b) held by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting any form or certificate, or by making a declaration of non-residence or other claim for exemption to the relevant tax authority;

(c) presented for payment by or on behalf of a person who would have been able to avoid such withholding or deduction by presenting the relevant Notes or Coupons, as the case may be, to another Paying Agent in a member state of the European Union;

(d) presented for payment more than 30 days after the relevant payment is first made available to the Noteholder or Couponholder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period); or

(e) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive.

The Issuer and the Guarantors will (i) make such withholding or deduction as is required by applicable law and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.

Any reference in these Terms and Conditions to any amounts in respect of the Notes or the Guarantees shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

If the Issuer or any Guarantor becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Terms and Conditions, in respect of payments by the Issuer and the Guarantors to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

## 11. EVENTS OF DEFAULT

If any of the following events (**Events of Default**) occurs and is continuing the Note Trustee at its discretion may, and if so requested by holders of more than one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution and in each case, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, give notice to the Issuer and the Guarantors (a **Note Acceleration Notice**) that the Notes are, and they shall immediately become, due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed:

(a) *Non-Payment*. Default is made for more than 14 days (in the case of interest) or seven days (in the case of principal or premium) in the payment on the due date of interest or principal or premium in respect of any of the Notes.

(b) *Financial Covenants*. Subject, in each case, to Equity Cure (as defined below):

(i) *Regulated Asset Ratio*: at a Half-Year Date, the Regulated Asset Ratio in respect of any Relevant Period ending on that Half-Year Date is more than 0.97:1; or

(ii) *Consolidated Interest Cover Ratio*: at a Half-Year Date, the Consolidated Interest Cover Ratio in respect of any Relevant Period ending on that Half-Year Date is less than 2:1,

(the **Financial Ratios**).

(c) *Breach of Other Obligations*. The Issuer or a Guarantor does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is (i) incapable of remedy or, if in the opinion of the Note Trustee capable of remedy, is not in the opinion of the Note Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantors by the Note Trustee and (ii) in the opinion of the Note Trustee materially prejudicial to the interests of the Noteholders.

(d) *Cross Acceleration*. Any other present or future indebtedness of the Issuer or the Guarantors for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual event of default (howsoever described) provided that the aggregate amount of the Financial Indebtedness in respect of which the events mentioned above in this paragraph (d) have occurred equals or exceeds £10,000,000 or its currency equivalent.

(e) *Failure to pay under Loan Facility or Additional Notes*. Default is made in the payment on the due date of interest or principal or premium in respect of any Loan Facility or any Additional Notes (after giving effect to any originally applicable grace period).

(f) *Cross Acceleration in respect of the NWEN Financing Group*. The termination of an NWEN Financing Group Standstill Period (except where the NWEN Financing Group Standstill Period ends as a result of the waiver or remedy of the underlying event of default) or the occurrence of any other event following which, under the terms of the NWEN Finance Documents an NWEN Financing Group Secured Creditor may exercise any acceleration rights (howsoever described) which may be available to it in accordance with the terms of the NWEN Finance Documents.

(g) *Enforcement Proceedings*. A distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any Guarantor and is not discharged or stayed within 30 days.

(h) *Security Enforced*. Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person).

(i) *Insolvency and Winding-Up*

(i) the Issuer or a Guarantor ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by an Extraordinary Resolution of the Noteholders, or the Issuer or a Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law or is adjudicated or found bankrupt or insolvent; or

(ii) proceedings are initiated against the Issuer or a Guarantor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application to the court for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) or an administration order is granted or the appointment of an administrator takes effect or an administrative or other receiver, manager or other similar official is appointed, in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or a Guarantor or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer or a Guarantor, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer or a Guarantor; or

(iii) the Issuer or a Guarantor (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(iv) if any order is made by any competent court or any resolution is passed for the winding up or dissolution of the Issuer or a Guarantor, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by an Extraordinary Resolution of the Noteholders.

(j) *Ownership*. The Issuer ceases to be wholly owned and controlled by Senior HoldCo.

(k) *Illegality*. It is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its material obligations under any of the Transaction Documents.

(l) *Analogous Events*. Any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

(m) *Guarantees*. Either of the Guarantees is not (or is claimed by any Guarantor not to be) in full force and effect.

**Equity Cure**

(a) No default under Condition 11(b) (Financial Covenants) above shall occur if, prior to the date on which the Compliance Certificate setting out the calculations in respect of the relevant covenant determination is required to be delivered:

(i) a Cure Investment is made;

(ii) the proceeds of such Cure Investment are applied in prepayment of Financial Indebtedness of the Issuer Financing Group which is in the nature of a term loan as the Issuer and Guarantors may decide in their discretion; and

(iii) a Compliance Certificate is delivered to the Note Trustee and the Security Trustee evidencing and stating that, after taking into account the Cure Investment, the relevant Financial Ratio is not breached,

limbs (i) to (iii) above together being referred to as a **Cure Right**.

(b) For the purposes of re-calculating the Financial Ratios, in respect of each £1 of Cure Investment, such £1 shall be deemed to have been applied as follows:

(i) in reducing Net Debt as at the Half-Year Date if the Regulated Asset Ratio is the defaulted Financial Ratio; or

(ii) as an addition to Consolidated Cashflow on a historical basis (as at the immediately previous Half-Year Date) if the Consolidated Interest Cover Ratio is the defaulted Financial Ratio.

(c) A Cure Right may not be exercised more than 2 times in any 5 year period or in respect of two consecutive Half-Year Dates.

(d) The Financial Ratios shall be calculated on the basis of the most recently delivered financial statements, on a consistent basis and, so far as practicable, in accordance with Accounting Principles and internal management accounts.

## 12. ENFORCEMENT OF SECURITY

(a) Subject to the terms of the Intercreditor Agreement, the Note Trustee may, at its discretion and without notice, institute such proceedings against the Issuer and/or the Guarantors as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons. The Note Trustee may give instructions to the Security Trustee in relation to the Security Agreement under the Intercreditor Agreement as a Secured Creditor Representative representing 100% of the principal amount of the Notes outstanding, provided that the provisions of the Intercreditor Agreement shall determine whether or not the Security Trustee is obliged to comply with those instructions.

(b) The Note Trustee shall not be required to take any such proceedings or give such instructions or take any other action under these Conditions or the Transaction Documents unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding more than one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(c) For the avoidance of doubt, enforcement of the Transaction Security may only take place in accordance with the terms of the Intercreditor Agreement. No Noteholder or Couponholder may proceed directly against the Issuer or the Guarantors unless the Note Trustee, having become bound so to proceed and permitted so to do by the Intercreditor Agreement, fails to do so within a reasonable time and such failure is continuing.

## 13. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (*provided* that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## 14. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

### 14.1 Meetings of Noteholders

(a) The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Terms and Conditions or any provisions of the Trust Deed or the other Transaction Documents. Such a meeting may be convened by the Issuer, any of the Guarantors, the Trustee and shall be convened by the Issuer if requested by Noteholders holding not less than 10% in nominal amount of the Notes for the time being outstanding.

(b) The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia:

(i) to amend the date of maturity or redemption of the Notes or any date for payment of interest on the Notes;

(ii) to reduce or cancel the nominal amount of the Notes;

(iii) to reduce the rate of interest in respect of the Notes or to vary the method or basis of calculating the rate or amount of interest in respect of the Notes;

(iv) altering the method of calculating the amount of any payment in respect of the Notes on redemption, maturity or following the occurrence of a Change of Control Event or altering the method of calculating the date for any such payment;

(v) to vary the currency of payment or denomination of the Notes;

(vi) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution; or

(vii) to modify or cancel the Guarantee,

each, a Basic Terms Modification, all as more particularly defined in the Trust Deed in which case the necessary quorum shall be one or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in nominal amount of the Notes for the time being outstanding.

(c) Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

(d) The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75% in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

### 14.2 Modification of the waiver, authorisation and determination

The Note Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, the Terms and Conditions or any other Transaction Document that is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Note Trustee, proven, and (ii) any other modification (save to the extent that such modification relates to a Basic Terms Modification), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Terms and Conditions or any other Transaction Document that is in the opinion of the Note Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation, determination or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

### 14.3 Substitution

The Trust Deed contains provisions permitting the Note Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require and subject to the conditions and qualifications contained in the Trust Deed, but without the consent of the Noteholders or the Couponholders, to the substitution of another company in place of the Issuer or a Guarantor, or, in each case, in place of any previous substituted company, as principal debtor or, as the case may be, Guarantor under the Trust Deed and the Notes provided that such substitution would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders. In the case of such a substitution, the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.

### 14.4 Entitlement of the Note Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition), the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantors any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 10 (Taxation) and/or any undertaking or covenant given in addition to, or in substitution for, Condition 10 (Taxation) pursuant to the Trust Deed.

## 15. THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction. The Note Trustee is entitled to enter into business transactions with the Issuer, the Guarantors and any entity related to the Issuer or any Guarantor without accounting for any profit.

The Note Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice in which event such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Note Trustee, the Noteholders and the Couponholders.

## 16. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders (but subject to compliance with the provisions of Condition 4(a) (Issuer and Guarantors Negative Pledge)) to create and issue further securities (**Further Notes**) ranking *pari passu* and having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the Notes. Such Further Notes shall be constituted by the Trust Deed or any deed supplemental thereto.

## 17. NOTICES

Notices to Noteholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

## 18. GOVERNING LAW

The Trust Deed, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.

## 19. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

# CHAPTER 17: SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

## 1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

(a) upon the happening of any of the events defined in the Terms and Conditions as "Events of Default";

(b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Note Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Note Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

## 2. Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, premium and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

## 3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders (including any notices to be delivered to the Noteholders pursuant to Condition 12 (Enforcement of Security)) may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 17 (Notices). Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

## 4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer or, as the case may be, the Trustee pursuant to Condition 11 (Events of Default) and Condition 12 (Enforcement of Security)) other than with respect to the payment of principal, premium and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Note Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

## 5. Prescription

Claims against the Issuer in respect of principal, premium and interest on the Notes represented by a Global Note will be prescribed after ten years from the appropriate payment date (in the case of principal and premium) and five years from the relevant Interest Payment Date (in the case of interest).

6. **Cancellation**

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. **Put Option**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 7.3 (Change of Control Put) may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

8. **Redemption at the Option of the Issuer**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, in the event that the Issuer exercises its call option pursuant to Condition 7.2(a) (Optional Redemption) in respect of less than the aggregate principal amount of the Notes outstanding at such time, the Notes shall be redeemed on a pro rata basis or, if redemption on a pro rata basis is not permitted by Euroclear and/or Clearstream, Luxembourg at such time, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Note(s) are to be subject to such option.

9. **Euroclear and Clearstream, Luxembourg**

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

## CHAPTER 18: TAX CONSIDERATIONS

### UNITED KINGDOM TAXATION

**The following is a general description of certain UK taxation considerations in relation to the Notes based on current law and published HM Revenue & Customs practice in the UK as at the date of this Prospectus. It does not purport to be a complete analysis of all tax considerations relating to the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and some aspects do not apply to certain classes of taxpayer (such as dealers, trustees and Noteholders who are connected or associated with the Issuer for relevant tax purposes). The summary set out below is a general guide and should be treated with appropriate caution. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future (possibly with retrospective effect). Prospective purchasers who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their own professional advisors. In particular, holders of the Notes should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.**

### UK Withholding Tax on UK source interest

The Notes issued by the Issuer should constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. HM Revenue & Customs' website indicates that the London Stock Exchange has been designated as a recognised stock exchange for these purposes. The Notes will be treated as listed on the London Stock Exchange if they are admitted to the Official List (within the meaning of and in accordance with the provisions of Part VI of FSMA) and are admitted to trading on the London Stock Exchange. While the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of UK income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of UK income tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer (and any person by or through whom interest on the Notes is paid) reasonably believes that the beneficial owner is within the charge to UK corporation tax as regards the payment of interest or the payment is made to one of the classes of exempt bodies or persons set out in sections 935 to 937 of the Income Tax Act 2007, provided that HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax.

In cases falling outside the exemptions described above, an amount must generally be withheld from payments of interest on the Notes on account of UK income tax at the basic rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

Depending on the correct legal analysis of payments in respect of interest on the Notes made by a Guarantor as a matter of UK tax law, such payments by a Guarantor may be subject to withholding on account of UK tax, subject to any applicable exemptions or reliefs.

### Provision of Information by UK Paying and Collecting Agents

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual (whether resident in the United Kingdom or elsewhere), or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual (whether resident in the United Kingdom or elsewhere), may be required to provide certain information to HM Revenue & Customs regarding the payment and the identity of the payee or person entitled to the interest and, in certain circumstances such information may be exchanged with tax authorities in other countries. However, HM Revenue & Customs' published practice indicates that HM Revenue & Customs will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Notes where such amounts are paid on or before 5 April 2013.

**Further United Kingdom Income Tax issues**

Interest on the Notes constitutes UK source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder who is not resident for tax purposes in the UK unless that Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or for holders who are companies through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

The attention of Noteholders is drawn to Condition 10 (Taxation) of the Notes. The provisions relating to additional payments referred to in Condition 10 (Taxation) of the Notes would not apply if HM Revenue & Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Note directly to UK income tax. However, exemption from or reduction of such UK tax liability might be available under an applicable double taxation treaty and subject to the laws of the jurisdiction in which the Noteholder is resident for tax purposes.

The above description of the UK withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 14 (Meetings of Noteholders, Modification, Waiver and Substitution) of the Notes and does not consider the tax consequences of any such substitution.

The references to "interest" above mean "interest" as understood in UK tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

**United Kingdom Corporation Tax Payers**

In general Noteholders which are within the charge to UK corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open ended investment companies) will be treated for tax purposes as realising profits, gains or losses (including exchange gains and losses) in respect of the Notes on a basis which is broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes.

**Other UK taxpayers**

***Taxation of Chargeable Gains***

The Notes should constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. If they are "qualifying corporate bonds", a disposal by a Noteholder should not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

***Accrued Income Scheme***

The provisions of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007 (the **Scheme**) may apply to certain Noteholders who are not subject to corporation tax, in relation to a transfer of the Notes.

On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to treat the deemed or actual interest subsequently received by the transferee as reduced by a corresponding amount. Generally, persons who are neither resident nor ordinarily resident in the UK and who do not carry on a trade in the UK through a branch or agency to which the Notes are attributable should not be subject to the provisions of these rules.

**EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such person for, an individual resident, or certain limited types of entity established, in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain agreements relating to information exchange with certain other countries). A number of other countries and territories including Switzerland have adopted similar measures to the EC Directive, a withholding system in the case of Switzerland.

**Stamp Duty and Stamp Duty Reserve Tax**

It is expected that no stamp duty or stamp duty reserve tax shall be payable on the issue of the Notes or on a transfer of the Notes by delivery.

## CHAPTER 19: SUBSCRIPTION AND SALE

Barclays Bank PLC (the **Sole Global Coordinator, Sole Arranger** and a **Joint Bookrunner**) and HSBC Bank plc (a **Joint Bookrunner** and, together with Barclays Bank PLC, the **Joint Bookrunners**) have, pursuant to a subscription agreement (the **Subscription Agreement**) dated 19 March 2013, jointly and severally agreed to subscribe the Notes at the issue price of 100% of the principal amount of Notes. Senior HoldCo will separately pay to the Joint Bookrunners a combined management, underwriting and selling concession. Senior HoldCo will also reimburse the Joint Bookrunners in respect of certain of their expenses, and has agreed to indemnify the Joint Bookrunners against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to any other exemption from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Joint Bookrunners have agreed that, except as permitted by the Subscription Agreement, they will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that they will have sent to each dealer to which they sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Joint Bookrunner has represented and agreed that:

(A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(B) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### General

No action has been taken by the Issuer or the Joint Bookrunners that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Bookrunner has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

**Interest of persons involved in the offer of Notes**

Except as described in this "*Subscription and Sale*" section, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

# CHAPTER 20: GENERAL INFORMATION

## Authorisation

The creation and issuance of the Notes has been authorised by a resolution of the Issuer's board of directors, dated 10 March 2013.

## Listing

Application has been made to the UKLA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market. The Issuer estimates the expenses relating to the admission of the Notes to trading to be approximately £18,000.

## Clearing Information

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate ISIN for this issue is XS0904707287 and the Common Code is 090470728.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

## Legal information

The Issuer (registered number 8374655), with its registered office at 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG, was incorporated in England on 24 January 2013. The Issuer can be contacted by calling 01925 846999.

As of the date of this Prospectus, the Issuer's authorised ordinary share capital of £50,000 is divided into ordinary shares with a par value of £1 each and its issued ordinary share capital is 50,000 ordinary shares of a par value of £1 each, held by North West Electricity Networks (Holdings) Limited.

The rights of the holders of the common shares in the Issuer are contained in the Articles of Association of the Issuer, and the Issuer will be managed by its directors in accordance with those articles and in accordance with the laws of England and Wales.

## No Significant Change or Litigation

There has been no material adverse change in the prospects of the Guarantors since 31 March 2012.

There has been no significant change in the financial or trading position of Finance HoldCo and its Subsidiaries (taken as a whole) since 31 March 2012.

There has been no significant change in the financial or trading position of Senior HoldCo and its Subsidiaries (taken as a whole) since 30 September 2012.

There has been no material adverse change in the prospects of the Issuer and no significant change in the financial or trading position of the Issuer and its Subsidiaries (taken as a whole) in each case since the date of its incorporation.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer and the Guarantors are aware) that may have or had in the 12 months before the date of this Prospectus, a significant effect on the financial position or profitability of either (i) the Issuer, (ii) the Issuer and its Subsidiaries (taken as a whole), (iii) the Guarantors or (iv) the Guarantors and their respective Subsidiaries (in each case taken as whole).

**Auditors**

The auditors of the Issuer and the Guarantors are Deloitte LLP, chartered accountants, of 2 Hardman Street, Manchester M3 3HF, who have audited Senior HoldCo and Finance HoldCo's accounts, without qualification, in accordance with International Financial Reporting Standards (IFRS) for each of the two financial years ended on 31 March 2011 and 31 March 2012.

The Issuer has not published any financial statements since its incorporation on 24 January 2013.

**Documents Available**

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(a) the Memorandum and Articles of Association of the Issuer and the Guarantors;

(b) the Annual Report and Financial Statements of the Guarantors for the years ended 31 March 2011 and 31 March 2012 and the Half Year Condensed Consolidated Financial Statements of Senior HoldCo for the period ended 30 September 2012;

(c) a copy of this Prospectus; and

(d) the Trust Deed, the Agency Agreement, the Intercreditor Agreement and the Transaction Security Documents.

**Third party information**

Third party information referred to in the section entitled "Regulation of Electricity Distribution in Great Britain" has been accurately reproduced and as far as the Issuer is aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has not independently verified the information included herein from third parties and such information may not be up to date.

**Yield**

The yield of the Notes is 5.875% per annum calculated on the basis of the Issue Price and as at the date of this Prospectus.

# CHAPTER 21: SELECTED DEFINITIONS

**1992 ISDA Master Agreement** means the Master Agreement (Multicurrency - Cross Border) as published by the International Swaps and Derivatives Association, Inc.

**2002 ISDA Master Agreement** means the 2002 Master Agreement as published by the International Swaps and Derivatives Association, Inc.

**Acceptable Bank** means:

(a) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A+ or higher by Standard & Poor's or Fitch or A1 or higher by Moody's or a comparable rating from an internationally recognised credit rating agency; or

(b) any other bank or financial institution approved by the Note Trustee.

**Accountholders** has the meaning given to it in Chapter 17 "*Summary of Provisions Relating to the Notes while Represented by the Global Notes*".

**Accounting Principles** means generally accepted accounting principles in the United Kingdom, including International Financial Reporting Standards (IFRS).

**Additional Amounts** has the meaning give to it in Condition 10 (Taxation).

**Additional Facility Agent** means the **Facility Agent** as defined in the Additional Finance Documents.

**Additional Finance Documents** means:

(a) in respect of a Loan Facility, the Finance Documents as defined in the facility agreement governing the terms of such Loan Facility; and

(b) any Hedging Agreement.

**Additional Finance Parties** means, in respect of a Loan Facility, the Finance Parties (as defined in the relevant Additional Finance Documents) provided that such parties have acceded to the Intercreditor Agreement by means of a Secured Creditor Accession Deed.

**Additional Note Documents** means any additional documents governing the terms of such Additional Notes and any loan drawdown documents in relation thereto.

**Additional Note Parties** means, in respect of an issue of Additional Notes, the Additional Noteholders, the Additional Note Trustee (on its own behalf and on behalf of the relevant Additional Noteholders) and any agents in respect of such issue of Notes under the relevant Additional Note Documents provided that any such entities which are not already party to the Intercreditor Agreement have become Secured Creditors by executing Secured Creditor Accession Deeds.

**Additional Noteholders** means the holders of any Additional Notes.

**Additional Note Trustee** means the note trustee in relation to any Additional Notes.

**Additional Notes** means any additional notes issued under Additional Note Documents.

**Additional Trust Deed** means any trust deed entered into with an Additional Note Trustee in respect of any Additional Notes.

**Affiliate** means in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

**Agency Agreement** means the agency agreement relating to the Notes dated on or about the Closing Date between the Issuer, the Guarantors, the Note Trustee, the Principal Paying Agent and the other agents mentioned in it.

**Agents** means the Principal Paying Agent and any other Paying Agent and **Agent** shall mean any one of them.

**Applicable Redemption Premium** means, with respect to a Note on any redemption date prior to the Maturity Date, the greater of (a) one per cent. of the principal amount of such Note on such redemption date and (b) the excess of:

(a) the present value at such redemption date of the redemption price of such Note at the Maturity Date, plus all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and the Maturity Date, excluding accrued but unpaid interest, computed using a discount rate equal to the Gilt Rate at such redemption date plus 50 basis points, over

(b) the principal amount of such Note on such redemption date.

**Auditors** means Deloitte LLP or such other firm of accountants of international repute as may be appointed by the Issuer or the Guarantors.

**Business Day** means a day (other than a Saturday or a Sunday) on which banks are open for general business in London.

**Cash** means, at any time, cash denominated in sterling, dollars or euro or any other major international currency in hand or at a bank and (in the latter case) credited to a bank account in the name of a member of the Issuer Financing Group and to which a member of the Issuer Financing Group is alone (or together with other members of the Issuer Financing Group) beneficially entitled for so long as:

(a) the cash is repayable on demand;

(b) repayment of that cash is not contingent on the prior discharge of any other Financial Indebtedness of the Issuer Financing Group or any other person whatsoever or on the satisfaction of any other condition;

(c) there is no Security over that cash except pursuant to the Transaction Documents and any Permitted Security constituted by a netting or set-off arrangement entered into by members of the Issuer Financing Group in the ordinary course of their banking arrangements; and

(d) the cash is freely and immediately available to be applied in repayment or prepayment of the Notes.

**Cash Equivalent Investments** means at any time:

(a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;

(b) any investment in marketable debt obligations issued or guaranteed by the government of (i) the United States of America; (ii) the United Kingdom; or (iii) any member state of the European Economic Area, which has a short term credit rating of either A-1 or higher by Standard & Poor's or F1 or higher by Fitch or P-1 or higher by Moody's, or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;

(c) commercial paper not convertible or exchangeable to any other security:

(i) for which a recognised trading market exists;

(ii) issued by an issuer incorporated in the United States of America, the United Kingdom or any member state of the European Economic Area;

(iii) which matures within one year after the relevant date of calculation; and

(iv) which has a short term credit rating of either A-1 or higher by Standard & Poor's or F1 or higher by Fitch or P-1 or higher by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;

(d) sterling bills of exchange eligible for rediscount at the Bank of England and accepted by an Acceptable Bank (or their dematerialised equivalent);

(e) any investment in money market funds which (i) have a short term credit rating of either A-1 or higher by Standard & Poor's or F1 or higher by Fitch or P-1 or higher by Moody's, (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above and (iii) can be turned into cash on not more than 30 days' notice; and

(f) any other debt security approved by the Majority Secured Creditors,

in each case, denominated in sterling, dollars or euro and to which any member of the Issuer Financing Group is alone (or together with other members of the Issuer Financing Group) beneficially entitled at that time and which is not issued or guaranteed by any member of the Issuer Financing Group or subject to any Security (other than Security arising under the Transaction Security Documents).

**Change of Control** means the Sponsors collectively ceasing to Control the Issuer or the Guarantors. For the purposes of this definition **collectively** means, in respect of the Sponsors, any collection of the Sponsors (or any Sponsor individually) from time to time, which may or may not include all or any persons which are Sponsors; *provided that* no Change of Control shall occur for so long as the Issuer and the Guarantors are collectively Controlled by one or more of Colonial First State Group Limited or JP Morgan Investment Inc. or any fund managed solely by, or which receives exclusive investment advice from, Colonial First State Group Limited or any member of the JP Morgan Chase & Co Group.

**Change of Control Event** means the event which will be deemed to occur if there is a Change of Control.

**Change of Control Event Notice** has the meaning give to it in Condition 7.3.

**Change of Control Redemption Date** has the meaning give to it in Condition 7.3.

**Charged Property** means all of the assets of the Issuer and Guarantors which from time to time are, or are expressed to be, the subject of the Transaction Security.

**Clearstream, Luxembourg** means Clearstream Banking, société anonyme.

**Clearing System** means Clearstream Banking, société anonyme (Clearstream, Luxembourg) and Euroclear Bank SA/NV (Euroclear) and includes in respect of any Note any clearing system on behalf of which such Note is held or which is the bearer or holder of a Note, in either case whether alone or jointly with any other Clearing System(s).

**Close-Out Netting** means:

(a) in respect of a Hedging Agreement based on a 1992 ISDA Master Agreement, any step involved in determining the amount payable in respect of an Early Termination Date (as defined in the 1992 ISDA Master Agreement) under section 6(e) (Payments on Early Termination) of the 1992 ISDA Master Agreement before the application of any subsequent Set-off (as defined in the 1992 ISDA Master Agreement); and

(b) in respect of a Hedging Agreement based on a 2002 ISDA Master Agreement, any step involved in determining an Early Termination Amount (as defined in the 2002 ISDA Master Agreement) under section 6(e) (Payments on Early Termination) of the 2002 ISDA Master Agreement.

**Closing Date** means 21 March 2013.

**Commitments** means:

(a) prior to the taking of Enforcement Action:

(i) in respect of any Loan Facility, the total commitments under such Loan Facility;

(ii) in respect of the Notes and any Additional Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes and any Additional Notes; and

(iii) in respect of any Hedging Agreement, zero; and

(b) following the taking of Enforcement Action:

(i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;

(ii) in respect of the Notes and any Additional Notes, the principal amount outstanding (including, if applicable any accretion due to indexation) under the Notes and any Additional Notes; and

(iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement.

**Compliance Certificate** means a certificate supplied by the Issuer and each Guarantor to the Note Trustee certifying compliance with, and setting out, among other things, calculation of, the financial covenants set out in the Trust Deed.

**Companies Act** means the Companies Act 2006 (as amended, restated or re-enacted from time to time).

**Competition Commission** means the UK Competition Commission.

**Consolidated Cashflow** means, in respect of any period for which it is being calculated, EBITDA for that period after:

(a) adding an amount equal to the sum of (i) any Working Capital decrease for that period less (ii) any DUoS Billing Adjustment made in the previous Relevant Period;

(b) deducting an amount equal to the sum of (i) any increase in Working Capital for that period plus (ii) any DUoS Billing Adjustment for the current Relevant Period;

(c) adding the amount of any cash receipts (and deducting the amount of any cash payments) during that period in respect of any Exceptional Items not already taken account of in calculating EBITDA for that period;

(d) adding the amount of any cash receipts during that period in respect of any Tax rebates or credits and deducting the amount paid or payable in respect of Taxes during that period by any member of the Issuer Financing Group;

(e) adding (to the extent not already taken into account in determining EBITDA) the amount of any dividends or other profit distributions received in cash by any member of the Issuer Financing Group during that period from any entity which is itself not a member of the Issuer Financing Group and deducting (to the extent not already deducted in determining EBITDA) the amount of any dividends paid in cash during the period to minority shareholders in members of the Issuer Financing Group;

(f) adding the amount of any cash paid to a member of the Issuer Financing Group in that period that represents repayment of any loan made to a Joint Venture; and

(g) adding the amount of any increase in provisions, other non cash debits and other non cash charges (which are not Current Assets or Current Liabilities) during that period and deducting the amount of any non cash credits (which are not Current Assets or Current Liabilities) during that period in each case, to the extent taken into account in establishing EBITDA,

and so that no amount shall be added (or deducted) more than once.

**Consolidated Interest Cover Ratio** means, in relation to any period for which it is being calculated, the ratio of Consolidated Cashflow of the Issuer Financing Group to Net Interest Service of the Issuer Financing Group in respect of that period.

**Control** means, in respect of any person:

(a) the beneficial ownership, directly or indirectly of:

    (i) (in the case that person is a company, corporation or a limited liability company) shares or securities of that company or corporation:

        (A) to which are attached the right to elect a majority of the directors of the company or corporation, or

        (B) representing more than 50% of its participating share capital; or

        (C) which entitle the holder to more than 50% of the votes which may be cast on a poll at general meetings of that company or corporation; or

    (ii) (in the case that person is a partnership (other than a limited partnership), limited liability partnership, joint venture or any other unincorporated association or organisation) ownership interests therein representing more than 50% of the voting interest of that entity by contract or otherwise; or

(iii) (in the case that person is a limited partnership) (i) if the general partner of the limited partnership is a company or corporation, sufficient securities of that company or corporation to Control that company or corporation in accordance with paragraph (i) of this definition, or (ii) if the general partner of the limited partnership is an entity other than a corporation, sufficient ownership interests of that entity to Control that entity in accordance with paragraph (ii) of this definition; or

(iv) (in the case that person is a trust, estate, body or any other person (other than a natural person) not falling within (i), (ii) or (iii) above) more than 50% of the beneficial interest therein, or

(b) (in the case that person is a Fund) the right to be the sole or predominant manager or sole or predominant investment adviser to that Fund,

and "Controls" and "Controlled" shall be construed accordingly.

When considering whether a person indirectly Controls another person, the definition of "Control" and "Controlled" shall be applied to each person in the intervening chain of control.

**Covenant Testing Date** means any date on which the Issuer or the Guarantors calculate the Regulated Asset Ratio or NWEN Financing Group Regulated Asset Ratio for the purposes of determining whether the Lock-Up conditions have been satisfied.

**Cure Investment** means a subscription by the immediate Holding Company of Finance HoldCo for shares in Finance HoldCo or any subordinated debt made available by one or more of its direct or indirect shareholders to Finance HoldCo.

**Cure Right** has the meaning given to it in Condition 11 (Events of Default).

**Current Assets** means the aggregate (on a consolidated basis) of all inventory, work in progress, trade and other receivables of each member of the Issuer Financing Group including prepayments in relation to operating items and sundry debtors (but excluding Cash) expected to be realised within 12 months from the date of computation but excluding amounts maturing within such 12 month period in respect of:

(a) receivables in relation to Tax;

(b) Exceptional Items and other non operating items;

(c) insurance claims; and

(d) any interest owing to any member of the Issuer Financing Group.

**Current Liabilities** means the aggregate (on a consolidated basis) of all liabilities (including trade creditors, accruals and provisions) of each member of the Issuer Financing Group expected to be settled within 12 months from the date of computation but excluding amounts in respect of:

(a) liabilities for Financial Indebtedness and Interest Service;

(b) liabilities for Tax;

(c) Exceptional Items and other non operating items;

(d) insurance claims; and

(e) liabilities in relation to dividends declared but not paid by a member of the Issuer Financing Group in favour of a person which is not a member of the Issuer Financing Group.

**Decision Date** means in relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the **decision**) to be made pursuant to the Intercreditor Agreement, the date on which each Secured Creditor Representative must provide its vote in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives notice to the Secured Creditor Representative of the decision to be made).

**Delegate** means any delegate, agent, attorney or co-trustee appointed by the Security Trustee or, as the case may be, the Note Trustee or any Additional Note Trustee.

**Disposal** means a sale, lease, licence, transfer, loan, option, warrant or other disposal by a person of any asset or business (whether by a voluntary or involuntary single transaction or series of transactions).

**DUoS** means a Distribution Use of System.

**DUoS Billing Adjustment** means an amount of money received by ENW within a period of five Business Days following a Covenant Testing Date or Half-Year Date, as payment for services provided no later than such Covenant Testing Date or Half-Year Date for which payment was due to ENW on or prior to such Covenant Testing Date or Half-Year Date or where payment has been delayed or due within five (5) Business Days of such Covenant Testing Date or Half-Year Date as a result of delays in the billing process in the month ending on such Covenant Testing Date or Half-Year Date.

**EBIT** means, in respect of any period for which it is being calculated, the consolidated operating profit of the Issuer Financing Group before taxation (including the results from discontinued operations):

(a) before deducting any Interest Service;

(b) before including any interest income;

(c) not including any accrued interest owing to any member of the Issuer Financing Group;

(d) before taking into account any Exceptional Items;

(e) after deducting the amount of any profit (or adding back the amount of any loss) of any member of the Issuer Financing Group which is attributable to minority interests;

(f) after deducting the amount of any profit of any Non-Group Entity to the extent that the amount of the profit included in the financial statements of the Issuer Financing Group exceeds the amount actually received in cash by members of the Issuer Financing Group through distributions by the Non-Group Entity;

(g) before taking into account any unrealised gains or losses on any derivative instrument or financial instrument;

(h) before taking into account any gain or loss arising from an upward or downward revaluation of any other asset;

(i) before taking into account any gain or loss from the disposal of any asset to the extent that the net aggregate of gains or losses in the period exceeds £1,000,000 (indexed) (or its currency equivalent);

(j) before taking into account any Pension Items; and

(k) excluding the charge to profit represented by the expensing of stock options,

in each case, to the extent added, deducted or taken into account, as the case may be, for the purposes of determining operating profits of the Issuer Financing Group before taxation during that period.

**EBITDA** means, in respect of any period for which it is being calculated, EBIT for that period after adding back any amount attributable to the amortisation, depreciation or impairment of assets of members of the Issuer Financing Group during that period (and taking no account of the reversal of any previous impairment charge made in that period).

**EEA Regulated Market** means a market which complies with the requirements set out in Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

**Energy Administrator** means, with respect to ENW, an administrator appointed in accordance with the Energy Act 2004.

**Enforcement Action** means:

(a) the cancellation of any commitments by a Secured Creditor following the occurrence of an event of default (howsoever described) and/or the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a breach of the relevant Hedging Agreement), in each case, in accordance with the terms of the Underlying Credit Documents;

(b) the taking of any steps to enforce or require the enforcement of any Transaction Security (including the crystallisation of any floating charge forming part of the Transaction Security);

(c) the making of any demand against the Issuer or the Guarantors in relation to any guarantee, indemnity or other assurance against loss in respect of any Liabilities or exercising any right to require either the Issuer or the Guarantors to acquire any Liability (including the exercise of any put or call option against the Issuer or the Guarantors for the redemption or purchase of any Liability);

(d) following the occurrence of an Event of Default, the exercise of any right of set-off against the Issuer or the Guarantors in respect of any Liabilities (other than Payment Netting or Close-Out Netting under any Hedging Agreement);

(e) the suing for, commencing or joining of any legal or arbitration proceedings against the Issuer or the Guarantors to recover any Liabilities;

(f) the entering into of any composition, assignment or arrangement with the Issuer or the Guarantors (unless approved by the Majority Secured Creditors) other than any action permitted under Clause 14 of the Intercreditor Agreement; or

(g) the petitioning, applying or voting for, or the taking of any steps (including the appointment of any liquidator, receiver, administrator or similar officer) in relation to, the winding up, dissolution, administration or reorganisation of the Issuer or the Guarantors or any suspension of payments or moratorium of any indebtedness of the Issuer or the Guarantors, or any analogous procedure or step in any jurisdiction.

**Entrenched Rights** means the rights of the Secured Creditors provided by the terms of clause 22.1 of the Intercreditor Agreement and summarised in the section entitled "*Overview of the Financing Agreements – Intercreditor Agreement*" of this Prospectus.

**ENW** means Electricity North West Limited.

**ENW Base Prospectus** means ENW Finance plc's £1,000,000,000 debt programme dated 16 July 2009.

**ENW Finance Documents** has the meaning given to "Finance Documents" in the ENW Base Prospectus.

**ENW Group** means at anytime, ENW, the ENW Issuer and each of ENW's Subsidiaries.

**ENW Issuer** means ENW Finance plc as issuer under the ENW Base Prospectus.

**Equity Cure** means the requirements specified in Condition 11 (Events of Default).

**Euroclear** means Euroclear Bank S.A./N.V..

**Event of Default** has the meaning given to that term in Condition 11 (Events of Default).

**Exceptional Items** means any exceptional, one off, non recurring or extraordinary items including, without limitation, those arising on:

(a) the restructuring of the activities of any entity and reversals of any provisions for the cost of restructuring;

(b) disposals, revaluations or impairment of non current assets; and

(c) disposals of assets associated with discontinued operations.

**Exchange Date** has the meaning given to it in Chapter 17 "*Summary of Provisions Relating to the Notes while Represented by the Global Notes*".

**Exchange Rate** means the spot rate at which any currency is converted to pounds sterling as quoted by the Reference Banks as at 11.00 a.m. on the final Business Day on which Secured Creditors may vote on any matter on which the Security Trustee has sought the instructions of the Majority Secured Creditors pursuant to the Intercreditor Agreement.

**Extraordinary Resolution** means a resolution of Noteholders satisfying the relevant requirements set forth in Condition 14 (Meetings of Noteholders, Modification, Waiver and Substitution).

**Finance Documents** means the Additional Finance Documents and any other document designated as such by the Security Trustee, the Issuer and the Guarantors.

**Finance HoldCo** means North West Electricity Networks (Finance) Limited.

**Finance Lease** means any lease or hire purchase contract which would, in accordance with the Accounting Principles, be treated as a finance or capital lease.

**Financial Indebtedness** means (without double counting), at any time, the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of any indebtedness of members of the Issuer Financing Group for or in respect of:

(a) moneys borrowed and debit balances at banks or other financial institutions;

(b) any acceptances under any acceptance credit or bill discount facility (or dematerialised equivalent);

(c) any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) any Finance Lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non recourse basis);

(f) (i) any accretion under an index-linked debt obligation or hedging agreement or (ii) if any actual amount is due as a result of the termination or close-out of that hedging agreement, that amount shall be included;

(g) any counter indemnity obligation in respect of a guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

(h) any amount raised by the issue of shares which are redeemable (other than at the option of the issuer) before the Maturity Date or are otherwise classified as borrowings under the Accounting Principles;

(i) any amount of any liability under an advance or deferred purchase agreement if (i) one of the primary reasons behind the entry into the agreement is to raise finance or to finance the acquisition or construction of the asset or service in question or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 120 days after the date of supply;

(j) any amount raised under any other transaction (including any forward sale or purchase agreement, sale and sale back or sale and leaseback agreement) having the commercial effect of a borrowing or otherwise classified as borrowings under the Accounting Principles; and

(k) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (j) above.

**Financial Ratios** has the meaning given to it in Condition 11 (Events of Default).

**Financial Year** means each period of four consecutive financial quarters ending on 31 March in each year.

**Fitch** means Fitch Ratings Ltd.

**FSMA** means the Financial Services and Markets Act 2000, as amended.

**Fund** means any co-investment vehicle, unit trust, investment trust, investment company, limited partnership, general partnership or other collective investment scheme, investment professional (as defined in Article 19(5)(d) of the Financial Services and Markets Act (Financial Promotion) Order 2005), high net worth company, unincorporated association or high value trust (as defined in Article 49(2)(a) to (c) of the Financial Services and Markets Act (Financial Promotion) Order 2005), pension fund, insurance company, authorised person under the Financial Services and Markets Act 2000 or any body corporate or other entity, in each case the assets of which are managed professionally for investment purposes.

**Further Notes** means further securities issued in accordance with Condition 16 (Further Issues) and forming a single series with the Notes.

**Gilt Rate** means the yield to maturity at the time of computation of direct obligations of the United Kingdom with a constant maturity (as compiled by the Office of National Statistics and published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five

Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to the Maturity Date; *provided, however*, that if the period from the redemption date to the Maturity Date is not equal to the constant maturity of a direct obligation of the United Kingdom for which a weekly average yield is given, the Gilt Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the United Kingdom for which such yields are given, except that if the period from such redemption date to the Maturity Date is less than one year, the weekly average yield on actually traded direct obligations of the United Kingdom adjusted to a constant maturity of one year shall be used.

**Global Note** means a Temporary Global Note and/or a Permanent Global Note, as the context may require.

**Group Tax Relief** means any right to allocate or reallocate Tax or Relief between members of a group including by way of the surrender of losses under Part 5 Corporation Tax Act 2010.

**Guarantees** has the meaning given to it in Condition 2(b).

**Guarantors** means Finance HoldCo and Senior HoldCo.

**Half-Year Date** means each 31 March and 30 September.

**Hedge Counterparties** means, in respect of any Hedging Agreements, the hedge counterparties under such documents provided that such parties have acceded to the Intercreditor Agreement by executing a Secured Creditor Accession Deed.

**Hedging Agreement** means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by the Guarantors or the Issuer and a Hedge Counterparty after the Closing Date for the purpose of hedging liabilities.

**Hedging Liabilities** means the Liabilities owed by the Guarantors or the Issuer to the Hedge Counterparties under or in connection with the Hedging Agreements.

**Holding Company** means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

**Inflation** means, in respect of any period for which the relevant indices have been published, the actual inflation rate applicable to such period determined by reference to movements in the Retail Price Index as published by the Office of National Statistics or any successor body and consistent with the methodology applied by Ofgem.

**ISDA Master Agreement** means the 1992 ISDA Master Agreement and the 2002 ISDA Master Agreement.

**Insolvency Act** means the Insolvency Act 1986.

**Intercreditor Agreement** means the intercreditor agreement dated the date of the Trust Deed (as amended, waived. restated, novated, replaced and/or supplemented from time to time) between, amongst others, the Guarantors, the Issuer, the Security Trustee, the Note Parties and certain Subordinated Lenders.

**Interest Payment Date** has the meaning given to it in Condition 6 (Interest).

**Interest Period** means the period beginning on and including the Closing Date and ending on but excluding the first Interest Payment Date, and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

**Interest Service** means, for any period for which it is being calculated, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments in the nature of interest in respect of Financial Indebtedness (including net hedging payments (excluding break costs)) whether paid or payable by any member of the Issuer Financing Group (calculated on a consolidated basis) in respect of that period:

(a) excluding any upfront fees or costs;

(b) including the interest (but not the capital) element of payments in respect of Finance Leases;

(c) including any commission, fees (including without limitation any fees in respect of any Pensions Letter of Credit), discounts and other finance payments payable by (and deducting any such amounts payable to) any member of the Issuer Financing Group under any hedging arrangement;

(d) excluding any interest cost or expected return on plan assets in relation to any post employment benefit schemes;

(e) excluding any interest (capitalised or otherwise) in respect of any Subordinated Liabilities lent in accordance with the terms of the Intercreditor Agreement;

(f) if a Joint Venture is accounted for on a proportionate consolidation basis, after adding the Issuer Financing Group's share of the finance costs or interest receivable of the Joint Venture; and

(g) taking no account of (i) any unrealised gains or losses on any derivative instruments or financial instruments, and (ii) indexation accruals or payments of such accrued amounts under index linked debt or swaps,

and so that no amount shall be added (or deducted) more than once.

**Intermediate Subsidiary** means, in respect of the Guarantors and the Issuer, any Subsidiary of the Guarantors or the Issuer that is a Holding Company of ENW but is not a member of the NWEN Financing Group.

**Issue Price** means 100 per cent. of the nominal amount of the Notes.

**Issuer Financing Group** means Finance HoldCo and its Subsidiaries from time to time.

**Issuer/Senior HoldCo Loan** means the initial intra-group loan advanced by the Issuer to Senior HoldCo pursuant to the Issuer/Senior HoldCo Loan Agreement in an amount equal to the proceeds of the Notes issued by the Issuer on the Closing Date.

**Issuer/Senior HoldCo Loan Agreement** means the loan agreement entered into between the Issuer, Senior HoldCo and the Security Trustee on or about the Closing Date.

**Joint Venture** means any joint venture entity, whether a company, unincorporated firm, undertaking, association, joint venture or partnership or other entity.

**Legal Reservations** means:

(a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;

(b) the time barring of claims under the Limitation Act 1980, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;

(c) similar principles, rights and defences under the laws of any Relevant Jurisdiction; and

(d) any other reservations or qualifications as to matters of law which are set out in any legal opinion delivered on or about the Closing Date.

**Liabilities** means all present and future liabilities, obligations and indebtedness at any time of the Issuer or the Guarantors to any Secured Creditor under the Transaction Documents or any Subordinated Lender (both actual and contingent and whether incurred solely or jointly or in any other capacity) together with any of the following matters relating to or arising in respect of those liabilities and obligations:

(a) any refinancing, novation, deferral or extension;

(b) any claim for damages or restitution;

(c) any claim as a result of any recovery by the Issuer or the Guarantors of a payment or discharge on the grounds of preference; and

(d) any claim for breach of representation, warranty or undertaking or an event of default or under any indemnity given under or in connection with any document or agreement evidencing or constituting any liability or obligation falling within this definition,

and any amounts which would be included in any of the above but for any discharge, non-provability or unenforceability of those amounts in any insolvency or other proceedings.

**Licence** means, in respect of ENW, its licence pursuant to Section 6(1)(c) of the Electricity Act 1989 (as amended) with respect to the distribution of electricity to the North West of England and such other parts of Great Britain as approved by Ofgem from time to time.

**Licence Holder** means ENW or any successor which is a member of the Issuer Financing Group.

**Loan Facility** means a loan facility made available to Senior HoldCo or the Issuer.

**Lock-Up** has the meaning given to it in "*Overview of the Financing Agreements – Trust Deed – Lock Up*".

**London Stock Exchange** means London Stock Exchange plc.

**Majority Secured Creditors** means:

(a) in respect of any Special Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing at least in the aggregate 66 2/3% of Total Commitments; and

(b) in respect of any Ordinary Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing greater than in the aggregate 50% of Total Commitments.

**Material Adverse Effect** means a material adverse effect on:

(a) the business, assets or financial condition of the Issuer Financing Group taken as a whole;

(b) the ability of the Issuer and the Guarantors taken as a whole to perform and comply with their payment obligations under any Transaction Document;

(c) the ability of the Issuer and the Guarantors to perform their material obligations (other than payment obligations) under any Transaction Document; or

(d) subject to the Legal Reservations, the validity, legality or enforceability of any of the obligations of the Issuer or the Guarantors under any Transaction Document or the rights or remedies of any Secured Creditor thereunder (including, for the avoidance of doubt, the priority and ranking of any Transaction Security).

**Maturity Date** means 21 June 2021.

**Moody's** means Moody's Investor Services Limited.

**Net Debt** means, at any time, the aggregate amount (or, in respect of a future date, the aggregate forecast amount) of all obligations of members of the Issuer Financing Group for or in respect of Financial Indebtedness at that time but:

(a) excluding any such obligations to any other member of the Issuer Financing Group;

(b) excluding any counter indemnity obligation in respect of a guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution (including a Pensions Letter of Credit), until such time as a demand is made under such instrument or any amount under such instrument is expressed to be immediately payable;

(c) excluding any un-crystallised mark to market amounts in respect of any hedging agreements;

(d) excluding any Financial Indebtedness under any New Injections lent to Senior Holdco in accordance with the terms of the Intercreditor Agreement;

(e) including, in the case of Finance Leases only, their capitalised value; and

(f) deducting the aggregate amount of any other Cash or Cash Equivalent Investments of the Issuer Financing Group,

and so that no amount shall be included or excluded more than once.

**Net Interest Service** means, in respect of any period for which it is being calculated, the Interest Service for that period after deducting any interest received in respect of Cash or Cash Equivalent Investments in that period by any member of the Issuer Financing Group.

**New Injection** means:

(a) the lending of funds to Finance HoldCo by a Holding Company of Finance HoldCo by way of a loan subordinated under the Intercreditor Agreement as a Subordinated Liability; and

(b) the subscription of new ordinary share capital in the group by way of subscription for shares in Finance HoldCo by a Holding Company of Finance HoldCo.

**Non-Group Entity** means any investment or entity (which is not itself a member of the Issuer Financing Group (including associates and Joint Ventures)) in which any member of the Issuer Financing Group has an ownership interest.

**Note Acceleration Notice** has the meaning given to that term in Condition 11 (Events of Default).

**Note Documents** means the Notes, the Trust Deed, the Agency Agreement, the Subscription Agreement and the Issuer/Senior HoldCo Loan Agreement.

**Note Parties** means the Note Trustee (on its own behalf and on behalf of the relevant Noteholders), the Noteholders, the Principal Paying Agent and any other Paying Agent.

**Note Trustee** means The Law Debenture Trust Corporation p.l.c. (or any successor trustee appointed pursuant to the Trust Deed.

**Noteholder** means a holder of the Notes.

**Notes** means the Notes issued pursuant to this Prospectus and shall, unless the context otherwise requires, include any Further Notes issued pursuant to Condition 16 (Further Issues) and forming a single series with the Notes.

**NWEN/ENW Loan Agreement** means the £100,000,000 loan facility (such facility amount subject to being increased from time to time) entered into between NWEN as lender and ENW as borrower on 17 July 2009 pursuant to which NWEN proposes to advance loans to ENW from time to time.

**NWEN** means North West Electricity Networks Limited.

**NWEN Base Prospectus** means ENW Capital Finance plc's £1,000,000,000 debt programme dated 16 July 2009.

**NWEN Financing Group** means NWEN HoldCo and each of NWEN HoldCo's Subsidiaries from time to time.

**NWEN Financing Group Standstill Period** has the meaning given to "Standstill Period" in Chapter 10 "*NWEN, NWEN Issuer and the NWEN Programme*".

**NWEN Finance Documents** has the meaning given to "Finance Documents" in Chapter 10 "*NWEN, NWEN Issuer and the NWEN Programme*".

**NWEN Financing Group Regulated Asset Ratio** means, in respect of any period for which it is being tested, the ratio of Net Debt for the NWEN Financing Group to the RAV (each as defined in Chapter 10 "*NWEN, NWEN Issuer and the NWEN Programme*") as at the last day of such period.

**NWEN Financing Group Secured Creditor** has the meaning given to "Secured Creditor" in Chapter 10 "*NWEN, NWEN Issuer and the NWEN Programme*".

**NWEN Financing Group Security Trustee** means the security trustee for the NWEN Financing Group Secured Creditors.

**NWEN HoldCo** means NWEN Group Limited.

**NWEN Issuer** means ENW Capital Finance plc.

**NWEN Programme** means the debt programme established by the NWEN Issuer on 21 July 2009 as described in the NWEN Base Prospectus.

**Officer's Certificate** means a certificate signed by one director of the Issuer or a Guarantor, as the case may be, addressed and delivered to the Note Trustee.

**Ordinary Decision** means any decision of the Majority Secured Creditors which is not a Special Decision.

**outstanding** means, in relation to the Notes, all the Notes issued except:

(a) those that have been redeemed in accordance with the Conditions;

(b) those in respect of which the date for redemption has occurred and the redemption moneys (including all interest accrued on such Notes to the date for such redemption and any interest payable after such date) have been duly paid to the Note Trustee or to the Principal Paying Agent as provided in Clause 2 (Covenant to Repay and to Pay Interest on Notes) of the Trust Deed and remain available for payment against presentation and surrender of Notes and/or Coupons, as the case may be;

(c) those that have become void or in respect of which claims have become prescribed;

(d) those that have been purchased and cancelled as provided in the Conditions;

(e) those mutilated or defaced Notes that have been surrendered in exchange for replacement Notes;

(f) (for the purpose only of determining how many Notes are outstanding and without prejudice to their status for any other purpose) those Notes alleged to have been lost, stolen or destroyed and in respect of which replacement Notes have been issued; and

(g) the Temporary Global Note to the extent that it shall have been exchanged for the Permanent Global Note and any Global Note to the extent that it shall have been exchanged for one or more Definitive Notes, in either case pursuant to its provisions,

provided that, for the purposes of (i) ascertaining the right to attend and vote at any meeting of the Noteholders, an Extraordinary Resolution in writing or an Extraordinary Resolution by way of electronic consents through the relevant Clearing System(s) and any direction or request by the holders of the Notes, (ii) the determination of how many and which Notes are outstanding for the purposes of Condition 11 (Events of Default), Condition 12 (Enforcement of Security), Condition 14 (Meetings of Noteholders, Modifications, Waiver and Substitution), Clause 12.21 (Action taken by Trustee) of the Trust Deed and Schedule 4 (Provisions for Meetings of Noteholders) to the Trust Deed and (iii) the exercise of any discretion, power or authority that the Note Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders, those Notes that are beneficially held by or on behalf of the Issuer, the Guarantors or any member of the Issuer Financing Group and not cancelled shall (unless no longer so held) be deemed not to remain outstanding.

**Paying Agent** means the Principal Paying Agent and any other paying agents appointed from time to time pursuant to the terms of the Agency Agreement.

**Payment Netting** means netting under section 2(c) of the ISDA Master Agreement.

**Pension Items** means any amounts relating to (i) income (including, for the avoidance of doubt, Regulator-allowed revenues in respect of pensions contributions recoverable from customers) or (ii) charges, in each case attributable to past service costs and the repair of any deficit with respect to a post-employment benefit scheme.

**Pensions Letter of Credit** means any letter or credit to be (or already) issued to the Electricity North West (ESPS) Pensions Trustees Limited in an aggregate amount of £15,000,000 (or its currency equivalent) (at any time), indexed annually from the base date of October 2007 by reference to Inflation.

**Periodic Review** means any review of electricity distribution price controls conducted by the Regulator from time to time.

**Permanent Global Note** means the global note representing the Notes upon exchange of the Temporary Global Note, or part of it, and which shall be substantially in the form set out in Part 2 of Schedule 1 to the Trust Deed.

**Permitted Disposal** means any disposal:

(a) of assets by the Guarantors in their ordinary course of trade and on arm's length terms entered into for bona fide commercial purposes for the benefit of their business;

(b) for cash and on arm's length terms by the Guarantors of any (i) surplus plant or material and any (ii) obsolete or worn-out assets which in each case in the reasonable opinion of such company are not required for the efficient operation of its business or which are to be replaced by other similar assets comparable or superior as to type, value or quality;

(c) by the Guarantors of cash where such disposal is not otherwise prohibited by any Transaction Documents;

(d) by the Guarantors of assets, the disposal of which is permitted by the Transaction Documents;

(e) of Cash Equivalent Investments by the Guarantors on arm's length terms for cash or in exchange for other Cash Equivalent Investments; and

(f) in respect of a Permitted Transaction, Permitted Loan or Permitted Distribution.

**Permitted Distribution** means, in each case provided that no Event of Default has occurred and is continuing:

(a) the payment of a dividend, any other distribution or payment of any amount under any loan from a member of the Issuer Financing Group to the Issuer and/or either Guarantor or from Finance HoldCo to North West Networks Electricity (UK) Limited in each case where such payment is made by a member of the Issuer Financing Group to the Issuer and/or the Guarantors or from Finance HoldCo to North West Networks Electricity (UK) Limited to enable payments in respect of any tax liabilities or overheads (including employment costs, insurance premia or professional advisers' fees) incurred by it (or, in the case of payments to North West Networks Electricity (UK) Limited, incurred by it or any of its Holding Companies), provided that such dividends or other distribution or payments shall not in aggregate (but without double counting) exceed £750,000 (or its currency equivalent) in any financial year;

(b) the surrender of Group Tax Relief by any member of the Issuer Financing Group to another member of the Issuer Financing Group;

(c) the surrender of Group Tax Relief by any member of the Issuer Financing Group to an entity outside the Issuer Financing Group, provided that, in the reasonable commercial opinion of the Issuer Financing Group, such Group Tax Relief could not (on a commercially reasonable basis and within the relevant accounting period) be used within the Issuer Financing Group;

(d) the payment by any member of the Issuer Financing Group of any amount in respect of Group Tax Relief not exceeding the amount of Tax saved or to be saved by that member of the Issuer Financing Group by virtue of that surrender, provided, for the avoidance of doubt, that no such payment shall be required; and

(e) the payment of any amount under the Issuer/Senior HoldCo Loan Agreement made by Senior HoldCo to the Issuer.

**Permitted Enforcement Action** means:

(a) the cancellation of any commitments by a Secured Creditor following the occurrence of an event of default (howsoever described) and/or the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a breach of the relevant Hedging Agreement), in each case, in accordance with the terms of the Underlying Credit Documents; and

(b) the suing for, commencing or joining of any legal or arbitration proceedings against the Issuer or the Guarantors to recover any Liabilities,

in each case, in accordance with the Underlying Credit Documents.

**Permitted Financial Indebtedness** means Financial Indebtedness:

(a) arising under any of the Transaction Documents;

(b) arising under any Subordinated Debt;

(c) arising under a foreign exchange transaction for spot or forward delivery entered into in connection with protection against fluctuation in currency rates where that foreign exchange exposure arises in the ordinary course of trade, but not a foreign exchange transaction for investment or speculative purposes;

(d) arising under a Permitted Loan or a Permitted Guarantee;

(e) of any person acquired by either Guarantor or any Intermediate Subsidiary after the Closing Date which is incurred under arrangements in existence at the date of acquisition, but not incurred or increased or its maturity date extended in contemplation of, or since, that acquisition, and outstanding only for a period of six months or less following the date of acquisition;

(f) arising under any netting or set-off arrangements permitted pursuant to paragraph (d) of the definition of "Permitted Security", the maximum aggregate net amount of which does not exceed £10,000,000 (or its currency equivalent);

(g) permitted in accordance with the terms of the Intercreditor Agreement; or

(h) arising after the date hereof provided that:

    (i) such additional Financial Indebtedness does not rank senior to the Notes;

    (ii) if such additional Financial Indebtedness is secured (but not otherwise), the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantors; and

    (iii) no Lock-Up or Event of Default would occur as a result of the incurrence of such Financial Indebtedness.

**Permitted Guarantee** means:

(a) any guarantee arising under any Transaction Document;

(b) the endorsement of negotiable instruments in the ordinary course of trade;

(c) any guarantee given in respect of the netting or set-off arrangements permitted pursuant to paragraph (c) of the definition of Permitted Security;

(d) any guarantee permitted by the definition of Permitted Financial Indebtedness or in respect of Permitted Financial Indebtedness; and

(e) any guarantee not permitted by the preceding paragraphs, the outstanding principal amount of which does not exceed £2,000,000 (or its currency equivalent) in aggregate for the Guarantors, the Issuer and any Intermediate Subsidiaries at any time.

**Permitted Loan** means, in respect of the Guarantors or an Intermediate Subsidiary:

(a) any trade credit extended to its customers on normal commercial terms and in the ordinary course of its trading activities;

(b) a loan made to a member of the Issuer Financing Group provided that such loan constitutes Subordinated Debt;

(c) a loan permitted under the Lock-Up provisions;

(d) a loan made to an employee or director if the amount of that loan when aggregated with the amount of all loans to employees and directors by members of the Issuer Financing Group does not exceed £2,000,000 (or its currency equivalent) at any time;

(e) any loan made pursuant to any Transaction Document;

(f) any loan made by the Issuer to Senior HoldCo pursuant to the Issuer/Senior HoldCo Loan Agreement; and

(g) any loan not otherwise permitted above (other than a loan made by one member of the Issuer Financing Group to another member of the Issuer Financing Group) if the amount of that loan when aggregated with the amount of all other loans does not exceed £3,000,000 (or its currency equivalent) at any time.

**Permitted Security** means:

(a) any Security or Quasi-Security arising under any Transaction Document;

(b) any lien arising by operation of law and in the ordinary course of trading and not as a result of any default or omission of the Guarantors, the Issuer or any Intermediate Subsidiary;

(c) any cash management, netting or set-off arrangement entered into by the Guarantors or any Intermediate Subsidiary in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of the Issuer Financing Group;

(d) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Guarantors or any Intermediate Subsidiary for the purpose of:

    (i) hedging any risk to which any member of the Issuer Financing Group is exposed in its ordinary course of trading; or

(ii) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes only,

excluding, in each case, any Security or Quasi-Security under a credit support arrangement in relation to a hedging transaction;

(e) any Security or Quasi-Security over or affecting any asset acquired by the Guarantors or any Intermediate Subsidiary after the Closing Date:

(i) the Security or Quasi-Security was not created in contemplation of the acquisition of that asset by the Guarantors or such Intermediate Subsidiary;

(ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by the Guarantors or such Intermediate Subsidiary; and

(iii) the Security or Quasi-Security is removed or discharged within six months of the date of acquisition of such asset;

(f) any Security or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Guarantors or any Intermediate Subsidiary in the ordinary course of trading and not arising as a result of any default or omission by the Guarantors;

(g) any Security or Quasi-Security arising as a result of a disposal which is not prohibited by the terms of any of the Transaction Documents;

(h) any Security or Quasi-Security permitted under the terms of the Intercreditor Agreement; or

(i) any Security or Quasi-Security securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other indebtedness which has the benefit of Security or Quasi-Security given by the Issuer and the Guarantors other than any permitted under paragraphs (a) to (h) above) does not exceed £3,000,000 (or its currency equivalent).

**Permitted Transaction** means

(a) any disposal required, Financial Indebtedness incurred, guarantee, indemnity or Security or Quasi-Security given, or other transaction arising, under, or in connection with any Transaction Document;

(b) transactions (other than (i) any sale, lease, license, transfer or other disposal in circumstances where such sale, lease, license, transfer or other disposal is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset and (ii) the granting or creation of Security or the incurring or permitting to subsist of Financial Indebtedness) conducted in the ordinary course of trading on arm's length terms;

(c) any transaction between members of the Issuer Financing Group, provided that, where any such transaction gives rise to any intra-group loan or other balance between members of the Issuer Financing Group, such loan or intra-group balance constitutes Subordinated Debt;

(d) any corporate reconstruction of the Issuer Financing Group (including, but not limited to any capital reduction of a member of the Issuer Financing Group, the insertion of any new holding companies, the removal of holding companies, any tax restructurings or a Permitted Disposal) provided that:

(i) where such transaction gives rise to any intra-group loan or other balance between members of the Issuer Financing Group, such loan or intra-group balance constitutes Subordinated Debt;

(ii) the Issuer and the Guarantors continue to comply with the financial covenants set out in the Trust Deed;

(iii) no Event of Default would result from such transaction; and

(iv) such transaction does not or could not reasonably be expected to have a Material Adverse Effect; and

(e) any other transaction agreed to by the Note Trustee (if directed to do so by an Extraordinary Resolution of the Noteholders).

**person** means any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality).

**Positive Value** means in respect of each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from the Issuer or a Guarantor (as applicable) assuming that on the date of calculation an Early Termination Date (as defined in the relevant Hedging Agreement) was deemed to occur under the relevant Hedging Agreements for which the Issuer or a Guarantor is the Defaulting Party or Affected Party (each as defined in the relevant Hedging Agreement).

**Potential Event of Default** means an event or circumstance which would (with the expiry of a grace period, the giving of notice, the making of any determination under Condition 11 (Events of Default) or any combination of any of the foregoing) be an Event of Default.

**Principal Paying Agent** means HSBC Bank plc and any successor thereto appointed under the Agency Agreement.

**Prospectus Directive** means Directive 2003/71/EC as amended (which include the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area).

**Put Event Notice** has the meaning give to it in Condition 7.3.

**Put Exercise Notice** has the meaning give to it in Condition 7.3.

**Put Exercise Period** has the meaning give to it in Condition 7.3.

**Quasi-Security** means:

(a) the sale, transfer or disposal by any other means of assets on terms whereby they are or may be leased to or re-acquired by the Issuer or the Guarantors;

(b) the sale, transfer or disposal by any other means of receivables on recourse terms;

(c) the entry into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(d) the entry into any other preferential arrangement having a similar effect, in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

**Rating Agency** means Standard & Poor's.

**Receiver** means a receiver or receiver and manager or administrative receiver of the whole or any part of the Charged Property.

**Reference Banks** means the principal London offices of Barclays Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc, or such other banks as may be appointed by Senior HoldCo.

**Regulated Asset Ratio** means, in respect of any period for which it is being tested, the ratio of Net Debt to the Regulated Asset Value as at the last day of such period.

**Regulated Asset Value** or **RAV** means the aggregate of:

(a) the regulatory asset value for such date as last determined and notified to ENW by the Regulator at the most recent Periodic Review or such interim determination or other procedure through which the Regulator may make such determination of regulatory asset value on an equally definitive basis to that of a Periodic Review or interim determination; and

(b) such other sum so determined and notified which the Regulator has determined may not be wholly recovered from customers within the Regulatory Period to which the determination relates and which may only be so recovered over a period of time extending beyond the end of that Regulatory Period,

in each case adjusted for Inflation and, where necessary, by interpolation.

**Regulator** means the Gas and Electricity Markets Authority (**GEMA**), operating through the Office of Gas and Electricity Markets (**Ofgem**) and any successors thereto.

**Regulatory Period** means the period in respect of which a set of price control conditions are fixed by (currently) the Regulator (currently a five year period to 31 March 2015 and thereafter every eight years).

**Relevant Jurisdiction** means, in relation to the Issuer and the Guarantors:

(a) their jurisdiction of incorporation; and

(b) any jurisdiction whose laws govern any of the Transaction Security Documents entered into by it.

**Relevant Period** means, in respect of any Half-Year Date or Covenant Testing Date, the period of 12 months ending on such Half-Year Date or Covenant Testing Date.

**Relevant Taxing Jurisdiction** has the meaning given to that term in Condition 10 (Taxation).

**Relief** includes any relief, loss, allowance, exemption, set-off, deduction or credit in computing or against profits or Tax.

**Retail Price Index** or **RPI** means the all items retail prices index for the United Kingdom published by the Office for National Statistics or if such index ceases to exist, such other index or indexation procedure as reasonably directed by the Note Trustee (as defined in Chapter 10 "*NWEN, NWEN Issuer and the NWEN Programme*").

**Savings Directive** means EC Council Directive 2003/48/EC regarding the taxation of savings income.

**Secured Creditor Accession Deed** means a deed substantially in the form set out in Schedule 2 (Form of Secured Creditor Accession Deed) to the Intercreditor Agreement.

**Secured Creditor Group** means:

(a) in respect of the Notes, the Note Parties;

(b) in respect of an issue of Additional Notes, the Additional Note Parties for that issue;

(c) in respect of a Loan Facility, the Additional Finance Parties in respect of that Loan Facility; and

(d) in respect of a Hedging Agreement, the Hedge Counterparty in respect of that Hedging Agreement.

**Secured Creditor Representative** means:

(a) in respect of the Notes, the Note Trustee;

(b) in respect of any Additional Notes, the Additional Note Trustee;

(c) in respect of a Loan Facility, the agent in respect of that Loan Facility; and

(d) in respect of a Hedging Agreement, the relevant Hedge Counterparty,

and each Secured Creditor Representative will be deemed to represent 100% of the Commitments of the relevant Secured Creditor Group (with such Secured Creditor Representative being directed in its actions as set out in the terms of the relevant Underlying Credit Documents).

**Secured Creditors** means:

(a) the Note Parties;

(b) any Additional Note Parties;

(c) any Additional Finance Parties;

(d) any Hedge Counterparties;

(e) the Security Trustee and any Receiver and/or Delegate appointed pursuant to the Intercreditor Agreement; and

(f) any other person who accedes to the Intercreditor Agreement as a Secured Creditor by means of a Secured Creditor Accession Deed,

provided that, for the avoidance of doubt, Noteholders and any Additional Noteholders and holders of coupons in respect of Notes or Additional Notes may only act through the Note Trustee or Additional Note Trustee, as applicable, unless the Note Trustee or Additional Note Trustee (as applicable), having become bound so to proceed and being permitted so to do by the Intercreditor Agreement, fails to do so within a reasonable time and such failure is continuing.

**Secured Liabilities** means all the Liabilities and all other present and future obligations at any time due, owing or incurred by any of the Issuer or the Guarantors to any Secured Creditor under the Transaction Documents (including the Security Trust Liabilities), both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

**Security** means a mortgage, charge, pledge, lien, assignment, warrant, option or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

**Security Agreement** means the security agreement between the Security Trustee, the Issuer and the Guarantors dated on or about the Closing Date.

**Security Trust Liabilities** means, in respect of the Security Trustee, any loss, damage, cost, charge, fee, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and any legal fees and expenses properly incurred on a full indemnity basis.

**Security Trustee** means The Law Debenture Trust Corporation p.l.c. (or any successor trustee appointed pursuant to the Intercreditor Agreement).

**Senior HoldCo** means North West Electricity Networks (Holdings) Limited.

**Special Decision** means any decision of the Majority Secured Creditors relating to any matters which, in the opinion of the Security Trustee:

(a) would release any of the Transaction Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the Intercreditor Agreement;

(b) would change:

   (i) any material definitions which relate to the key structural principles on which the voting mechanics and voting rights in respect of the Special Decisions have been founded; or

   (ii) any of the matters requiring Special Decisions;

(c) would relate to the removal of the Security Trustee in accordance with clause 13.1(g) of the Intercreditor Agreement; or

(d) relate to any Enforcement Action,

provided that, for the avoidance of doubt, the Majority Secured Creditors may not take any decisions relating to Entrenched Rights without the relevant Secured Creditor's consent.

**Sponsors** means:

(a) Citicorp Nominees Pty Limited as custodian for CFS Managed Property Limited as the responsible entity for CFS Global Diversified Infrastructure Fund Limited;

(b) Citicorp Nominees Pty Limited as custodian for CFS Managed Property Limited as the responsible entity for the Colonial First State Wholesale Infrastructure Income Fund;

(c) First State Investments Fund Management Sàrl on behalf of First State European Diversified Infrastructure Fund as the responsible entity for First State European Diversified Infrastructure Fund FCP-SIF; and

(d) IIF Int'l NWEN UK Cayman Ltd.

**Standard & Poor's** means Standard & Poor's Credit Market Services Europe Limited.

**sterling** or **£** means the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

**Subordinated Debt** means Financial Indebtedness (ignoring for this purpose the words "provided that any amount owed by one member of the Issuer Financing Group to another member of the Issuer Financing Group shall not be taken into account") which is:

(a) a Subordinated Liability;

(b) has no mandatory cash pay and matures after the Maturity Date; or

(c) which is otherwise subordinated to the Notes.

**Subordinated Lender Accession Deed** means a deed in the form set out in Schedule 3 (Form of Subordinated Lender Accession Deed) to the Intercreditor Agreement.

**Subordinated Lenders** means North West Networks Electricity (UK) Limited and any person who becomes a Subordinated Lender by executing a Subordinated Lender Accession Deed.

**Subordinated Liabilities** means the Liabilities owed by the Issuer and/or the Guarantors to the Subordinated Lenders.

**Subscription Agreement** means the subscription agreement relating to the Notes dated 19 March 2013 between, *inter alia*, the Joint Bookrunners and the Issuer.

**Subsidiary** means a subsidiary within the meaning of section 1159 of the Companies Act 2006 and, for the purpose of the Financial Ratios and in relation to financial statements of the Issuer Financing Group, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

**Tax** means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) and **Taxes**, **taxation**, **taxable** and comparable expressions will be construed accordingly.

**Temporary Global Note** means the global note representing the Notes on issue and which shall be substantially in the form set out in Part 1 of Schedule 1 to the Trust Deed.

**Total Commitments** means:

(a) prior to the taking of Enforcement Action, (i) the total commitments under the Finance Documents plus (ii) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes and any Additional Notes; and

(b) following the taking of Enforcement Action, (i) the aggregate principal amount outstanding under the Finance Documents, the Notes and any Additional Notes (including, if applicable, any accretion due to indexation) plus (ii) the aggregate Positive Value of the Hedging Liabilities,

provided that, in respect of an amount denominated in a currency other than pounds sterling, such amount shall be expressed in pounds sterling on the basis of the applicable Exchange Rate.

**Transaction Documents** means:

(a) the Note Documents;

(b) the Intercreditor Agreement;

(c) the Transaction Security Documents;

(d) any Additional Note Documents;

(e) any Additional Finance Documents; and

(f) any other Underlying Credit Documents,

and any other document specified to be a Transaction Document by the Security Trustee.

**Transaction Security** means the Security created, evidenced or expressed to be created or evidenced under the Transaction Security Documents.

**Transaction Security Documents** means:

(a) the Security Agreement; and

(b) any other document entered into at any time by the Issuer, a Guarantor or any further entity which has acceded to the Intercreditor Agreement as an obligor creating, evidencing or expressed to create or evidence any Security in favour of the Security Trustee for the Secured Creditors (or any of them) and any Security granted under any covenant for further assurance in any of the Transaction Documents,

in each case, as amended, waived, restated, novated, replaced and/or supplemented from time to time.

**Trigger Event** means the events described in Chapter 10 "*NWEN, NWEN Issuer and the NWEN Programme*".

**Trust Deed** means the trust deed relating to the Notes between, among others, the Note Trustee and the Issuer to be dated on or about the Closing Date

**Underlying Credit Documents** means, in respect of a Secured Creditor Group, the transaction documents governing the relationship between that Secured Creditor Group and the Issuer and/or the Guarantors.

**Working Capital** means, on any date, Current Assets less Current Liabilities.

## ANNEX 1: FINANCIAL STATEMENTS

**North West Electricity Networks (Holdings) Limited – Half Year Condensed Consolidated Financial Statements for the period ended 30 September 2012**

Company Registration No. 6428534

# NORTH WEST ELECTRICITY NETWORKS (HOLDINGS) LIMITED

## Half Year Condensed Consolidated Financial Statements

## for the period ended 30 September 2012

## CONTENTS

# INTERIM MANAGEMENT REPORT

## Cautionary Statement

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

## Directors

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

S Johnson

M McCallion

## Operations

NWENH acts as a holding company for the Group and is a non-trading entity.

The Group's principal activity is the operation and maintenance of the North West's electricity distribution network. The distribution of electricity is regulated by the terms of Electricity North West Limited's ('ENWL's') Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority. ENWL is an indirectly held subsidiary of the Company.

## Results for six months ended 30 September 2012

| | **6 months ended 30 Sept 2012** | 6 months ended 30 Sept 2011 | Year ended 31 March 2012 |
|---|---|---|---|
| Revenue | **£210m** | £185m | £405m |
| Operating profit | **£99m** | £79m | £180m |
| Profit before tax and fair value movements | **£59m** | £33m | £77m |
| Profit/(loss) before tax | **£21m** | (£19m) | (£1m) |
| RAV Gearing[1] | **85%** | 85% | 87% |
| Interest cover[2] | **1.58** | 1.94 | 1.60 |

(1) RAV Gearing is measured as borrowings, including accretion, at nominal value net of cash and short-term deposits divided by the allowed Regulatory Asset Value ('RAV') of £1,571m (period ended September 2011: £1,468m, year ended March 2012: £1,519m) based on September/March closing prices.

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

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

## Revenue

Total revenue has increased as a result of an increase in allowed DUoS (Distribution Use of System) revenue, rising RPI and the recognition of £5.6m income under the capacity to customers project which is a project funded by Ofgem's Low Carbon Network Fund ('LCNF'). Over the life of the project, the LCNF revenue is offset by costs relating to the scheme.

## Operating profit

Operating profit has increased as a result of increased revenues as above, partially offset by an increase in operating costs arising from an increase in the depreciation charge due to the IT Refresh Project which was completed in September 2011.

## Profit before tax and fair value movements

Profit before tax and fair value movements has increased as a result of an increase in operating profit and a decrease in interest payable.

## Profit before tax

Profit before tax has increased due to an increase in operating profit and a favourable fair value movement compared to prior year.

## Net debt

Net debt is described as total borrowings less cash. Total borrowings increased and at 30 September 2012 were £2,017.1m (30 September 2011: £1,979.1m, March 2012: £1993.1m) an increase of £38m. At 30 September 2012 cash totalled £70.3m (30 September 2011: £144.6m, March 2012: £59.7m). Consequently, net debt increased by £112.3m to £1,946.8m at 30 September 2012 (30 September 2011: £1,834.5m, March 2012: £1,933.4m) which is largely due to an increase in the fair value of the mark to market bonds.

## Dividends

At the date of these financial statements interim dividends of £12.0m have been paid (September 2011: £nil, March 2012: £15.0m).

## Principal risks and uncertainties

The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that Company, and ultimately the Group, are discussed in the ENWL Annual Report and consolidated financial statements for the year ended 31 March 2012, which are available on our website, www.enwl.co.uk.

The Board considers the following risks to be the principal ones that may affect the Group's performance and results.

*Retail Property*

Electricity North West has a potential liability for certain property leases assigned to Comet. A Contingent Liability was detailed in the Company's financial statements for 31 March 2012 and in half year financial statements at September 2012. Comet entered Administration in November 2012 and ceased trading in December 2012. We have evaluated the quantum and cashflow profile of a provision in light of requests we have received from landlords for rental payments and the latest market intelligence with regard to the overall lease portfolio.

*Refinancing*

The Company is a subsidiary within a group of companies established specifically for the purpose of purchasing ENWL on 19 December 2007. The purchase was financed by a combination of equity and bank acquisition finance. The Group and the Company are financed largely by long-term external funding, and this, together with the present cash position and committed undrawn facilities, provides the appropriate liquidity platform to allow the Company and Group to meet their operational and financial commitments for the foreseeable future.

*Failure to comply with investor and banking covenants*

The Group has a comprehensive set of covenants contained within the legal agreements surrounding the external borrowings. A detailed review of all the covenants has been undertaken and appropriate owners identified within the business who are responsible for ensuring compliance.

A compliance reporting regime is well established and the compliance status is reviewed and approved by the CFO and CEO, and is reported to the Board on a monthly basis. There have been no covenant breaches in the current year. Further, there are no covenant breaches forecast nor expected in the most recent approved business plan to 31 March 2015.

*The losses incentive mechanism may result in revenue reduction*

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

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

## Principal risks and uncertainties *(continued)*

*The losses incentive mechanism may result in revenue reduction (continued)*

This has been recognised at an industry level and Ofgem has stated that they will take steps to ensure there are no windfall gains or losses arising from settlement data corrections, by allowing restatement of the 2009/10 data where individual licensees can justify it. Due to issues relating to the interaction between the LRRM and the incentive mechanism for DPC5, and concerns about the DPC5 mechanism itself, Ofgem have recently proposed that the DPC5 mechanism should not be activated, but that the LRRM process should be concluded, including restated data if justified. Electricity North West is fully engaged in this process and has submitted LRRM proposals, using options for the calculation as defined by Ofgem.

## Accounts

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

## Events after the balance sheet date

Refer to note 13 for details of events after the balance sheet date.

## Going concern

After making enquiries as discussed in the accounting policies on pages 9 and 10, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half year condensed consolidated financial statements.

## Responsibility statement

We confirm that to the best of our knowledge:

a. the condensed set of consolidated financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;

b. the interim management report includes a fair review of the information required by DTR 4.2.7R; and

c. the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’.

Registered address:

304 Bridgewater Place

Birchwood Park, Birchwood

Warrington

WA3 6XG

On behalf of the Board:

S Johnson

Chief Executive Officer

11 March 2013

## CONDENSED CONSOLIDATED INCOME STATEMENT
## For the period ended 30 September 2012

| | Note | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|---|
| **Revenue** | **3** | **209.6** | 184.5 | 404.6 |
| Employee costs | | **(20.7)** | (21.7) | (35.3) |
| Depreciation and amortisation expense (net) | | **(44.8)** | (39.9) | (90.9) |
| Other operating costs | | **(44.9)** | (44.0) | (98.5) |
| **Total operating expenses** | | **(110.4)** | (105.6) | (224.7) |
| **Operating profit** | | **99.2** | 78.9 | 179.9 |
| Investment income | **4** | **2.0** | 2.3 | 4.5 |
| Finance expense | **5** | **(79.8)** | (100.1) | (185.8) |
| **Profit/(loss) before taxation** | | **21.4** | (18.9) | (1.4) |
| Taxation | **6** | **11.8** | 20.2 | 40.2 |
| **Profit for the period/year attributable to the owners of the Company** | | **33.2** | 1.3 | 38.8 |

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

The notes on pages 9 to 16 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
**For the period ended 30 September 2012**

| | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|
| Profit for the financial period/year | **33.2** | 1.3 | 38.8 |
| **Other comprehensive (expense)/income:** | | | |
| Actuarial losses on defined benefit pension schemes | **(0.9)** | (47.5) | (18.6) |
| Deferred tax on actuarial losses on defined benefit pension schemes taken directly to equity | **0.3** | 11.8 | 4.5 |
| Fair value loss on cash flow hedges | **(0.3)** | (3.0) | (3.2) |
| Deferred tax on fair value loss on cash flow hedges taken directly to equity | **0.1** | - | 0.7 |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | **(2.8)** | (0.6) | (1.3) |
| **Other comprehensive expense for the period/year** | **(3.6)** | (39.3) | (17.9) |
| **Total comprehensive income/(expense) for the period/year and attributable to equity holders** | **29.6** | (38.0) | 20.9 |

The notes on pages 9 to 16 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## At 30 September 2012

| | Note | **Unaudited 30 September 2012 £m** | Unaudited 30 September 2011 £m | Audited 31 March 2012 £m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets and goodwill | | **220.2** | 215.7 | 224.4 |
| Property, plant and equipment | 8 | **2,500.2** | 2,380.8 | 2,445.7 |
| | | **2,720.4** | 2,596.5 | 2,670.1 |
| **Current assets** | | | | |
| Inventories | | **6.9** | 6.2 | 6.8 |
| Trade and other receivables | | **48.0** | 44.1 | 53.7 |
| Money market deposits | | **9.5** | 9.5 | 25.0 |
| Cash and cash equivalents | | **70.3** | 144.6 | 59.7 |
| Current income tax asset | | **-** | - | 15.0 |
| | | **134.7** | 204.4 | 160.2 |
| **Total assets** | | **2,855.1** | 2,800.9 | 2,830.3 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Borrowings | 9 | **(509.7)** | (508.7) | (509.7) |
| Trade and other payables | | **(112.1)** | (122.3) | (131.8) |
| Current income tax liabilities | | **(4.6)** | (4.0) | (0.1) |
| | | **(626.4)** | (635.0) | (641.6) |
| **Net current liabilities** | | **(491.7)** | (430.6) | (481.4) |
| **Non-current liabilities** | | | | |
| Borrowings | 9 | **(1,507.4)** | (1,470.4) | (1,483.4) |
| Derivative financial instruments | | **(157.0)** | (130.1) | (149.9) |
| Deferred tax liabilities | | **(349.2)** | (368.4) | (368.0) |
| Customer contributions | | **(177.1)** | (148.9) | (157.6) |
| Refundable customer deposits | | **(3.4)** | (1.3) | (3.4) |
| Retirement benefit obligation | 11 | **(4.8)** | (78.5) | (14.2) |
| | | **(2,198.9)** | (2,197.6) | (2,176.5) |
| **Total liabilities** | | **(2,825.3)** | (2,832.6) | (2,818.1) |
| **Net assets/(liabilities)** | | **29.8** | (31.7) | 12.2 |
| **EQUITY** | | | | |
| Share capital | | **3.0** | 3.0 | 3.0 |
| Retained earnings | | **32.8** | (28.4) | 15.0 |
| Hedging reserve | | **(6.0)** | (6.3) | (5.8) |
| **Total equity** | | **29.8** | (31.7) | 12.2 |

Approved by the board of directors on 11 March 2013 signed on its behalf by:

S Johnson
*Director*

The notes on pages 9 to 16 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### For the period ended 30 September 2012

| | Called up share capital | Hedging reserve | Retained earnings (deficit) | Total equity |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **At 31 March 2011 (audited)** | 3.0 | (3.3) | 6.6 | 6.3 |
| Profit for the period | - | - | 1.3 | 1.3 |
| Actuarial losses on defined benefit schemes | - | - | (47.5) | (47.5) |
| Fair value loss on cash flow hedges | - | (3.0) | - | (3.0) |
| Tax on components of comprehensive income | - | - | 11.2 | 11.2 |
| Total comprehensive expense for the period to 30 September 2011 | - | **(3.0)** | **(35.0)** | **(38.0)** |
| **At 30 September 2011 (unaudited)** | **3.0** | **(6.3)** | **(28.4)** | **(31.7)** |
| **At 31 March 2011 (audited)** | 3.0 | (3.3) | 6.6 | 6.3 |
| Profit for the year | - | - | 38.8 | 38.8 |
| Actuarial losses on defined benefit schemes | - | - | (18.6) | (18.6) |
| Fair value loss on cash flow hedges | - | (3.2) | - | (3.2) |
| Tax on components of comprehensive income | - | 0.7 | 3.2 | 3.9 |
| Total comprehensive (expense)/income for the year to 31 March 2012 | - | **(2.5)** | **23.4** | **20.9** |
| Transactions with owners recorded directly in equity: | | | | |
| Equity dividends | - | - | (15.0) | (15.0) |
| **At 31 March 2012 (audited)** | **3.0** | **(5.8)** | **15.0** | **12.2** |
| Profit for the period | - | - | 33.2 | 33.2 |
| Actuarial losses on defined benefit schemes | - | - | (0.9) | (0.9) |
| Fair value loss on cash flow hedges | - | (0.2) | - | (0.2) |
| Tax on components of comprehensive income | - | - | (2.5) | (2.5) |
| Total comprehensive income for the period to 30 September 2012 | - | (0.2) | 29.8 | 29.6 |
| Transactions with owners recorded directly in equity: | | | | |
| Equity dividends | - | - | (12.0) | (12.0) |
| **At 30 September 2012 (unaudited)** | **3.0** | **(6.0)** | **32.8** | **29.8** |

The notes on pages 9 to 16 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
**For the period ended 30 September 2012**

| | Note | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash generated from operations | **10** | **117.2** | 106.3 | 248.6 |
| Interest paid | | **(44.3)** | (36.4) | (95.7) |
| Tax received/(paid) | | **7.1** | (7.5) | (15.3) |
| **Net cash generated from/(used in) operating activities** | | **80.0** | **62.4** | **137.6** |
| **Investing activities** | | | | |
| Interest received and similar income | | **4.2** | 5.0 | 1.6 |
| Purchase of property, plant and equipment | | **(94.8)** | (94.9) | (222.0) |
| Acquisition of subsidiary, net of cash received | | **-** | - | (2.0) |
| Purchase of intangible assets | | **(0.1)** | (0.8) | (0.8) |
| Customer contributions received | | **17.8** | 19.5 | 30.3 |
| Proceeds from sale of property, plant and equipment | | **-** | 0.1 | 0.6 |
| **Net cash used in investing activities** | | **(72.9)** | **(71.1)** | **(192.3)** |
| **Financing activities** | | | | |
| Dividend paid | **7** | **(12.0)** | - | (15.0) |
| Transfer to money market deposits | | **15.5** | 66.7 | 51.2 |
| Proceeds from borrowings | | **-** | 37.6 | 28.6 |
| Repayment of borrowings | | **-** | (78.8) | (80.0) |
| Receipt on close out of swap | | **-** | - | 1.8 |
| **Net cash generated from/(used in) financing activities** | | **3.5** | **25.5** | **(13.4)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **10.6** | **16.8** | **(68.1)** |
| **Cash and cash equivalents at beginning of the period/year** | | **59.7** | **127.8** | **127.8** |
| **Cash and cash equivalents at end of the period/year** | | **70.3** | **144.6** | **59.7** |

The notes on pages 9 to 16 form part of the condensed consolidated financial statements.

# NOTES TO THE CONDENSED SET OF CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

The financial information for the 6 month period ended 30 September 2012 and similarly the period ended 30 September 2011 has neither been audited nor reviewed by the auditor. The financial information for the year ended 31 March 2012 has been based on information in the audited financial statements for that year.

The financial information for the year ended 31 March 2012 does not constitute the statutory accounts for that year, but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies. The auditor reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) Companies Act 2006.

## 2 ACCOUNTING POLICIES

### Basis of preparation

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

The results for the period ended 30 September 2012 have been prepared using the same method of computation and on the basis of accounting policies consistent with those set out in the Annual Report and Consolidated Financial Statements of North West Electricity Networks (Holdings) Limited for the year ended 31 March 2012. No further revised standards or interpretations have been issued which impact the financial statements since March 2012.

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

### Going concern

When considering continuing to adopt the going concern basis in preparing the half year condensed consolidated financial statements for the six months ended 30 September 2012, the directors have taken into account a number of factors, including the following:

- Electricity North West Limited's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating and this has been maintained through the period under review;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- Management has prepared, and the directors have reviewed, updated Group forecasts for the regulatory period to 31 March 2015 which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty, our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue, and demonstrate that there is sufficient headroom to key covenants and that sufficient resources are available within the forecast period;

# Notes *(continued)*

## 2 ACCOUNTING POLICIES (CONTINUED)

### Going concern *(continued)*

- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, committed undrawn bank facilities of £55.0m within ENWL, £216.4m within NWEN Limited and £20m in the Company are available from lenders which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 March 2015 indicate there is significant headroom;

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

- The Board has given detailed consideration to the principal risks and uncertainties affecting the Group and Company, as referred to in the interim management report, and all other factors which could impact on the Group and the Company's ability to remain a going concern; and

- The Group Statement of Financial Position shows net current liabilities at 30 September 2012. The net liability position arises due to a number of non-cash items including the defined benefit pension scheme and fair value movement on liabilities.

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

### Significant accounting policies

There are no new significant accounting policies and standards to be adopted for the six month period ended 30 September 2012.

# Notes *(continued)*

## 3 OPERATING SEGMENTS

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

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

## 4 INVESTMENT INCOME

| | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|
| Interest receivable on short-term bank deposits held at amortised cost | **0.3** | 1.2 | 1.9 |
| Expected return on pension scheme assets | **26.3** | 25.8 | 52.4 |
| Interest cost on pension scheme obligations | **(24.6)** | (24.7) | (49.8) |
| Total investment income | **2.0** | 2.3 | 4.5 |

## 5 FINANCE EXPENSE

| | **Unaudited Six months ended 30 September 2012 £000** | Unaudited Six months ended 30 September 2011 £000 | Audited Year ended 31 March 2012 £000 |
|---|---|---|---|
| **Interest payable** | | | |
| Interest payable on Group borrowings | **10.3** | 10.3 | 20.5 |
| Interest payable on borrowings held at amortised cost | **31.0** | 32.9 | 63.8 |
| Interest payable on borrowings designated at fair valu through profit and loss | **-** | - | 22.2 |
| Net receipts on derivatives held for trading | **(1.9)** | (2.1) | (11.2) |
| Other finance charges related to index linked debt | **3.1** | 6.8 | 12.3 |
| Capitalisation of borrowing costs under IAS 23 | **-** | (0.1) | (0.6) |
| | **42.5** | 47.8 | 107.0 |
| **Fair value movements on financial instruments** | | | |
| Borrowings designated at fair value through profit and loss | **20.1** | 24.2 | 30.2 |
| Derivatives held for trading | **6.9** | 29.9 | 50.4 |
| Cash settlement on close-out of amortising swaps | **-** | (1.8) | (1.8) |
| Accretion payable on index-linked swaps | **10.3** | - | - |
| **Total fair value movements** | **37.3** | 52.3 | 78.8 |
| **Total finance expense** | **79.8** | 100.1 | 185.8 |

## Notes *(continued)*

### 6 TAXATION

| | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|
| **Current tax:** | | | |
| UK corporation tax: | | | |
| Current period/year | **5.2** | 1.6 | - |
| Prior period/year | **-** | - | (9.3) |
| | **5.2** | 1.6 | (9.3) |
| **Deferred tax:** | | | |
| Current period/year | **(6.3)** | (6.2) | (0.6) |
| Prior period/year | **-** | - | 2.0 |
| Impact from change in future tax rates | **(10.7)** | (15.6) | (32.3) |
| | **(17.0)** | (21.8) | (30.9) |
| Credit for the period/year | **(11.8)** | (20.2) | (40.2) |

Corporation tax is calculated at 24% (period ended 30 September 2011: 26%, year ended 31 March 2012: 26%) being the best estimate of the effective tax rate for the full financial year.

The tax charge in future periods will be affected by the announcement on 21 March 2012 that the corporation tax main rate will be reduced 1% annually until 1 April 2014 when the rate will be 22%.

Tax rate changes are taken into account if they are substantively enacted at the statement of financial position date. The reduction to 24% was included in a resolution passed under the Provisional Collection of Taxes Act 1968 on 26 March 2012. Accordingly the tax disclosures reflect deferred tax measured on the new 24% rate, resulting in a credit of £10.7m.

### 7 DIVIDENDS

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

| | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|
| Interim dividends for the period/year | **12.0** | - | 15.0 |

### 8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent £94.8m (period ended 30 September 2011: £94.9m, year ended March 2012: £222.0m) on additions to property, plant and equipment as part of its capital programme for replacing its operating network and capitalised £nil (period ended 30 September 2011: £0.1m, year ended March 2012: £0.6m) of interest, in accordance with IAS 23.

## Notes *(continued)*

### 9 BORROWINGS

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

| | **Unaudited 30 September 2012 £m** | Unaudited 30 September 2011 £m | Audited 31 March 2012 £m |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank and other term borrowings | **310.2** | 305.6 | 308.5 |
| Bonds | **1,197.2** | 1,164.8 | 1,174.9 |
| | **1,507.4** | 1,470.4 | 1,483.4 |
| **Current liabilities** | | | |
| Amounts owed to parent undertaking | **509.7** | 508.7 | 509.7 |
| | **2,017.1** | 1,979.1 | 1,993.1 |

As at 30 September 2012 £236.4m of capex bank facility remains undrawn (period ended 30 September 2011: £236.4m, year ended 31 March 2012: £236.4m).

## Notes *(continued)*

### 10 CASH GENERATED FROM OPERATIONS

| | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|
| Operating profit | **99.2** | 78.9 | 179.9 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | **43.3** | 38.9 | 84.3 |
| Amortisation of intangible assets | **2.4** | 1.8 | 8.3 |
| Amortisation of customer contributions[1] | **(2.1)** | (1.9) | (3.6) |
| Profit on disposal of property, plant and equipment | **-** | 0.1 | (0.6) |
| Cash contributions in excess of/less than pension charge to operating profit | **(9.4)** | 9.2 | (43.1) |
| Operating cash flows before movement in working capital | **133.4** | 127.0 | 225.2 |
| Changes in working capital: | | | |
| Increase in inventories | **(0.1)** | (0.6) | (1.2) |
| Decrease in trade and other receivables | **3.6** | 24.6 | 25.0 |
| Decrease in trade and other payables | **(19.7)** | (44.7) | (0.4) |
| Cash generated from continuing operations | **117.2** | 106.3 | 248.6 |

[1]In the 6 months ended 30 September 2012 £1.2m (period ended September 2011: £0.9m, year ended March 2012: £1.9m) of customer contributions amortisation has been amortised through revenue as a result of the adoption of IFRIC 18.

### 11 RETIREMENT BENEFIT SCHEMES

**Defined benefit schemes**

The defined benefit obligation is calculated using the latest actuarial valuation as at 31 March 2012 and has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 30 September 2012. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. The defined benefit plan assets have been updated to reflect their market value as at 30 September 2012.

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

## Notes *(continued)*

### 12 RELATED PARTIES

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

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

| | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|
| Interest Payable to North West Electricity Networks (Finance) Limited | **10.1** | 10.1 | 10.1 |
| Dividends to NWEN Finance | **12.0** | - | 15.0 |
| Directors' fees to Colonial First State | **0.1** | 0.1 | 0.1 |
| Recharges to group companies (COMA) | **0.2** | 0.1 | 0.4 |

Fees of £0.1m (September 2011: £0.1m, March 2012: £0.1m) were payable to Colonial First State in respect of the provision of directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party.

Amounts outstanding between the Group and other companies within the North West Electricity Networks (Jersey) Group:

| | **Unaudited Six months ended 30 September 2012 £m** | Unaudited Six months ended 30 September 2011 £m | Audited Year ended 31 March 2012 £m |
|---|---|---|---|
| Amounts owed to North West Electricity Networks (Finance) Limited | **509.7** | 508.7 | 509.7 |
| Amounts owed by COMA | **0.2** | 0.1 | 0.3 |

The loans from related parties comprise amounts loaned from North West Electricity Networks (Finance) Limited. £200.0 million carries interest at 10% per annum and £309.7 million is interest free. (September 2011: £200.0 million carries interest at 10% per annum and £308.7 million is interest free, March 2012: same).

# Notes *(continued)*

## 13 CONTINGENT LIABILITY AND EVENTS AFTER THE BALANCE SHEET DATE

ENWL previously held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to a third party but retains a potential liability for lease obligations for 39 of those premises. The 39 properties have lease expiry dates ranging from 2013 to 2021. As a result of marketing these properties following the Comet Group administration, ENW currently retains a potential liability for lease obligations for 36 of these properties of which 28 are currently vacant.

At the balance sheet date, the directors considered the probability of any economic outflow for the Company resulting from these lease obligations to be possible rather than probable and accordingly no provision has been recorded in the financial statements at 30 September 2012 in this regard. However, following the period end, the financial circumstances of the third party changed with the entity ceasing to trade and leaving 28 of the 39 properties vacant (the others being subject to further sub-let arrangements). Therefore on 31 December 2012, following a number of notices being served on ENWL, the directors concluded that the probability of an economic outflow for the Company in relation to the leases was probable and hence a provision of £21.9m, based on the directors' best estimate of the likely liability, was recorded on that date. This figure is subject to a significant degree of uncertainty as it involves making judgements on 39 individual retail premises, the period of vacant possession and negotiations with individual landlords, letting agents and tenants.

The total annual accommodation cost, which includes rent, rates, service charge, insurance and maintenance, for the 28 vacant properties for the next twelve months is approximately £7m. Based on ENW's risk assessment which considers the location and size of the stores, expectations regarding the ability to both defend its position and also to re-let the properties, cash exposure is forecast to peak at approximately £7m in the first year with a total long term probable total exposure of between £20m and £25m spread over a period to 2021.

The total discounted value of all potential liabilities would be approximately £59.6m profiled over eight years from 2013 to 2021. The total undiscounted value would be £72m.

The directors will assess the continued appropriateness of the provision on an ongoing basis in light of further changes in the prevailing circumstances.

## 14 CASH FLOW HEDGE

The Group has a single cash flow hedge relationship. The hedged item is the £121.0m floating rate (LIBOR plus 1.50%) loan maturing December 2014, at NWENH. The hedging instruments are interest rate swaps with a total notional amount of £121.0m, under which NWENH receives floating (six month LIBOR) and pays fixed 3.4652%. The fair value of the swaps at 30 September 2012 was a £7.9m liability (2011: £8.4m liability). These swaps hedge the Group's exposure to interest rate risk (fluctuations in six month LIBOR) in relation to the variability of interest payments on the £121.0m loan, by converting the floating interest rate payable to a fixed interest rate, ensuring the certainty of cash flows. The cash flows under the swaps are settled on a net basis.

The interest rate swaps settle on a semi-annual basis, beginning in December 2010 until maturity in December 2014 and, therefore, will affect profit or loss on this basis.

The cash flow hedge is 100% effective and there is £nil (2011: £nil) ineffectiveness recognised in profit or loss. All fair value movements have been recognised in equity. The net amount recognised in the cash flow hedge reserve (a component of equity) for the period to 30 September 2012 is £0.2m loss (2011: £3.9m loss), with the net cash interest settlement of £1.3m expense (2011: £1.5m expense) recognised in profit or loss.

**Company Registration No. 6428534**

# NORTH WEST ELECTRICITY NETWORKS (HOLDINGS) LIMITED

## Annual Report and Consolidated Financial Statements

## for the year ended 31 March 2012

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

The information supplied in the Directors' Report has been drawn up and presented in accordance with English company law. The liabilities of the Directors in connection with that Report shall be subject to the limitations and restrictions provided by such law.

### Cautionary statement regarding forward-looking statements

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

### Website and Investor Relations

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

## Contents

## Directors' Report

The Directors present their annual report and the audited financial statements of North West Electricity Networks (Holdings) Limited (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 March 2012.

### Business review and principal activities

North West Electricity Networks (Holdings) Limited ('NWENH') acts as a holding company for the Group and is a non-trading entity.

During the prior year, the Group made an acquisition: Electricity North West Services Limited ('ENWSL') on 30 June 2010, which brought the operations and maintenance business into the Group. The prior year results therefore include five months of trade in respect of this entity. See note 27 for further details.

The Group's principal activity is the operation and maintenance of the North West's electricity distribution network. The distribution of electricity is regulated by the terms of Electricity North West Limited's ('ENWL's') Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority. ENWL is an indirectly held subsidiary of the Company.

The Group also includes two financing companies which have Notes in issue and are listed on the London Stock Exchange. These companies are Electricity North West Finance plc ('ENW Finance') and Electricity North West Capital Finance plc ('ENW Capital Finance'), which are entities within the North West Electricity Networks (Jersey) Limited group. Following the issue of Notes, ENW Capital Finance lent the net proceeds to its immediate parent company North West Electricity Networks Limited ('NWENL') and ENW Finance lent the net proceeds to a fellow Group subsidiary and affiliated company, ENWL.

The Directors, in preparing the Business Review, have not sought to comply with the Accounting Standard Board's 2006 Reporting Statement on operating and financial reviews.

### *Key performance indicators*

The performance of the Group is monitored by the Board of Directors by reference to key performance indicators.

Performance against these measures for the year ended 31 March 2012 is set out in the following table:

| | **2012** | 2011 |
|---|---|---|
| Revenue | **£405m** | £394m |
| Operating profit | **£180m** | £201m |
| Profit before tax and fair value movements | **£77m** | £113m |
| (Loss)/profit before tax | **(£1m)** | £84m |
| RAV Gearing[1] | **87%** | 91% |
| Interest cover[2] | **1.6 times** | 2.2 times |

(1) RAV Gearing is measured as borrowings, including accretion, at nominal value net of cash and short-term deposits divided by the allowed Regulatory Asset Value ('RAV') of £1,519m (2011: £1,403m) based on March closing prices.

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

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

For an understanding of the Group's operational performance, non-financial key performance indicators are presented for ENWL and are disclosed in the annual report and consolidated financial statements of that company.

*Revenue*

Revenue has increased to £405m as a result of the timing and recovery of DPC5 allowed revenues. An over-recovery of revenue in the prior year which arose due to a combination of price mix and volume changes has been passed back to customers through reduced pricing in the year ending 31 March 2012 partially offsetting the increase in allowed revenue. Another contributing factor to the increase in revenue in the year is a £5.7m increase in non trading rechargeable (NTR) revenue.

Under recovery at 31 March 2012 was £13m (2011: £14m over-recovery). This under recovery will be recovered through increased pricing in the next two years.

## Directors' Report *(continued)*

*Operating profit*

Operating profit has decreased to £180m (2011: £201m) as a result of an increase in:

- the planned level of network maintenance activities;
- the increasing frequency of metal theft;
- certain costs, which under regulatory rules are allowed to be passed through to customers, have increased. Approximately half of this increase was factored into prices for the year ended March 2012 whilst the remainder is included within the under recovery position noted above; and
- depreciation charges have increased in the year due to the commissioning of the IT refresh programme in addition to increased network spend.

*Profit before tax and fair value movements*

Profit before tax and fair value movements has fallen as a result of reduced operating profit and increased finance expense. The increase in finance expense principally arises from increased RPI, and therefore increased charges on the index linked facilities and contracted reduced receipts on interest rate swaps.

*(Loss)/profit before tax*

The 31 March 2012 position reflects adverse fair value movements of £79m on financial instruments (2011: £29m).

*Taxation*

The Government announced on 21 March 2012 that the UK corporation tax rate will reduce from 26% to 24%, effective from 1 April 2012. The reduction in corporation tax rate contributes to a deferred tax credit to the Group's income statement of £32m.

The prior year corporation tax credit arises as a result of changes between the estimated tax position in prior year Statutory Accounts and the final tax computation position due primarily to work done during the year on the optimisation of capital allowance and research and development tax claims. This is partly offset by the prior year deferred tax charge.

### Profit and dividends

The results for the year, set out in the Consolidated Income Statement on page 10, show that profit for the year after tax was £39m (2011: £93m).

The Company paid an interim dividend of £15m (2011: £6m). The Directors do not propose a final dividend for the year ended 31 March 2012 (2011: £nil).

### Liquidity

The Group's primary source of liquidity is from Group operations and from funding raised through external borrowings.

ENWL has an agreed regulatory price control to 2015 which provides certainty for a large majority of the Group's revenues from ongoing operations, providing both a stable and a predictable source of funds.

*Short-term liquidity*

Short-term liquidity requirements are met from the Group's normal operating cashflows. Further liquidity is provided by cash and short-term deposit balances. In total at 31 March 2012, unutilised committed facilities of £236m (2011: £150m), together with £85m (2011: £204m) of cash and short-term deposits provide substantial short-term liquidity for the Group and Company.

Utilisation of undrawn facilities is with reference to RAV gearing restrictions for the Group.

*Long-term liquidity*

The Group's term debt was £1,483m at 31 March 2012 compared with £1,490m at 31 March 2011. Amounts repayable after more than five years comprise bonds and bank loans.

The Group's long term borrowings net of cash and short-term deposits of £1,398m at 31 March 2012 (2011: £1,286m) comprised substantially all bonds and bank loans with medium to long-term maturities.

The bonds include those at nominal value of £450m at 8.875 per cent that mature in 2026, £100m of 1.4746 per cent index-linked bonds maturing in 2046, £200m at 6.125 per cent that mature in 2021 and bonds which have nominal value of £300m at 6.75 per cent that mature in 2015. The bank loans amount to £309m (2011: £353m), of which £nil (2011: £nil) matures within one year, £140m (2011: £79m) matures in more than one year but less than two years and £169m (2011: £274m) matures in more than two years.

## Directors' Report *(continued)*

*Long-term liquidity (continued)*

The Group's long-term borrowings mature at dates between 2014 and 2046. The Group's long-term debt ratings have remained stable. Currently ENWL and ENW Finance plc are rated BBB+ with stable outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and A- with stable outlook by Fitch Ratings. ENW Capital Finance plc is rated BBB+ by Fitch and the Company is rated BBB with stable outlook by both Standard and Poor's and Fitch. Our short-term debt ratings are A-2 and F2 with Standard and Poor's and Fitch Ratings respectively.

### Treasury policy

The Group's treasury function operates with the delegated authority of, and under policies approved, by the Board. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available in line with policy and to maintain the agreed targeted headroom to key financial ratios. Long-term borrowings are at fixed rates to provide certainty or are indexed to inflation to match the Group's inflation-linked ('RPI') cash flows.

### Treasury operations

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

*Credit (counterparty) risk management*

Exposure limits with counterparties are reviewed regularly. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group's exposure and the credit ratings of its counterparties are monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

*Market risk management*

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

Derivatives are used to hedge exposure to fluctuations in interest rates and inflation. A derivative is a financial instrument, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date. At present, the Group uses interest rate swaps to manage interest rate risk and inflation swaps to convert fixed rate debt to index-linked borrowing. The Group has one portfolio of financial instruments designated in a formal cash flow hedge relationship.

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

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

Given that the regulated revenue which ENWL earns is linked to inflation, the Group has sought to match a proportion of the cost of funding the business using a combination of an inflation-linked bond and new long term inflation-linked bank loan 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 cash inflows and outflows. Therefore, some exposure to movement in inflation rates remains.

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

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

This has led to net fair value losses of £79m being recognised in the income statement for this year (2011: £29m). Of this £81m has no cash flow impact and £2m is a cash receipt due to close out of swaps.

## Directors' Report *(continued)*

### Principal risks and uncertainties

The Board considers the following risks to be the principal ones that may affect the Group's performance and results, in addition to the financial risks described above and those identified in the ENWL accounts.

The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that Company, and ultimately the Group, are discussed in the ENWL Annual Report and consolidated financial statements, which are available on our website, www.enwl.co.uk.

*Failure to comply with investor and banking covenants*

The Group has a comprehensive set of covenants contained within the legal agreements surrounding the external borrowings. A detailed review of all the covenants has been undertaken and appropriate owners identified within the business who are responsible for ensuring compliance.

*Failure to comply with investor and banking covenants (continued)*

A compliance reporting regime is well established and the compliance status is reviewed and approved by the CFO and CEO, and is reported to the Board on a monthly basis. There have been no covenant breaches in the current year. Further, there are no covenant breaches forecast nor expected in the most recent approved business plan to 31 March 2015.

*Refinancing*

The Company is a subsidiary within a group of companies established specifically for the purpose of purchasing ENWL on 19 December 2007. The purchase was financed by a combination of equity and bank acquisition finance. The Group and the Company are financed largely by long-term external funding, and this, together with the present cash position and committed undrawn facilities, provides the appropriate liquidity platform to allow the Company and Group to meet their operational and financial commitments for the foreseeable future.

### Employees

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

The Group is committed to employee's health and safety as well as providing equality of opportunity in learning and development. We are committed to developing a nurturing culture in which employees feel valued to reach their full potential and to understand how their own contribution adds value to the Group.

The Group sets policies and encourages a working culture that recognises, respects, values and harnesses diversity for the benefit of the Group and the individual, and we are committed to integrating equality and diversity into all that we do. Our aim is to ensure that our workforce reflects the population to whom we provide a service. The Group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, equal consideration is given to applicants with disabilities in the Group's employment criteria. The business will modify equipment and practices wherever it is safe and practical to do so, both for new employees and for those employees that become disabled during the course of their employment.

### Environment, social and community

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

### Directors

The Directors of the Company during the year ended 31 March 2012 are set out below. Directors were appointed for the whole year and to the date of this report except where otherwise indicated.

S Johnson

M McCallion

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

## Directors' Report *(continued)*

### Going concern

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

- Management has prepared, and the Directors have reviewed, updated Group forecasts for the DPC5 period which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty, our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue, and demonstrate that there is sufficient headroom to key covenants and that sufficient resources are available within the forecast period;
- ENWL's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000; and
- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, committed undrawn bank facilities are available from lenders which have a maturity of more than one year of £55m within Electricity North West Limited, £121m in North West Electricity Networks Limited and £20m in the Company. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 March 2015 indicate there is significant headroom.

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

### Directors' and Officers' insurance

The Group maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006.

### Political and charitable donations

The Company and Group made no political donations in the year (2011: £nil).

Charitable donations by the Group in the year amounted to £4,700 (2011: £11,000) in support of causes in the local communities in which it operates. The Company made no charitable donations in the year (2011: £nil).

### Essential contractual relationships

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

### Policy on the payment of suppliers and creditors

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

As at 31 March 2012, the average credit period taken by ENWL for trade purchases was 20 days from receipt of invoice (2011: 23 days).

### Research and development

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

### Financial instruments

The risk management objectives and policies of the Group and the Company in relation to the use of financial instruments can be found above and in note 17 to the financial statements.

## Directors' Report *(continued)*

### Capital Structure

See note 25 for details of the Company's capital structure.

### Events after the balance sheet date

At the balance sheet date, ENWL had index-linked swaps totalling £200m notional, with a single accretion payment on maturity in 2038. At that date the swaps had mandatory breaks as follows; £66m notional in July 2013, £66m notional in July 2016 and £68m notional in July 2019. On these break dates, ENWL could have been liable to pay the full mark-to-market value of the swaps to the swap counterparties.

On 2 May 2012, the £66m notional with a mandatory break in July 2013 was re-structured to remove the mandatory break clause and to convert to a 'pay-as-you-go' profile, with accretion paydowns scheduled every five years from July 2012 until maturity in 2038, rather than a single payment on maturity. The real-rate coupon payable was also amended on re-structure.

The index-linked swaps meet the IAS39 definition of a derivative and are, therefore, accounted for at fair value through profit or loss. At the balance sheet date, i.e. prior to re-structure, the £66m notional index-linked swaps were included in the Statement of Financial Position as a £35.3m liability, part of the derivative liabilities totalling £126.1m. On 2 May 2012, immediately prior to re-structure, these swaps were a £33.8m liability. The impact of the re-structure was to increase the £33.8m liability by £45.9m, to £79.7m. The £45.9m impact is a non-cash fair value movement through the income statement post the balance sheet date.

### Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have also chosen to prepare the parent company financial statements under IFRs as adopted by the EU. 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 period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

## Directors' Report *(continued)*

### Information given to auditor

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

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted within the provisions of s418 of the Companies Act 2006.

### Independent Auditor

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

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

### Registered address

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

Registered number: 6428534

Approved by the Board on 1 June 2012 and signed on its behalf by:

S Johnson

**S Johnson**
Director

## Independent auditor's report to the members of North West Electricity Networks (Holdings) Limited

We have audited the financial statements of North West Electricity Networks (Holdings) Limited for the year ended 31 March 2012 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity and the Consolidated and Company Statement of Cash Flows and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditor

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

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

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

1 June 2012

# CONSOLIDATED INCOME STATEMENT
## For the year ended 31 March 2012

| | Note | Group 2012 £m | Group 2011 £m |
|---|---|---|---|
| **Revenue** | 2 | **404.6** | 393.7 |
| Employee costs | 3,4 | **(35.3)** | (33.9) |
| Depreciation and amortisation expense (net) | 3 | **(90.9)** | (77.8) |
| Other operating costs | 3 | **(98.5)** | (81.3) |
| **Total operating expenses** | | **(224.7)** | (193.0) |
| **Operating profit** | 3 | **179.9** | 200.7 |
| Investment income | 5 | **4.5** | 2.2 |
| Finance expense | 6 | **(185.8)** | (118.9) |
| **(Loss) / profit before taxation** | | **(1.4)** | 84.0 |
| Taxation | 7 | **40.2** | 8.7 |
| **Profit for the year attributable to the owners of the company** | 24 | **38.8** | 92.7 |

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

# CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

## For the year ended 31 March 2012

| | Note | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|---|
| Profit for the financial year | | **38.8** | **14.6** | 92.7 | 14.1 |
| **Other comprehensive income/(expense):** | | | | | |
| Actuarial (losses)/gains on defined benefit pension schemes | *19* | **(18.6)** | **-** | 84.4 | - |
| Fair value loss on cash flow hedges | *17* | **(3.2)** | **(3.2)** | (1.4) | (1.4) |
| Deferred tax on actuarial gains/(losses) on defined benefit pension schemes taken directly to equity | *20* | **4.5** | **-** | (22.0) | - |
| Deferred tax on fair value loss on cash flow hedges taken directly to equity | *20* | **0.7** | **0.7** | 0.4 | 0.3 |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | *20* | **(1.3)** | **-** | (3.0) | (0.1) |
| **Other comprehensive (expense)/income for the year** | | **(17.9)** | **(2.5)** | 58.4 | (1.2) |
| **Total comprehensive income for the year and attributable to equity holders** | | **20.9** | **12.1** | 151.1 | 12.9 |

# CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
## At 31 March 2012

| | Note | Group 2012 £m | Company 2012 £m | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets and goodwill | 10 | **224.4** | - | 216.6 | - |
| Property, plant and equipment | 11 | **2,445.7** | - | 2,325.0 | - |
| Investments | 12 | - | **3.0** | - | 3.0 |
| Deferred tax asset | 20 | - | **1.9** | - | 1.2 |
| | | **2,670.1** | **4.9** | 2,541.6 | 4.2 |
| **Current assets** | | | | | |
| Inventories | 13 | **6.8** | | 5.6 | - |
| Trade and other receivables | 14 | **53.7** | **670.2** | 78.3 | 669.7 |
| Money market deposits | 15 | **25.0** | - | 76.2 | - |
| Cash and cash equivalents | 15 | **59.7** | **0.1** | 127.8 | - |
| Derivative financial instruments | 17 | - | - | 1.0 | - |
| Current income tax asset | | **15.0** | **0.1** | - | 0.4 |
| | | **160.2** | **670.4** | 288.9 | 670.1 |
| **Total assets** | | **2,830.3** | **675.3** | 2,830.5 | 674.3 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | 16 | **(509.7)** | **(509.7)** | (508.7) | (508.7) |
| Trade and other payables | 18 | **(131.8)** | **(10.8)** | (146.0) | (11.4) |
| Current income tax liabilities | | **(0.1)** | - | (9.5) | - |
| | | **(641.6)** | **(520.5)** | (664.2) | (520.1) |
| **Net current (liabilities)/assets** | | **(481.4)** | **149.9** | (375.3) | 150.0 |
| **Non-current liabilities** | | | | | |
| Borrowings | 16 | **(1,483.4)** | **(140.1)** | (1,490.5) | (139.7) |
| Derivative financial instruments | 17 | **(149.9)** | **(7.6)** | (97.3) | (4.5) |
| Deferred tax liabilities | 20 | **(368.0)** | - | (402.8) | - |
| Customer contributions | 21 | **(157.6)** | - | (126.5) | - |
| Refundable customer deposits | 22 | **(3.4)** | - | (1.6) | - |
| Retirement benefit obligation | 19 | **(14.2)** | - | (41.3) | - |
| | | **(2,176.5)** | **(147.7)** | (2,160.0) | (144.2) |
| **Total liabilities** | | **(2,818.1)** | **(668.2)** | (2,824.2) | (664.3) |
| **Net assets** | | **12.2** | **7.1** | 6.3 | 10.0 |
| **EQUITY** | | | | | |
| Share capital | 23, 24 | **3.0** | **3.0** | 3.0 | 3.0 |
| Retained earnings | 24 | **15.0** | **9.9** | 6.6 | 10.3 |
| Hedging Reserve | 24 | **(5.8)** | **(5.8)** | (3.3) | (3.3) |
| **Total equity** | 24 | **12.2** | **7.1** | 6.3 | 10.0 |

The financial statements of North West Electricity Network (Holdings) Limited (registered number 6428534) were approved by the board of directors on 1 June 2012 and signed on its behalf by:

**M McCallion**
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 March 2012

### Group

| | Note | Share capital £m | Retained (deficit)/ earnings £m | Hedging reserve £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 April 2010 | | 3.0 | (142.1) | - | (139.1) |
| Transfer[1] | | | 2.2 | (2.2) | - |
| Profit for the year | | - | 92.7 | - | 92.7 |
| Actuarial gains on defined benefit schemes | 19 | - | 84.4 | - | 84.4 |
| Fair value loss on cash flow hedges | 17 | - | - | (1.4) | (1.4) |
| Tax on components of comprehensive income | 20 | - | (24.9) | 0.3 | (24.6) |
| Total comprehensive income/(expense) for the year | | - | 154.4 | (3.3) | 151.1 |
| **Transactions with owners recorded directly in equity** | | | | | |
| Equity dividends | 8 | - | **(5.7)** | **-** | (5.7) |
| At 31 March 2011 | | **3.0** | **6.6** | **(3.3)** | **6.3** |
| Profit for the year | | - | 38.8 | - | 38.8 |
| Actuarial losses on defined benefit schemes | 19 | - | (18.6) | - | (18.6) |
| Fair value loss on cash flow hedges | 17 | - | - | (3.2) | (3.2) |
| Tax on components of comprehensive income | 20 | - | 3.2 | 0.7 | 3.9 |
| **Total comprehensive income/(expense) for the year** | | **-** | **23.4** | **(2.5)** | **20.9** |
| **Transactions with owners recorded directly in equity** | | | | | |
| Equity dividends | 8 | - | (15.0) | - | (15.0) |
| **At 31 March 2012** | | **3.0** | **15.0** | **(5.8)** | **12.2** |

[1] The transfer from the opening retained deficit in the prior year relates to the opening position on fair value losses, net of deferred tax, in respect of cash flow hedges which were reclassified in the prior year in order to provide increased transparency in the financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 March 2012

### Company

| | Note | Called up share capital £m | Retained (deficit)/ earnings £m | Hedging reserve £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 April 2010 | | 3.0 | (0.2) | - | 2.8 |
| Transfer[1] | | - | 2.2 | (2.2) | - |
| Profit for the year | | - | 14.1 | - | 14.1 |
| Fair value loss on cash flow hedges | 17 | - | - | (1.4) | (1.4) |
| Tax on components of comprehensive income | 20 | - | (0.1) | 0.3 | 0.2 |
| Total comprehensive expense for the year | | - | 16.2 | (3.3) | 12.9 |
| **Transactions with owners recorded directly in equity** | | | | | |
| Equity dividends | 8 | - | (5.7) | - | (5.7) |
| At 31 March 2011 | | 3.0 | 10.3 | (3.3) | 10.0 |
| Profit for the year | | - | 14.6 | - | 14.6 |
| Fair value loss on cash flow hedges | 17 | - | - | (3.2) | (3.2) |
| Tax on components of comprehensive income | 20 | - | - | 0.7 | 0.7 |
| **Total comprehensive income/(expense) for the year** | | - | 14.6 | (2.5) | 12.1 |
| **Transactions with owners recorded directly in equity** | | | | | |
| Equity dividends | 8 | - | (15.0) | - | (15.0) |
| **At 31 March 2012** | | **3.0** | **9.9** | **(5.8)** | **7.1** |

[1] The transfer from the opening retained deficit relates to the opening position on fair value losses, net of deferred tax, in respect of cash flow hedges which were reclassified in the prior year in order to provide increased transparency in the financial statements.

# CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
## For the year ended 31 March 2012

| | Note | Group 2012 £m | Company 2012 £m | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Cash generated from operations | 29 | **248.6** | **(0.6)** | 243.6 | - |
| Interest paid | | **(95.7)** | **(27.2)** | (97.4) | (25.3) |
| Tax paid | | **(15.3)** | **(0.1)** | (20.7) | - |
| **Net cash generated from/(used in) operating activities** | | **137.6** | **(27.9)** | 125.5 | (25.3) |
| **Investing activities** | | | | | |
| Interest received and similar income | | **1.6** | **27.0** | 1.0 | 25.2 |
| Dividend received | | **-** | **15.0** | - | 14.0 |
| Purchase of property, plant and equipment | | **(222.0)** | **-** | (173.9) | - |
| Acquisition of subsidiary, net of cash acquired | 27 | **(2.0)** | **-** | (14.3) | - |
| Purchase of intangible assets | | **(0.8)** | **-** | (3.0) | - |
| Customer contributions received | | **30.3** | **-** | 37.1 | - |
| Proceeds from sale of property, plant and equipment | | **0.6** | **-** | 0.6 | - |
| **Net cash (used in)/generated from investing activities** | | **(192.3)** | **42.0** | (152.5) | 39.2 |
| **Financing activities** | | | | | |
| Dividend paid | | **(15.0)** | **(15.0)** | (5.7) | (5.7) |
| Transfer from / (to) money market deposits | | **51.2** | **-** | (76.2) | - |
| Proceeds from borrowings | | **28.6** | **1.0** | 150.0 | 10.1 |
| Repayment of borrowings | | **(80.0)** | **-** | (25.0) | (18.4) |
| Receipt on close out of swap | | **1.8** | **-** | - | - |
| **Net cash (used in)/generated from financing activities** | | **(13.4)** | **(14.0)** | 43.1 | (14.0) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(68.1)** | **0.1** | 16.1 | (0.1) |
| **Cash and cash equivalents at beginning of the year** | 15 | **127.8** | **-** | 111.7 | 0.1 |
| **Cash and cash equivalents at end of the year** | 15 | **59.7** | **0.1** | 127.8 | - |

# NOTES TO THE FINANCIAL STATEMENTS

North West Electricity Networks (Holdings) Limited is a company incorporated in the United Kingdom under the Companies Act.

## 1. ACCOUNTING POLICIES

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

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union, including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments.

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

### Basis of preparation – going concern basis

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

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### 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:

- IAS24 (Nov 2009) Related Party Disclosures;
- IAS 32 (amended) Classification of Rights Issues;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
- IFRIC 14 (amended) Prepayments of a Minimum Funding Requirement;
- Improvements to IFRSs (May 2010).

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

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

- IFRS 9 'Financial Instruments';
- Amendments to IFRS 7 'Financial Instruments; Disclosures' on transfers of financial assets;
- Amendment to IFRS 1 'First time adoption' on fixed dates and hyperinflation;
- Amendment to IAS 12 'Income Taxes' on deferred tax: recovery of underlying assets;
- Amendment to IAS 1 'Financial Statement Presentation' regarding other comprehensive income;
- Amendment to IAS 19 'Employee Benefits';
- IFRS 10 'Consolidated Financial statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosures of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS 27 (revised 2011), 'Separate Financial Statements'; and
- IAS 28 (revised 2011) 'Associates and Joint Ventures'.

### Basis of consolidation

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

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

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

## Notes *(continued)*

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

#### Subsidiaries

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

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

#### Business combinations and goodwill

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

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment, this is because it has an indefinite life.

#### Intangible assets

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

Amortisation periods for categories of intangible assets are:

| | |
|---|---|
| Licence | Indefinite life |
| Computer software | 3-10 years |

Intangible assets under construction are not amortised. Amortisation commences from the date the intangible asset is available for use.

#### 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 *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment *(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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

| | |
|---|---|
| Buildings | 30-60 years |
| Fixtures and equipment, vehicles and other | 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 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 cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

### Inventories

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

### Financial instruments

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

### Trade receivables

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

# 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.

### Money market deposits

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

### Financial investments

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

### Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

### Investments (Company only)
Investments in subsidiary undertakings are stated at cost less any provisions for permanent diminution in value. Dividends received and receivable are credited to the Company's income statement to the extent that they represent a realised profit for the Company.

### Financial liabilities and equity

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

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise. The effective interest rate is a method of calculating the amortised cost of a financial liability and of allocating interest expense to the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### Finance expense and interest 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.

Under IAS 23 borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. A qualifying asset is any major project with a projected timescale of greater than 12 months. Capitalisation commences when activities are undertaken to prepare the asset for use, and expenditure and borrowing costs are being incurred. Capitalisation ceases when substantially all of the activities necessary to prepare the intended asset for its intended use or sale are complete.

Borrowing costs capitalised in the year under IAS 23 were £0.6m (2011: £0.3m), using an average annual capitalisation rate of 6.9% (2011: 6.7%).

### Dividend income

Dividend income is recognised when the company's right to receive payment is established.

### Derivatives and Borrowings

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

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

The Group applied the fair value through profit or loss option to the £250m 8.875% 2026 bond upon initial recognition as the complexity of the associated swaps at that time meant that the criteria to allow hedge accounting was not met and the otherwise inconsistent accounting treatment that would have resulted allowed the Group to satisfy the criteria for this designation. Whilst these swaps were closed out during the year, IAS 39 does not permit the reclassification of the bond, which remains designated at fair value through profit or loss.

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

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### Derivative financial instruments and hedge accounting

Interest rate and index linked swap agreements are used to manage interest rate exposure. The Group does not use derivative financial instruments for speculative purposes. All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. Changes in the fair value of all derivative financial instruments that are not in a hedging relationship are recognised in the income statement within finance expense as they arise. The Group designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial Instruments: Recognition and Measurement' are met. The Group currently has one portfolio of financial instrument designated in a hedging relationship; to the extent that the hedging relationship is determined to be effective, the change in fair value of the derivative financial instruments is recognised directly in equity, with any ineffective portion of the gain or loss being recognised immediately in the income statement.

### Hedge accounting

There are two types of hedge accounting strategies that the Group considers; a fair value hedge and a cash flow hedge. Currently the Group has one formal hedging relationship that is designated as a cash flow hedge.

#### *Cash flow hedge*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, the effective part of any gain or loss on the derivative is recognised directly in equity. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. Hedge accounting is discontinued when the hedge designation is revoked, or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Note 17 sets out the fair value of the derivative instruments used for hedging purposes.

### Operating profit

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

### Taxation

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

#### *Current taxation*

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

#### *Deferred taxation*

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

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

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### ***Deferred taxation*** *(continued)*

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is dealt with in other comprehensive income.

### ***Retirement benefit obligations***

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

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

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

In July 2010, the government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. The Company has taken legal advice on how this change will impact the Scheme. This change was reflected in the Company's accounting figures at 31 March 2011 and a reduction in the benefit obligation of £3m was recognised in equity as a result of this change in assumptions.

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

### **Revenue recognition**

Revenue represents the fair value of the income receivable in the ordinary course of business primarily for the distribution of electricity during the year, exclusive of value-added tax. Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year end. Remaining sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

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

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

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### Customer contributions

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

### Refundable customer deposits

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

### Leases

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

### Research and development

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

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

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

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

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

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

The carrying value of property, plant and equipment (PPE) as at 31 March 2012 was £2,446m (2011: £2,325m). Additions to PPE totalled £220m (2011: £188m) and the depreciation charge was £84m in the year ended 31 March 2012 (2011: £75m). The estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful life differs materially from the estimates used to calculate depreciation, the charge is adjusted prospectively. Due to the significance of PPE investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

In the financial year ended 31 March 2012, the Directors have assessed the carrying value of both tangible and intangible fixed assets in accordance with the principles of IAS36 'Impairment of Assets'. This review was underpinned by value in use calculations on the recoverable amounts of the cash generating units ('CGUs'). For the purpose of impairment testing the Group have determined that there is only one CGU and, due to favourable operating cash flows being forecast to the end of DPCR5 and beyond, no impairment exists. Furthermore, management have completed a review of tangible fixed assets for material obsolescence and/or physical damage and no indication of impairment was identified.

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### *Accounting for provisions and contingencies*

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

ENWL held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to Comet Group Plc ('Comet') in 1996. ENWL still has a potential liability for lease obligations under privity of contract rules for 29 of those premises. It has been considered that the likelihood of Comet defaulting, and hence ENWL becoming liable for these leases is not probable. However, it could be possible and therefore a contingent liability has been disclosed in line with IAS 37, "Provisions, contingent liabilities and contingent assets". For further details refer to note 30.

### *Taxation*

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the application of tax law and the results of negotiations with, and enquiries from tax authorities.

### *Retirement benefits*

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

### *Fair values of derivative financial instruments*

The Group uses derivative financial instruments to manage the exposure to interest rate risk and bond issues. The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date.

Changes in the fair value of all derivative financial instruments that are not in a hedging relationship are recognised in the income statement within finance expense as they arise. The Group designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial; Instruments: Recognition and Measurement' are met. The Group is therefore subject to volatility in the income statement due to changes in the fair values of the derivative financial instruments. Further information is provided in note 17.

## Notes *(continued)*

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

***Impairment of goodwill***

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

During the prior year the Group acquired the share capital of ENWSL. On acquisition, in line with IFRS 3 requirements, management performed a review for intangibles as part of the assessment of fair values. For an intangible asset to be recognised it must be possible to separately identify it and also to reliably measure the value. Management did not identify any intangible assets arising as a result of the acquisition of ENWSL, and consequently the excess of the total consideration over acquired net assets, after fair value adjustments, of £10.1 million was recognised as goodwill.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The value in use calculation performed concludes that no impairment loss is required against this goodwill. The carrying amount of goodwill at the balance sheet date was £10.1m.

***Impairment of intangibles***

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

***Impairment of Investments***

Management assesses the recoverability of investments on an annual basis. The net assets at the balance sheet date of the company which the investment is held within are compared with the carrying value of the investment at the balance sheet date. Should the net assets be lower than the carrying value, this is treated as an indicator for impairment and an impairment test is conducted.

Any such impairment test would require an estimation of the value in use of the asset to the Group. The value in use calculation would require the Group to estimate the future cash flows expected to arise from the asset, discounted at a suitable rate to calculate the present value for the asset, and compare that calculation to its carrying value.

### 2. REVENUE

| | **2012** **£m** | 2011 £m |
|---|---|---|
| Revenue | **404.6** | 393.7 |

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

Included within the above are revenues of approximately £306.1m (2011: £313.9m) which arose from sales to the Group's five (2011: five) largest customers. Customer 1 represented £98.2m (2011: £98.7m), Customer 2 £78.7m (2011: £79.7m), Customer 3 £56.3m (2011: £55.6m), Customer 4 £37.8m (2011: £40.3m) and Customer 5 £35.1m (2011: £39.6m) of revenues. No other customer represented more than 10 per cent of revenues either this year or prior year.

## Notes *(continued)*

### 3. OPERATING PROFIT

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

| | 2012 £m | 2011 £m |
|---|---|---|
| **Employee costs** | | |
| Employee costs (note 4) | **35.3** | 33.9 |
| **Depreciation and amortisation expense (net)** | | |
| Depreciation of property, plant and equipment | | |
| Owned assets (note 11) | **84.3** | 75.2 |
| Amortisation of intangible assets and customer contributions | | |
| Software (note 10) | **8.3** | 4.3 |
| Customer contributions[1] (note 21) | **(1.7)** | (1.7) |
| | **90.9** | 77.8 |
| **Other income** | | |
| Profit on disposal of property, plant and equipment | **(0.6)** | (0.6) |
| **Other operating costs include:** | | |
| Research and development | **1.6** | 1.5 |
| Acquisition and restructuring costs[2] | **1.9** | 2.2 |
| Operating leases: | | |
| - Plant and Machinery | **1.3** | 0.6 |
| - land and buildings | **0.1** | 0.5 |

[1] For the year ended 31 March 2012, £1.9m (2011: £1.1m) of customer contributions have been amortised through revenue as a result of the adoption of IFRIC 18 (see note 1).
[2] Acquisition and restructuring costs include severance costs of £1.9m (2011: £1.1m) and acquisition costs totalling £nil (2011: £1.1m).

## Notes *(continued)*

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

Analysis of the auditor's remuneration is as follows:

| | **2012 £m** | 2011 £m |
|---|---|---|
| Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements | **-** | - |
| Fees payable to the Company's auditor and their associates for other services to the group | | |
| The audit of the Company's subsidiaries | **0.1** | 0.1 |
| **Total audit fees** | **0.1** | 0.1 |
| Other non-audit services | | |
| Audit related assurance services * | **0.1** | - |
| Other taxation advisory services | **-** | 0.1 |
| Corporate finance services | **-** | 0.1 |
| Other services | **-** | - |
| **Total non-audit fees** | **0.1** | 0.2 |
| **Total fees payable** | **0.2** | 0.3 |

* Fees payable to the auditor in relation to other audit related services totalled £61,000 (2011: £45,000).

Fees payable for the audit of the Company's accounts were £2,864 (2011: £4,000).

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

A contingent tax project has been undertaken during the year ended 31 March 2012, fees for the project could be up to £260,000 and are excluded from the table above pending the outcome of the services.

## Notes *(continued)*

### 4. EMPLOYEE COSTS

**Employee costs**

| | 2012 £m | 2011 £m |
|---|---|---|
| Wages and salaries | **70.5** | 51.8 |
| Social security costs | **7.0** | 3.9 |
| Pension costs (see note 19) | **11. 5** | 12.6 |
| | **89.0** | 68.3 |
| Costs transferred directly to fixed assets | **(53.7)** | (34.4) |
| **Charged to the operating expenses** | **35.3** | 33.9 |

The average monthly number of employees during the year (including executive directors)

| | 2012 Number | 2011 Number |
|---|---|---|
| Electricity distribution | **1,613** | 1,189 |

There are no employees of the Company (2011: nil).

### 5. INVESTMENT INCOME

| | 2012 £m | 2011 £m |
|---|---|---|
| Interest receivable on short-term bank deposits held at amortised cost | **1.9** | 1.0 |
| Expected return on pension scheme assets (see note 19) | **52.4** | 51.7 |
| Interest cost on pension scheme obligations (see note 19) | **(49.8)** | (50.5) |
| Net pension interest expense | **2.6** | 1.2 |
| **Total investment income** | **4.5** | **2.2** |

## Notes *(continued)*

### 6. FINANCE EXPENSE

| Group | 2012 £m | 2012 £m | 2011 £m | 2011 £m |
|---|---|---|---|---|
| **Interest payable** | | | | |
| Interest payable on bank borrowings | **-** | | 0.4 | |
| Interest payable on borrowings held at amortised cost | **63.8** | | 62.7 | |
| Interest payable on bank borrowings at fair value | **22.2** | | 22.2 | |
| Net receipts on derivatives for trading | **(11.2)** | | (20.9) | |
| Other finance charges related to index linked debt | **12.3** | | 5.3 | |
| Interest payable to Group undertakings | **20.5** | | 20.4 | |
| Capitalisation of borrowing costs under IAS 23 | **(0.6)** | | (0.3) | |
| **Total interest expense** | | **107.0** | | 89.8 |
| **Fair value movements of financial instruments** | | | | |
| Fair value movement on borrowings designated at fair value through profit or loss | **30.2** | | 6.8 | |
| Fair value movement on derivatives held for trading | **50.4** | | 22.3 | |
| Cash settlement on close-out of amortising swap | **(1.8)** | | | |
| **Total fair value movements** | | **78.8** | | 29.1 |
| **Total finance expense** | | **185.8** | | 118.9 |

In respect of the movement in fair value of borrowings designated as at fair value through profit or loss of £30.2m loss (2011: £6.8m loss), £8.6m gain (2011: £7.5m loss) is attributable to changes in credit spread assumptions which is partially offset by changes in interest rates and therefore interest payable.

## Notes *(continued)*

### 7. TAXATION

| | | **2012** **£m** | | 2011 £m |
|---|---|---|---|---|
| **Current tax:** | | | | |
| UK corporation tax - current year | **-** | | 26.0 | |
| - prior year | **(9.3)** | | (1.3) | |
| | | **(9.3)** | | 24.7 |
| **Deferred tax (note 20):** | | | | |
| Current year | **(0.6)** | | (0.9) | |
| Prior year | **2.0** | | - | |
| Impact from change in future tax rates | **(32.3)** | | (32.5) | |
| | | **(30.9)** | | (33.4) |
| | | **(40.2)** | | (8.7) |

Corporation tax is calculated at 26% (2011: 28%) of the estimated assessable profit for the period.

The prior year corporation tax credit arises as a result of changes between the estimated tax position in prior year Statutory Accounts and the final tax computation position due primarily to work done during the year on the optimisation of capital allowance and research and development tax claims. This is partly offset by the prior year deferred tax charge.

The tax charge in future periods will be affected by the announcement on 21 March 2012 that the corporation tax main rate will be reduced to 24% from 1 April 2012. The rate will be reduced by 1% annually until 1 April 2014 when the rate will be 22%.

Tax rate changes are taken into account if they are substantively enacted at the statement of financial position date. The reduction to 24% was included in a resolution passed under the Provisional Collection of Taxes Act 1968 on 26 March 2012. Accordingly the tax disclosures reflect deferred tax measured on the new 24% rate, resulting in a credit of £32.3m.

The total deferred tax credit in respect of the change from a 24% to a 22% tax rate is expected to be in the region of £30m.

## Notes *(continued)*

### 7. TAXATION (CONTINUED)

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

| | **2012 £m** | 2011 £m |
|---|---|---|
| (Loss)/profit before tax | **(1.4)** | 84.0 |
| Tax at the UK corporation tax rate of 26% (2011: 28%) | **(0.3)** | 23.5 |
| Prior year adjustments | **(7.3)** | (1.3) |
| Impact from withdrawal of IBA's | | 1.4 |
| Non-taxable income | **(0.3)** | - |
| Deferred tax on amounts not in the income statement | **-** | 0.2 |
| Impact from change in future tax rates | **(32.3)** | (32.5) |
| **Tax credit for the year** | **(40.2)** | **(8.7)** |

In addition to the amount charged to the Income Statement, deferred tax relating to actuarial gains on defined benefit schemes of £4.4m credit (2011: £21.9m charge), deferred tax due to change in future tax rates of the brought forward deferred tax asset of £1.2m charge (2011: £3.0m charge) and the fair value loss on cash flow hedges of £0.7m credit (2011: £0.3m credit) were taken to the Statement of Comprehensive Income.

## Notes *(continued)*

### 8. DIVIDENDS

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

| | **2012 £m** | 2011 £m |
|---|---|---|
| Interim dividend for the year ended 31 March 2012 of £5.00 per share (31 March 2011: £1.90 per share) | **15.0** | **5.7** |

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, no liability has been included in the financial statements at 31 March 2012 and 31 March 2011 respectively.

### 9. DIRECTORS' REMUNERATION

| | **2012 £m** | Re-presented 2011 £m |
|---|---|---|
| Salaries | **0.5** | 1.0 |
| Accrued bonus | **0.6** | 0.6 |
| Pension | **0.1** | 0.1 |
| | **1.2** | 1.7 |

The aggregate emoluments of the Directors in 2012 amounted to £1,239,996 (2011 re-presented: £1,685,856). Emoluments comprise salaries, fees, taxable benefits, the value of short-term and long-term incentive awards and compensation for loss of office. Amounts payable under long-term incentive awards are not payable until June 2015 and are dependent upon a combination of both financial performance and comparative performance, as assessed by Ofgem, over the DPC5 period. The emoluments of the highest paid Director in 2012 in respect of services to the Group amounted to £757,933 (2011 represented: £756,511). Included in the total emoluments shown above for the current year, are amounts payable for compensation for loss of office of £nil (2011 re-presented: £410,000) all paid in cash.

Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 28.

Mr M McCallion is a former member of the United Utilities Pension Scheme and is a member of, and contributed to, a defined benefit section of the ENW Electricity Supply Pension Scheme ('ENW ESPS'), which provides an entitlement, on normal retirement of age 65, equal to 1/60th of pensionable earnings for each complete year of service. Mr S Johnson is a member of the defined contribution section of the ENW ESPS scheme.

The pension contributions for the highest paid Director for 31 March 2012 were £36,013 (2011: £38,500). The accrued pension at 31 March 2012 for the highest paid Director was £nil (2011: £nil).

As at 31 March 2012 the Directors have no interests in the ordinary shares of the Company. All remuneration was borne by ENWL.

Directors' emoluments have been re-presented in respect of 2011 in order to correct an overstatement.

## Notes *(continued)*

### 10. INTANGIBLE ASSETS AND GOODWILL

| Group | Goodwill £m | Software £m | Licence £m | Assets in course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2010 | - | 35.4 | 186.9 | 5.6 | 227.9 |
| Arising on acquisition of subsidiary | 10.1 | - | - | - | 10.1 |
| Additions | - | 0.4 | - | 2.6 | 3.0 |
| Transfers | - | 2.2 | - | (2.2) | - |
| At 31 March 2011 | 10.1 | 38.0 | 186.9 | 6.0 | 241.0 |
| Additions | - | - | - | 0.9 | 0.9 |
| Reclassification from tangibles to intangibles | - | - | - | 15.2 | 15.2 |
| Transfers | - | 18.5 | - | (18.5) | - |
| Disposals | - | (1.8) | - | - | (1.8) |
| **At 31 March 2012** | **10.1** | **54.7** | **186.9** | **3.6** | **255.3** |
| **Amortisation** | | | | | |
| At 1 April 2010 | - | 20.1 | - | - | 20.1 |
| Charge for the year | - | 4.3 | - | - | 4.3 |
| At 31 March 2011 | - | 24.4 | - | - | 24.4 |
| Charge for the year | - | 8.3 | - | - | 8.3 |
| Disposals | - | (1.8) | - | - | (1.8) |
| **At 31 March 2012** | **-** | **30.9** | **-** | **-** | **30.9** |
| **Net book value at 31 March 2012** | **10.1** | **23.8** | **186.9** | **3.6** | **224.4** |
| Net book value at 31 March 2011 | 10.1 | 13.6 | 186.9 | 6.0 | 216.6 |

At 31 March 2012, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £nil (2011: £2.1m).

At 31 March 2012, the company had entered into contractual commitments for the acquisition of intangible assets amounting to £nil (2011: £nil).

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

Assets under the course of construction relates primarily to ENWLs IT Refresh Programme (ITRP), which involved changing from the United Utilities platform to Electricity North West's own platform, the remaining balance at year end relates to the DUoS and Associated Distribution Systems capture billing system expected to be completed during next year.

The reclassification between tangible and intangible assets during the year was as a result of the large number of ongoing ITRP projects at the last year end. At 31 March 2011, although the total cost was known, the split between tangible and intangibles (hardware and software) was unclear. This split has been determined in the year and transferred accordingly.

# Notes *(continued)*

## 10. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Goodwill arose on the acquisition of ENWSL in the prior year, see note 27 for details.

**Impairment testing**

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

The Group has prepared cash flow forecasts for a 25 year period, which represents the notice period on the licence to distribute electricity. The rate used to discount cash flows was 7.56% (2011: 7.00%) reflecting an assumed level of risk associated with the cash flows generated from the licence.

Based on the impairment testing performed, management are comfortable that sufficient headroom exists between the value in use and the carrying value of the assets such that no impairment loss is required to be booked.

## Notes *(continued)*

### 11. PROPERTY, PLANT AND EQUIPMENT

| Group | Operational structures £m | Non operational land and buildings £m | Fixtures and equipment, vehicles and other £m | Assets in course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2010 | 2,944.8 | 11.1 | 11.6 | 186.3 | 3,153.8 |
| Additions | 54.2 | 1.3 | 4.0 | 128.6 | 188.1 |
| Transfers | 104.5 | 0.4 | 1.4 | (106.3) | - |
| Arising on acquisition | - | - | 18.3 | - | 18.3 |
| Disposals | (7.3) | - | (0.3) | - | (7.6) |
| At 31 March 2011 | 3,096.2 | 12.8 | 35.0 | 208.6 | 3,352.6 |
| Additions | 78.0 | 0.1 | 34.4 | 107.7 | 220.2 |
| Transfers | 92.5 | 0.1 | (12.5) | (80.1) | - |
| Reclassification from tangible to intangible | - | - | - | (15.2) | (15.2) |
| Disposals | (5.2) | - | (5.7) | - | (10.9) |
| **At 31 March 2012** | **3,261.5** | **13.0** | **51.2** | **221.0** | **3,546.7** |
| **Depreciation** | | | | | |
| At 1 April 2010 | 941.4 | 3.7 | 8.0 | - | 953.1 |
| Charge for the year | 70.0 | 0.3 | 4.9 | - | 75.2 |
| Arising on acquisition | - | - | 6.9 | - | 6.9 |
| Disposals | (7.3) | - | (0.3) | - | (7.6) |
| At 31 March 2011 | 1,004.1 | 4.0 | 19.5 | - | 1,027.6 |
| Charge for the year | 74.5 | 0.4 | 9.4 | - | 84.3 |
| Disposals | (5.2) | - | (5.7) | - | (10.9) |
| **At 31 March 2012** | **1,073.4** | **4.4** | **23.2** | **-** | **1,101.0** |
| **Net book value at 31 March 2012** | **2,188.1** | **8.6** | **28.0** | **221.0** | **2,445.7** |
| Net book value at 31 March 2011 | 2,092.1 | 8.8 | 15.5 | 208.6 | 2,325.0 |

At 31 March 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.9m (2011: £35.7m).

At 31 March 2012, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2011: £nil).

The reclassification between tangible and intangible assets during the year, was as a result of the large number of ongoing ITRP projects at the last year end. At 31 March 2012, although the total cost was known was the split between tangible and intangibles (hardware and software) was unclear. This split has been determined in the year and transferred accordingly.

## Notes *(continued)*

### 12. INVESTMENTS

| | Company £m |
|---|---|
| **Cost** | |
| **At 31 March 2011 and 31 March 2012** | **3.0** |

Details of the investments at 31 March 2012 are as follows:

**Company Only**

| Subsidiary undertaking | Description of holding | Proportion held | Nature of business |
|---|---|---|---|
| NWEN Group Limited | Ordinary shares of £1 each | 100% | Non-trading |

**Group**

| | | | |
|---|---|---|---|
| **Indirect subsidiaries** | | | |
| North West Electricity Networks Limited | Ordinary shares of £1 each | 100% | Non-trading |
| Electricity North West Limited | Ordinary shares of 50p each | 100% | Energy distribution |
| Electricity North West Services Limited | Ordinary shares of £1 each | 100% | Operation and maintenance of electricity network |
| 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 |
| ENW Capital Finance plc | Ordinary shares of £1 each | 100% | Financing company |
| ENW Finance plc | Ordinary shares of £1 each | 100% | Financing company |
| **Other Investments** | | | |
| National Grid plc | Ordinary shares of 11.76p each | Negligible | Energy Distribution |
| **Associated undertaking** | | | |
| NorWeb Limited | Ordinary shares of £1 each | 50% | Dormant |
| **Joint ventures** | | | |
| Selectusonline Limited | Ordinary shares of 66.67p each | 16.67% | Planning and Procurement |

## Notes *(continued)*

### 13. INVENTORIES

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| Raw materials and consumables | **6.8** | **-** | 5.6 | - |

### 14. TRADE AND OTHER RECEIVABLES

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| Trade receivables | **6.5** | - | 33.2 | - |
| Amounts owed by group undertakings | **0.3** | **670.2** | 3.4 | 669.7 |
| Prepayments and accrued income | **46.9** | **-** | 41.7 | - |
| | **53.7** | **670.2** | 78.3 | 669.7 |

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.4m (2011: £0.1m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment. The average credit period taken on sales is 14 days (2011: 14 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Of the trade receivables, 23% (2011: 10%) are past due but not impaired. The majority of balances are less than 45 days past due; a balance of £1.5m is greater than 45 days past due at 31 March 2012 (2011: £1.3m), against which an allowance for doubtful debt of £0.4m (2011: £0.1m) has been made.

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

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| Balance at beginning of year | **0.1** | **-** | 0.3 | - |
| Charged to income statement | **0.3** | **-** | - | - |
| Utilised | **-** | **-** | (0.2) | - |
| Balance at end of year | **0.4** | **-** | 0.1 | - |

Trade receivables comprise 488 (2011: 654) individual customers and 77.8% (2011: 68.5%) of the trade receivables balance above relates to the regulated provision of infrastructure to electricity retail companies. The Group is required by Ofgem to accept any company that has obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to the terms.

Under the terms of the contract, the maximum unsecured credit that the Group may be required to give is 2% of the Regulatory Asset Value (‘RAV’) of the Company. In addition the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level under the contract the customer must provide collateral to mitigate the increased risk posed. As at 31 March 2012 £2.9m (2011: £2.9m) of cash had been received as security.

# Notes *(continued)*

## 14. TRADE AND OTHER RECEIVABLES *(continued)*

The allowed RAV is set by Ofgem for each year of DPC5 (1 April 2010 to 31 March 2015) and is £1,519.2m for the year ended 31 March 2012 based on March closing prices (2011: £1,403.3m).

At 31 March 2012 £97.0m (2011: £71.1m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £9.9m (2011: £9.7m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

## 15. CASH AND CASH EQUIVALENTS AND MONEY MARKET DEPOSITS

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| Short-term bank deposits including cash at bank and in hand | **59.7** | **0.1** | 127.8 | - |
| Cash and cash equivalents | **59.7** | **0.1** | 127.8 | - |
| Short-term money market deposits (maturity over three months) | **25.0** | **-** | 76.2 | - |
| | **84.7** | **0.1** | 204.0 | - |

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

The effective interest rate on short-term deposits was a weighted average of 1.25% (2011: 0.97%) and these deposits had an average maturity of 245 days (2011: 182 days).

## 16. BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk and liquidity risk see note 17.

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Bonds | **1,174.9** | **-** | 1,137.3 | - |
| Bank and other term borrowings | **308.5** | **140.1** | 353.2 | 139.7 |
| | **1,483.4** | **140.1** | 1,490.5 | 139.7 |
| **Current liabilities** | | | | |
| Amounts owed to parent undertaking | **509.7** | **509.7** | 508.7 | 508.7 |
| | **1,993.1** | **649.8** | 1,999.2 | 648.4 |

## Notes *(continued)*

### 16. BORROWINGS *(continued)*

**Carrying value by category**

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

| | Year of maturity | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|---|
| **Borrowings designated at fair value through profit or loss** | | | | | |
| 8.875% £250m bond | 2026 | **365.4** | **-** | 335.2 | - |
| | | **365.4** | **-** | 335.2 | - |
| **Borrowings measured at amortised cost** | | | | | |
| 8.875% £200m bond | 2026 | **195.5** | **-** | 195.4 | - |
| 6.125% £200m bond | 2021 | **195.6** | **-** | 195.2 | - |
| 6.75% £300m bond | 2015 | **296.4** | **-** | 295.4 | - |
| 1.4746%+RPI[1] £100m index-linked bond | 2046 | **121.9** | **-** | 116.1 | - |
| 1.5911%+RPI[1] £135m index-linked loan | 2024 | **141.5** | **-** | 135.0 | - |
| Amortising costs re: Long term loans at LIBOR plus 2.25% | 2012 | **-** | **-** | (0.3) | - |
| Amortising costs re: Long term loans at LIBOR plus 0.7% | 2016 | **(0.3)** | **-** | - | - |
| Long term loans at LIBOR plus 3.0% | 2012 | **-** | **-** | 78.8 | - |
| Long term loans at LIBOR plus 1.2% | 2016 | **27.3** | **-** | - | - |
| Long term loans at LIBOR plus 1.5% | 2014 | **140.1** | **140.1** | 139.7 | 139.7 |
| Amounts owed to parent undertaking | On demand | **509.7** | **509.7** | 508.7 | 508.7 |
| | | **1,627.7** | **649.8** | 1,664.0 | 648.4 |
| | | **1,993.1** | **649.8** | 1,999.2 | 648.4 |

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

The 6.75% £300m bonds are secured and guaranteed by the issuing company, ENW Capital Finance plc, North West Electricity Networks Limited and NWEN Group Limited (the "Parent Company"). All other loans and borrowings are unsecured. There is no formal bank overdraft facility in place at 31 March 2012 (2011: same). All amounts are in sterling. The fair values of the Group's financial instruments are shown in note 17.

Included within the borrowing note are capitalised facility arrangement fees of £0.3m (2011: £0.3m) relating to the undrawn Revolving Credit Facilities.

**Borrowing facilities**

The Group had £236.4m (2011: £150.0m) in unutilised committed bank facilities at 31 March 2012 of which £40.0m expires within one year (2011: £nil), £5.0m expires after one year but less than two years (2011: £125.0m) and £191.4m expires in more than two years (2011: £25.0m). The Company has committed undrawn bank facilities of £20.0m that expire in more than two years (2011: £20.0m).

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS

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

The principal risks which the Group is exposed to and which arise in the normal course of business include credit risk, liquidity risk and market risk, in particular interest rate risk and inflation risk. Derivative financial instruments are used to change the basis of interest cash flows from fixed to either inflation-linked or an alternative fixed profile to more accurately match the revenue profile.

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

The accounting policy for derivatives is provided in note 1.

### Control over financial instruments

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

### Risk management

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

The only material exposure the Group has to foreign exchange risk or equity price risk relates to the assets of the defined benefit pension scheme, these are managed by the pension scheme investment managers.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The ENWL Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. ENWL's treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee. The Group's processes for managing risk and the methods used to measure risk have not changed since the prior year. In the year, there have been changes to the Group's policies in relation to the management of credit risk; risk limits and minimum credit ratings of counterparties have been amended to reflect changes to market conditions and the associated level of perceived risks.

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS *(continued)*

### Credit risk

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

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

Significant changes in the economy, or in the utilities sector could result in losses not necessarily provided for at the statement of financial position date. The total number of customers in 2012 was 488 (2011: 654), however there are only five (2011: five) principal customers, see note 2. The creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management therefore closely monitor adherence to this process.

### Trade receivables

Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of principal customers, and the fact that each of these customers has a contract in place with the Group, and is required to provide collateral in the form of a cash deposit subject to the amounts due and their credit rating. At 31 March 2012 there was £1.5m receivables past due (2011: £3.5m) against which an allowance for doubtful debts of £0.4m has been made (2011: £0.1m).

### Treasury investments

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

As at 31 March 2012 none (2011: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been re-negotiated with any counterparty. The Group has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk. The table below provides details of the ratings of the Group's treasury portfolio:

| Credit Rating | **2012 £m** | **2012 %** | 2011 £m | 2011 % |
|---|---|---|---|---|
| AAA | **12.3** | **13.1** | 33.7 | 15.6 |
| AA | **-** | **-** | 1.0 | 0.5 |
| AA- | **0.7** | **0.7** | 96.0 | 44.6 |
| A+ | **15.0** | **16.0** | 59.7 | 27.7 |
| A | **65.9** | **70.2** | 25.0 | 11.6 |
| | **93.9** | **100.0** | 215.4 | 100.0 |

No collateral is held in relation to Treasury assets (2011: same). The rating profile of counterparties has decreased due to change in market conditions as a result of global economic uncertainty.

## Notes *(continued)*

### 17. 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 statement of financial position. For trade receivables, the value is net of any collateral held in cash deposits (please refer to note 14 for further details).

| | **2012** | **2012** | 2011 | 2011 |
|---|---|---|---|---|
| | **Group** | **Company** | Group | Company |
| **Credit risk by category** | **£m** | **£m** | £m | £m |
| Trade receivables | **6.5** | **-** | 33.2 | - |
| Derivative financial instruments (assets) | **-** | **-** | 1.0 | - |
| Cash and cash equivalents | **59.7** | **0.1** | 127.8 | - |
| Money market deposits (original maturity over three months) | **25.0** | **-** | 76.2 | - |
| | **91.2** | **0.1** | 238.2 | - |

Trade receivables and cash and cash equivalents are measured at cost. Derivative financial instruments are measured at fair value in accordance with IAS 39.

#### Liquidity risk

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

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

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

**Liquidity risk** *(continued)*

Available liquidity at 31 March was as follows:

| | **2012** | **2012** | 2011 | 2011 |
|---|---|---|---|---|
| | **Group** | **Company** | Group | Company |
| **Available Liquidity** | **£m** | **£m** | £m | £m |
| Cash and cash equivalents | **59.7** | **0.1** | 127.8 | - |
| Money market deposits (original maturity over three months) | **25.0** | **-** | 76.2 | - |
| Committed undrawn bank facilities | **236.4** | **20.0** | 150.0 | 20.0 |
| | **321.1** | **20.1** | 354.0 | 20.0 |

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 £40.0m (2011: £Nil) of facilities that expire within one year, £5.0m (2011: £125.0m) that expires after one year but less than two years and £191.4m (2011: £25.0m) that expires in more than two years.

The Group gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cash flows within particular time periods. The Group uses economic hedges to ensure that certain cash flows can be matched.

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

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

| **Group**<br>**As at 31 March 2012** | **On demand**<br>**£m** | **<1 year**<br>**£m** | **1-2 years**<br>**£m** | **2-3 years**<br>**£m** | **3-4 years**<br>**£m** | **>4 years**<br>**£m** | **Total**<br>**£m** |
|---|---|---|---|---|---|---|---|
| Trade payables | **(23.5)** | **-** | **-** | **-** | **-** | **-** | **(23.5)** |
| Amount owed to parent undertaking | **(519.8)** | **-** | **-** | **-** | **-** | **-** | **(519.8)** |
| Bonds | **-** | **(74.3)** | **(74.3)** | **(74.3)** | **(364.1)** | **(1,297.3)** | **(1,884.3)** |
| Borrowings | **-** | **(7.1)** | **(7.1)** | **(148.1)** | **(3.0)** | **(189.2)** | **(354.5)** |
| Derivative financial instruments (net) | **-** | **11.7** | **(26.1)** | **4.4** | **7.0** | **(33.6)** | **(36.6)** |
| | **(543.3)** | **(69.7)** | **(107.5)** | **(218.0)** | **(360.1)** | **(1,520.1)** | **(2,818.7)** |

| As at 31 March 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Trade payables | (9.9) | - | - | - | - | - | (9.9) |
| Amount owed to parent undertaking | (518.7) | - | - | - | - | - | (518.7) |
| Bonds | - | (74.2) | (74.2) | (74.2) | (74.2) | (1,652.6) | (1,949.4) |
| Borrowings | - | (9.1) | (87.5) | (5.9) | (145.5) | (155.3) | (403.3) |
| Derivative financial instruments (net) | - | 12.3 | 12.3 | (25.0) | 5.1 | 10.6 | 15.3 |
| | (528.6) | (71.0) | (149.4) | (105.1) | (214.6) | (1,797.3) | (2,866.0) |

| **Company**<br>**As at 31 March 2012** | **On demand**<br>**£m** | **<1 year**<br>**£m** | **1-2 years**<br>**£m** | **2-3 years**<br>**£m** | **3-4 years**<br>**£m** | **>4 years**<br>**£m** | **Total**<br>**£m** |
|---|---|---|---|---|---|---|---|
| Amount owed to parent undertaking | **(519.9)** | **-** | **-** | **-** | **-** | **-** | **(519.9)** |
| Borrowings | **-** | **(4.1)** | **(4.1)** | **(145.1)** | **-** | **-** | **(153.3)** |
| Derivative financial instruments (net) | **-** | **(2.5)** | **(2.5)** | **(2.5)** | **-** | **-** | **(7.5)** |
| | **(519.9)** | **(6.6)** | **(6.6)** | **(147.6)** | **-** | **-** | **(680.7)** |

| As at 31 March 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Amount owed to parent undertaking | (518.9) | - | - | - | - | - | (518.9) |
| Borrowings | - | (3.6) | (3.7) | (3.7) | (143.4) | - | (154.4) |
| Derivative financial instruments (net) | - | (2.9) | (2.9) | (2.8) | (2.8) | - | (11.4) |
| | (518.9) | (6.5) | (6.6) | (6.5) | (146.2) | - | (684.7) |

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS *(continued)*

### Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation (RPI), equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk. The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered into. The management of market risk is undertaken using risk limits, approved by the Chief Financial Officer or Treasurer under delegated authority. The Group has no significant foreign exchange, equity or commodity exposure.

The Group has exposure to interest rate risk and inflation risk and this is explained in the sections below.

The Group borrows in the major global debt markets at fixed, index-linked 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 either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market interest rates. The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The Group's fixed rate borrowings and derivatives are exposed to a risk of change in their fair value due to changes in interest rates.

Investments in short-term receivables and payables are not exposed to interest rate risk.

The Group uses derivative financial instruments to change the basis of interest cash flows from fixed to either inflation-linked or an alternative fixed profile to more accurately match the revenue profile. The cash flows exchanged under the derivatives are calculated by reference to a notional principal amount. The notional principal reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS *(continued)*

### Sensitivity analysis on interest

The Group's fixed rate borrowings and derivatives are exposed to a risk of change in their fair value due to changes in interest rates. The following sensitivity analysis is used by Group management to monitor interest rate risk. The analysis below shows forward-looking projections of market risk assuming certain market conditions occur. The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve.

| | **2012** | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Change in interest rates** | | | Change in interest rates | | |
| | **-0.5%** | **+0.5%** | **+1%** | -0.5% | +0.5% | +1% |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Debt held at fair value | **(17.9)** | **16.8** | **32.7** | (8.4) | 22.8 | 30.2 |
| Interest rate swaps | **(1.7)** | **1.7** | **3.4** | (2.0) | 2.0 | 3.9 |
| Inflation-linked swaps | **(35.5)** | **30.5** | **56.6** | (27.5) | 23.4 | 43.3 |
| **Total fair value movement** | **(55.1)** | **49.0** | **92.7** | (37.9) | 48.2 | 77.4 |

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

The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The analysis below shows the impact on profit for the year if interest rates over the course of the year had been different from the actual rates.

| | **2012** | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Change in interest rates** | | | Change in interest rates | | |
| | **-0.5%** | **+0.5%** | **+1%** | -0.5% | +0.5% | +1% |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Debt held at amortised cost – floating interest rate | **(0.3)** | **0.3** | **0.7** | (0.5) | 0.5 | 1.1 |
| Interest rate swaps | **(0.0)** | **0.0** | **0.0** | (0.1) | 0.1 | 0.1 |
| **Total finance expense impact** | **(0.3)** | **0.3** | **0.7** | (0.6) | 0.6 | 1.2 |

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

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

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

#### Inflation risk

The revenues of ENWL are linked to movements in inflation, as measured by the Retail Prices Index ('RPI'). To economically hedge exposure to RPI, ENWL links a portion of its funding costs to RPI by either issuing RPI linked bonds or by using derivative financial instruments. The Group's index-linked 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 Company's revenues are also linked to RPI via returns on the Regulated Asset Value ('RAV') and an increase in RPI would increase revenues, mitigating any increase in finance expense.

#### Sensitivity analysis on inflation

The Group's inflation-linked derivatives are exposed to a risk of change in their fair value due to changes in inflation rates. The following sensitivity analysis is used by Group management to monitor inflation rate risk. The analysis below shows forward-looking projections of market risk assuming certain market conditions occur. The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve.

| | | | **2012** | | | 2011 |
|---|---|---|---|---|---|---|
| | **Change in inflation rates** | | | Change in inflation rates | | |
| | **-0.5%** | **+0.5%** | **+1%** | -0.5% | +0.5% | +1% |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Inflation-linked swaps | **37.1** | **(41.5)** | **(87.8)** | 31.2 | (35.0) | (74.4) |
| **Total fair value movement** | **37.1** | **(41.5)** | **(87.8)** | 31.2 | (35.0) | (74.4) |

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

The Group's inflation-linked borrowings and derivatives are exposed to a risk of change in cash flows due to changes in inflation rates. The analysis below shows the impact on profit for the year if inflation rates over the course of the year had been different from the actual rates.

| | | | **2012** | | | 2011 |
|---|---|---|---|---|---|---|
| | **Change in inflation rates** | | | Change in inflation rates | | |
| | **-0.5%** | **+0.5%** | **+1%** | -0.5% | +0.5% | +1% |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Debt held at amortised cost – inflation-linked interest basis | **1.3** | **(1.3)** | **(2.7)** | 1.3 | (1.3) | (2.5) |
| Inflation-linked swaps | **0.0** | **(0.0)** | **(0.1)** | 0.0 | (0.0) | (0.1) |
| **Total finance expense impact** | **1.3** | **(1.3)** | **(2.8)** | 1.3 | (1.3) | (2.6) |

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS *(continued)*

### Hedging

The Group does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments. At 31 March 2012, the Group's derivatives are not designated in formal hedging relationships, and instead are measured at fair value through the income statement, except for one portfolio of financial instrument designated in a formal cash flow hedge relationship (2011: same).

### Cash Flow Hedge Accounting

The Group has a single cash flow hedge relationship. The hedged item is a £121.0m floating rate (LIBOR plus 1.50%) loan maturing December 2014, at North West Electricity Networks (Holdings) Limited (NWEN(H)). The hedging instruments are interest rate swaps with a total notional amount of £121.0m, under which NWEN(H) receives floating (six month LIBOR) and pays fixed 3.4652%. The fair value of the swaps at 31 March 2012 was a £7.6m liability (2011: £4.4m liability). These swaps hedge the Group's exposure to interest rate risk (fluctuations in six month LIBOR) in relation to the variability of interest payments on the £121.0m loan, by converting the floating interest rate payable to a fixed interest rate, ensuring the certainty of cash flows. The cash flows under the swaps are settled on a net basis.

The interest rate swaps settle on a semi-annual basis, beginning in December 2010 until maturity in December 2014 and, therefore, will affect profit or loss on this basis.

The cash flow hedge is 100% effective and there is £nil (2011: £nil) ineffectiveness recognised in profit or loss. All fair value movements have been recognised in equity. The net amount recognised in the cash flow hedge reserve (a component of equity) for the year to 31 March 2012 is £3.3m loss (2011: £1.4m loss), with the net cash interest settlement of £2.9m expense (2011: £1.5m expense) recognised in profit or loss.

| | **2012** | 2011 |
|---|---|---|
| | **£'m** | £'m |
| Balance of cash flow hedge reserve at 1 April | **(3.3)** | (2.2) |
| Effective portion of change in fair value of hedging instruments used in cash flow hedges, after settlement of interest | **(3.2)** | (1.4) |
| Deferred tax on change in fair value of hedging instruments used in cash flow hedges | **0.7** | 0.3 |
| **Balance of cash flow hedge reserve at 31 March** | **(5.8)** | **(3.3)** |

### Fair values

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

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

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

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

| **Financial assets:** | **Group Carrying value** | **Group Fair value** | **Company Carrying value** | **Company Fair value** |
|---|---|---|---|---|
| **2012** | **£m** | **£m** | **£m** | **£m** |
| ***Current assets:*** | | | | |
| Trade receivables | **6.5** | **6.5** | **-** | **-** |
| Cash and cash equivalents | **59.7** | **59.7** | **0.1** | **0.1** |
| Money market deposits | **25.0** | **25.0** | **-** | **-** |
| | **91.2** | **91.2** | **0.1** | **0.1** |
| 2011 | | | | |
| *Current assets:* | | | | |
| Trade receivables | 33.2 | 33.2 | - | - |
| Cash and cash equivalents | 127.8 | 127.8 | - | - |
| Money market deposits | 76.2 | 76.2 | - | - |
| Derivative financial instruments - held for trading swaps | 1.0 | 1.0 | - | - |
| | 238.2 | 238.2 | - | - |

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS *(continued)*

| **2012** | **Group Carrying value £m** | **Group Fair value £m** | **Company Carrying value £m** | **Company Fair value £m** |
|---|---|---|---|---|
| **Financial liabilities:** | | | | |
| ***Non-current liabilities**:* | | | | |
| Borrowings designated at fair value through profit and loss | **(365.4)** | **(365.4)** | **-** | **-** |
| Borrowings measured at amortised cost | **(1,118.0)** | **(1,291.7)** | **(140.1)** | **(140.1)** |
| Derivative financial instruments - held for trading swaps | **(149.9)** | **(149.9)** | **(7.6)** | **(7.6)** |
| | **(1,633.3)** | **(1,807.0)** | **(147.7)** | **(147.7)** |
| ***Current liabilities:*** | | | | |
| Trade payables | **(23.5)** | **(23.5)** | **-** | **-** |
| Borrowings - amounts owed to parent undertaking | **(509.7)** | **(509.7)** | **(509.7)** | **(509.7)** |
| | **(533.2)** | **(533.2)** | **(509.7)** | **(509.7)** |

| 2011 | **Group Carrying value £m** | **Group Fair value £m** | **Company Carrying value £m** | **Company Fair value £m** |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| *Non-current liabilities:* | | | | |
| Borrowings designated at fair value through profit and loss | 335.2 | 335.2 | - | - |
| Borrowings measured at amortised cost | 1,155.2 | 1,282.9 | 139.7 | 139.7 |
| Derivative financial instruments - held for trading swaps | 97.3 | 97.3 | 4.5 | 4.5 |
| | 1,587.7 | 1,715.4 | 144.2 | 144.2 |
| *Current liabilities:* | | | | |
| Trade payables | 9.9 | 9.9 | - | - |
| Borrowings - amounts owed to parent undertaking | 508.7 | 508.7 | 508.7 | 508.7 |
| | 518.6 | 518.6 | 508.7 | 508.7 |

## Notes *(continued)*

### 17. 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).

| 31 March 2012 - Group | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Derivative financial assets | **-** | **-** | **-** | **-** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative financial liabilities | **-** | **(149.9)** | **-** | **(149.9)** |
| Financial liabilities designated at FVTPL | **(365.4)** | **-** | **-** | **(365.4)** |
| | **(365.4)** | **(149.9)** | **-** | **(515.3)** |

| 31 March 2011 - Group | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Derivative financial assets | - | 1.0 | - | 1.0 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative financial liabilities | - | (97.3) | - | (97.3) |
| Financial liabilities designated at FVTPL | (335.2) | - | - | (335.2) |
| | (335.2) | (97.3) | - | (432.5) |

There were no transfers between levels during the current year.

The Company has no financial liabilities valued at fair value through profit or loss

## Notes *(continued)*

### 18. TRADE AND OTHER PAYABLES

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| Trade payables | **23.5** | **-** | 9.9 | - |
| Amounts owed to group companies | **10.3** | **10.6** | 10.0 | 10.2 |
| Other taxation and social security | **6.7** | **-** | 13.8 | - |
| Customers' contributions (note 21) | **3.0** | **-** | 3.0 | - |
| Refundable customer deposits (note 22) | **0.4** | **-** | 6.5 | - |
| Accruals and deferred income | **87.9** | **0.2** | 102.8 | 1.2 |
| | **131.8** | **10.8** | 146.0 | 11.4 |

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 20 days from receipt of invoice (2011: 23 days). The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

### 19. RETIREMENT BENEFIT SCHEMES

**Group and Company**

The Group's defined benefit arrangement, is the ENW Group of the ESPS ("the Scheme") and forms part of the Electricity Supply Pension Scheme ("ESPS"). Up to 31 March 2011 the Scheme was split into two sections. However, following the 'hive-up' of the assets and liabilities of ENWSL to ENWL and the termination of the Asset Services Agreement between ENWL and ENWSL on the 31 March 2011, the two sections were merged as at that date.

The defined benefit section of the Scheme closed to new entrants in 2003 and new employees of the Group are instead provided with access to a defined contribution section of the Scheme. The total cost charged to the income statement in relation to the defined contribution section for the year ended 31 March 2012 was £1.3m (2011: £0.9m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme.

During the year the Group made contributions of £53.3m (2011: £27.6m) to the defined benefit section of the Scheme. This included advance payment of the April 2013 to March 2015 deficit contributions paid by the Group on 30 March 2012. The Group estimates that contributions for the year ending 31 March 2013 will amount to around £12m. The total defined benefit pension expense for the year was £7.6m (2011 pension expense £10.5m). Information about the pension arrangements for the Executive Directors is contained in note 9.

As at 31 March 2012 contributions of £3.3m (2011: £2.3m) due in respect of the current reporting period had not been paid over to the Scheme.

The last actuarial valuation of the Scheme was carried out as at 31 March 2010. The valuation has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2012. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension deficit under IAS 19 of £14.2m is included in the statement of financial position at 31 March 2012 (2011 deficit of £41.3m).

In January 2012 a bulk transfer amount of £4.9m was received into the ENW Group section of the Electricity Supply Pension Scheme ("ESPS") in respect of the transfer of pension liabilities from the United Utilities Pension Scheme and the United Utilities Group Plc section of the ESPS. These pension liabilities related to the transfer of employees into the ENW Group section following the purchase of Electricity North West (Construction and Maintenance) Limited (COMA) from United Utilities PLC in the prior year.

## Notes *(continued)*

### 19. RETIREMENT BENEFIT SCHEMES *(continued)*

The main financial assumptions used by the actuary (in determining the deficit) were as follows:

| | 2012<br>% | 2011<br>% |
|---|---|---|
| Discount rate | 5.1 | 5.5 |
| Expected return on assets | 5.6 | 6.0 |
| Pensionable salary increases | 3.9 | 4.4 |
| Pension increases | 3.3 | 3.4 |
| Price inflation | 3.3 | 3.4 |

The mortality rates utilised in the valuation are based on the standard actuarial tables S1PMA/S1PFA (birth year) tables with a 105% loading to allow for differences in mortality between the Scheme population and the population used in the standard tables (unchanged from 2011). A long term improvement rate of 1.25% p.a. is assumed (2011: 1.0% p.a.). These factors have been taken into account in the calculation of the defined benefit obligations of the Scheme.

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

| Male life expectancy at age 60 | 2012<br>Years | 2011<br>Years |
|---|---|---|
| Retired member | 26.4 | 25.8 |
| Non-retired member | 27.9 | 27.0 |

In valuing the liabilities of the Scheme at 31 March 2012 mortality assumptions have been made as indicated above. If the life expectancy had been changed to assume that all members of the Fund lived for one year longer, the value of the reported liabilities at 31 March 2012 would have increased by approximately £25m before deferred tax.

## Notes *(continued)*

### 19. RETIREMENT BENEFIT SCHEMES *(continued)*

As at 31 March 2012, the Scheme's assets and liabilities recognised in the statement of financial position were as follows:

| | Scheme assets at 31 March 2012 | Value at 31 March 2012 | Scheme assets at 31 March 2011 | Value at 31 March 2011 |
|---|---|---|---|---|
| | % | £m | % | £m |
| Equities | 45.5 | 435.8 | 43.7 | 385.6 |
| Gilts | 10.4 | 100.0 | 11.8 | 104.7 |
| Bonds | 34.0 | 326.1 | 38.3 | 338.7 |
| Property | 6.9 | 66.2 | 4.5 | 39.8 |
| Cash | 0.6 | 5.9 | 1.0 | 9.0 |
| Assets arising on ENWSL acquisition | - | - | 0.6 | 5.4 |
| Net current assets | 2.6 | 24.7 | 0.1 | 0.6 |
| Total fair value of assets | 100.0 | 958.7 | 100.0 | 883.8 |
| Present value of liabilities | - | (972.9) | - | (925.1) |
| **Net retirement benefit obligation** | | **(14.2)** | | **(41.3)** |

To develop the expected long-term rate of return on assets assumption, the Group considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual allocation to develop the expected long-term return on assets assumption for the portfolio. The actual return on the Scheme assets was £62.5m gain (2011: £56.1m gain). None of the pension scheme assets are held in the Group's own financial instruments or any other assets used by the Group.

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

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| At 1 April | (925.1) | (984.1) |
| Current service cost | (9.9) | (11.4) |
| Interest cost on Scheme obligations | (49.8) | (50.5) |
| Member contributions | (2.1) | (2.1) |
| Augmentation | (1.0) | (0.3) |
| Actuarial gains/(losses) – assumptions | (28.7) | 52.9 |
| Actuarial gains – experience items | - | 27.1 |
| Benefits paid | 51.2 | 48.7 |
| ENWSL acquisition and other bulk transfers | (7.5) | (5.4) |
| **At 31 March** | **(972.9)** | **(925.1)** |

## Notes *(continued)*

### 19. RETIREMENT BENEFIT SCHEMES *(continued)*

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

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| At 1 April | 883.8 | 841.3 |
| Expected return on Scheme assets | 52.4 | 51.7 |
| Actuarial gains | 10.1 | 4.4 |
| Company contributions | 53.3 | 27.6 |
| Member contributions | 2.1 | 2.1 |
| Benefits paid | (51.2) | (48.7) |
| ENWSL acquisition and other bulk transfers | 8.2 | 5.4 |
| **At 31 March** | **958.7** | **883.8** |

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

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Current service cost | (9.9) | (11.4) |
| Past service cost[1] | (0.3) | (0.3) |
| Expected return on Scheme assets | 52.4 | 51.7 |
| Interest on Scheme obligations | (49.8) | (50.5) |
| **Net pension expense before taxation** | **(7.6)** | **(10.5)** |

The above amounts are recognised in arriving at operating profit except for the expected return on Scheme assets and interest on Scheme obligations which have been recognised within investment income. The reconciliation of the opening and closing statement of financial position is as follows:

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| At 1 April | (41.3) | (142.8) |
| Expense recognised in the income statement | (7.6) | (10.5) |
| Contributions paid | 53.3 | 27.6 |
| Actuarial (losses)/gains gross of taxation | (18.6) | 84.4 |
| **At 31 March** | **(14.2)** | **(41.3)** |

[1] For the year ending 31 March 2012, the Past Service Cost includes £1m in respect of augmentations and (£0.7m) due to the difference between the assets received and the increase in liabilities in respect of the bulk transfers received on 12 January 2012.

# Notes *(continued)*

## 19. RETIREMENT BENEFIT SCHEMES *(continued)*

Actuarial gains and losses are recognised in the statement of comprehensive income. At 31 March 2012, a cumulative gain of £180.5m (2011 gain of £199.1m) had been recorded directly in the statement of comprehensive income.

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

| | 2012<br>£m | 2011<br>£m | 2010<br>£m | 2009<br>£m | 2008<br>£m |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | (972.9) | (925.1) | (984.1) | (728.0) | (796.3) |
| Fair value of Scheme assets | 958.7 | 883.8 | 841.3 | 700.5 | 841.4 |
| Net retirement benefit (obligation)/surplus | (14.2) | (41.3) | (142.8) | (27.5) | 45.1 |
| Experience adjustments on Scheme liabilities | - | 27.1 | - | 0.8 | (18.4) |
| Experience adjustments on Scheme assets | 10.1 | 4.4 | - | (152.5) | (12.9) |

## Notes *(continued)*

### 20. DEFERRED TAX

The following are the major deferred tax liabilities recognised by the Group, and the movements thereon, during the current reporting year.

| **Group** | **Accelerated tax depreciation £m** | **Retirement benefit obligations £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| At 1 April 2010 | 464.9 | (40.0) | (12.9) | 412.0 |
| Charged/(credited) to the income statement | (34.7) | 4.4 | (3.2) | (33.4) |
| Arising on acquisition of ENWSL | - | - | (0.4) | (0.4) |
| Deferred tax on actuarial (losses)/gains on defined benefit pension schemes taken directly to equity | - | 22.0 | - | 22.0 |
| Deferred tax on fair value loss on cash flow hedges taken directly to equity | - | - | (0.4) | (0.4) |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | - | 2.9 | 0.1 | 3.0 |
| At 31 March 2011 | 430.2 | (10.7) | (16.8) | 402.8 |
| (Credited)/charged to the income statement | (32.5) | 10.5 | (8.9) | (30.9) |
| Deferred tax on actuarial (losses)/gains on defined benefit pension schemes taken directly to equity | - | (4.5) | - | (4.5) |
| Deferred tax on fair value loss on cash flow hedges taken directly to equity | - | - | (0.7) | (0.7) |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | - | 1.3 | - | 1.3 |
| **At 31 March 2012** | **397.7** | **(3.4)** | **(26.4)** | **368.0** |

| **Company** | **Other £m** | **Total £m** |
|---|---|---|
| At 1 April 2010 | (0.9) | (0.9) |
| Deferred tax on fair value loss on cash flow hedges taken directly to equity | (0.4) | (0.4) |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | 0.1 | 0.1 |
| At 31 March 2011 | (1.2) | (1.2) |
| Deferred tax on fair value loss on cash flow hedges taken directly to equity | (0.7) | (0.7) |
| **At 31 March 2012** | **(1.9)** | **(1.9)** |

There are no significant unrecognised deferred tax assets or liabilities for either the Group or Company in either the current or prior year. Other deferred tax in both the Group and Company relates primarily to derivative financial instruments.

## Notes *(continued)*

### 21. CUSTOMER CONTRIBUTIONS

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

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

| **Group** | **£m** |
|---|---|
| At 1 April 2010 | 93.2 |
| Additions in the year | 39.1 |
| Amortisation | (2.8) |
| At 31 March 2011 | 129.5 |
| Additions in the year | 34.7 |
| Amortisation | (3.6) |
| **At 31 March 2012** | **160.6** |

| | **2012** | 2011 |
|---|---|---|
| | **£m** | £m |
| Amounts due in less than one year (note 18) | **3.0** | 3.0 |
| Amounts due after more than one year | **157.6** | 126.5 |
| | **160.6** | 129.5 |

### 22. REFUNDABLE CUSTOMER DEPOSITS

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

| | **2012** | 2011 |
|---|---|---|
| **Group** | **£m** | £m |
| Amounts due in less than one year (note 18) | **0.4** | 6.5 |
| Amounts due after more than one year | **3.4** | 1.6 |
| | **3.8** | 8.1 |

### 23. SHARE CAPITAL

| **Group and Company** | **2012** | 2011 |
|---|---|---|
| | **£** | £ |
| **Authorised:** | | |
| 3,000,000 ordinary shares of £1 each | **3,000,000** | 3,000,000 |
| **Allotted, called up and fully paid:** | | |
| 3,000,000 ordinary shares of £1 each | **3,000,000** | 3,000,000 |

No person has any special rights of control over the Company's share capital and all allotted shares are fully paid

See note 25 for details of the voting rights of each share.

## Notes *(continued)*

### 24. SHAREHOLDER'S EQUITY

| Group | Share capital £m | Retained (deficit) / earnings £m | Hedging reserve £m | Total £m |
|---|---|---|---|---|
| At 1 April 2010 | 3.0 | (142.1) | - | (139.1) |
| Transfer[1] | - | 2.2 | (2.2) | - |
| Profit for the year | - | 92.7 | - | 92.7 |
| Dividends Paid | - | (5.7) | - | (5.7) |
| Post tax fair value loss on cash flow hedge | - | - | (1.0) | (1.0) |
| Post tax actuarial gains on defined benefit schemes | - | 62.4 | - | 62.4 |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | | (2.9) | (0.1) | (3.0) |
| At 31 March 2011 | 3.0 | 6.6 | (3.3) | 6.3 |
| **Profit for the year** | **-** | **38.8** | **-** | **38.8** |
| **Dividends paid** | **-** | **(15.0)** | **-** | **(15.0)** |
| **Post tax fair value loss on cash flow hedge** | **-** | **-** | **(2.5)** | **(2.5)** |
| **Post tax actuarial loss on defined benefit schemes** | **-** | **(14.1)** | **-** | **(14.1)** |
| **Adjustment due to change in future tax rates of brought forward deferred tax asset** | | **(1.3)** | **-** | **(1.3)** |
| **At 31 March 2012** | **3.0** | **15.0** | **(5.8)** | **12.2** |

[1] The transfer from the prior year opening retained deficit relates to the opening position on fair value losses, net of deferred tax, in respect of cash flow hedges which were reclassified in order to provide increased transparency in the financial statements.

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The amount of Group profit after tax for the financial period dealt with in the Company's income statement is £14.6m (2011: £14.1m profit).

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

## Notes *(continued)*

### 24. SHAREHOLDER'S EQUITY (continued)

| Company | Share Capital £m | Retained earnings £m | Hedging reserve £m | Total £m |
|---|---|---|---|---|
| At 1 April 2010 | 3.0 | (0.2) | - | 2.8 |
| Transfer[1] | - | 2.2 | (2.2) | - |
| Profit for the year | - | 14.1 | - | 14.1 |
| Dividend paid | - | (5.7) | - | (5.7) |
| Post tax fair value loss on cash flow hedge | - | - | (1.1) | (1.1) |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | - | (0.1) | - | (0.1) |
| At 31 March 2011 | 3.0 | 10.3 | (3.3) | 10.0 |
| Profit for the year | **-** | **14.6** | **-** | **14.6** |
| Dividend paid | **-** | **(15.0)** | **-** | **(15.0)** |
| Adjustment due to change in future tax rates of brought forward deferred tax asset | **-** | **-** | **-** | **-** |
| Post tax fair value loss on cash flow hedge | **-** | **-** | **(2.5)** | **(2.5)** |
| **At 31 March 2012** | **3.0** | **9.9** | **(5.8)** | **7.1** |

### 25. CAPITAL STRUCTURE

Details of allotted share capital together with details of the movements in the company's issued share capital during the year are shown in note 23. Each share carries the right to one vote at general meetings of the company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the company's share capital and all allotted shares are fully paid.

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Articles of Association, copies of which are available on request.

### 26. OPERATING LEASES

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

| | **Land and buildings 2012 £m** | **Plant and machinery 2012 £m** | Land and buildings 2011 £m | Plant and machinery 2011 £m |
|---|---|---|---|---|
| Within one year | **1.3** | **0.1** | 0.7 | 0.1 |
| In the second to fifth years inclusive | **3.9** | **0.4** | 1.9 | 0.4 |
| After five years | **4.7** | **2.9** | 1.4 | 3.0 |
| | **9.9** | **3.4** | 4.0 | 3.5 |

The Company does not hold any non-cancellable operating leases as at the 31 March 2012 (2011: nil).

# Notes *(continued)*

## 27. ACQUISITION OF SUBSIDIARIES

**Electricity North West Services Limited ('ENWSL')**

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

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

Deferred consideration of £2.0m was paid on 22 December 2011 as per the agreement.

## 28. RELATED PARTY TRANSACTIONS

### Group and Company

Loans are made between companies in the North West Electricity Networks (Jersey) Group on which varying rates of interest are chargeable. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in the Group figures. During the period, group companies entered into the following transactions with related parties:

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| **Transactions with related parties** | | | | |
| Recharges to group companies (COMA) | **0.4** | **-** | 0.2 | - |
| Recharges to North West Electricity Networks Limited | **0.4** | **0.4** | 0.2 | 0.2 |
| Executive Directors' remuneration (note 9) | **1.2** | **-** | 1.7 | - |
| Directors' services | **0.2** | **-** | 0.1 | - |
| Interest paid to North West Electricity Networks (Finance) Ltd | **20.5** | **20.5** | 20.4 | 20.4 |
| Interest received from North West Electricity Networks Limited | **-** | **27.0** | - | 27.0 |
| Dividends paid to North West Electricity Networks (Finance) Limited | **15.0** | **15.0** | 5.7 | 5.7 |
| Dividends received from North West Electricity Networks Limited | **-** | **15.0** | - | 14.0 |

## Notes *(continued)*

### 28. RELATED PARTY TRANSACTIONS *(continued)*

Amounts outstanding with related parties are as follows:

| | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| **Amounts owed to related parties** | | | | |
| Amounts owed to North West Electricity Networks (Finance) Limited | **509.7** | **509.7** | 508.7 | 508.7 |
| Interest payable to North West Electricity Networks (Finance) Limited | **10.1** | **10.2** | 10.0 | 10.2 |
| Amounts owed to North West Electricity Networks Limited | **-** | **0.4** | - | - |
| Group tax relief to North West Electricity Networks (Finance) Limited | **0.2** | **-** | - | - |
| **Amounts owed by related parties** | | | | |
| Amounts owed by North West Electricity Networks Limited | **-** | **658.0** | - | 658.0 |
| Interest owed by North West Electricity Networks Limited | **-** | **11.7** | - | 11.7 |
| Group tax relief from North West Electricity Networks Limited | **-** | **0.5** | - | - |
| Amounts owed by COMA | **0.3** | **-** | 0.2 | - |
| Amounts owed by North West Electricity Networks (UK) Limited | **-** | **-** | 3.2 | - |

| Directors' remuneration is as follows: | **Group 2012 £m** | **Company 2012 £m** | Group 2011 £m | Company 2011 £m |
|---|---|---|---|---|
| Short-term employee benefits | **0.8** | **-** | 0.9 | - |
| Post-employee benefits | **0.1** | **-** | 0.1 | - |
| Other long-term employee benefits | **0.3** | **-** | 0.3 | - |
| Termination benefits | **-** | **-** | 0.4 | - |
| | **1.2** | **-** | 1.7 | - |

Fees of £0.1m (2011: £0.1m) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party as per note 31.
Fees of £0.1m (2011: £nil) were payable to IIF Int'l Holding GP Ltd ('IIF') in respect of the provision of Directors' services which is identified as a related party as per note 31.

The loans from related parties comprise amounts loaned from North West Electricity Networks (Finance) Limited. £200.0 million carries interest at 10% per annum and £309.7 million is interest free. The loans to related parties comprise amounts loaned to North West Electricity Networks Limited. £200.0 million carries interest at 10% per annum, £327.0 million is interest free, £131.0 million carries interest at LIBOR plus 1.5%. All other related party balances bear no interest.

## Notes *(continued)*

### 29. CASH GENERATED FROM OPERATIONS

| | **2012 Group £m** | **2012 Company £m** | 2011 Group £m | 2011 Company £m |
|---|---|---|---|---|
| Operating profit | **179.9** | - | 200.7 | - |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | **84.3** | - | 75.2 | - |
| Amortisation of intangible assets | **8.3** | - | 4.3 | - |
| Amortisation of customer contributions | **(3.6)** | - | (2.8) | - |
| Profit on disposal of property, plant and equipment | **(0.6)** | - | (0.6) | - |
| Cash contributions in excess of pension charge to operating profit | **(43.1)** | - | (15.9) | - |
| Operating cash flows before movement in working capital | **225.2** | - | 260.9 | - |
| Changes in working capital: | | | | |
| Increase in inventories | **(1.2)** | - | (0.3) | - |
| Decrease/(increase) in trade and other receivables | **25.0** | - | (6.5) | - |
| Decrease in trade and other payables | **(0.4)** | **(0.6)** | (10.5) | - |
| Cash generated from continuing operations | **248.6** | **(0.6)** | 243.6 | - |

### 30. CONTINGENT LIABILITY

ENWL held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to Comet Group Plc ('Comet') in 1996. ENWL still has a potential liability for lease obligations under privity of contract rules for 29 of those premises. In prior years, owing partly to the protection afforded by Kesa Electricals Plc (the parent company of Comet ('Kesa')), and partly due the strength of its own financial covenant, ENWL management assessed the risk of exposure to be remote.

Although ENWL is still protected from landlord claims by Comet's indemnity, on 3 February 2012 Kesa disposed of the Comet Retail Business to a private investment company OpCapita for £2 whilst retaining pensions liability (there is a reported £39m pension deficit) and injecting £50m cash into the new company with a clawback arrangement should the company be sold on for more than £70m.

There is an obligation in the proposed business sale for the new company to continue trading for at least eighteen months from the completion of business sale in February 2012. ENWL Management considers the risk of exposure to be low but is monitoring the store closure programme in relation to the 29 leasehold retail units (that could potentially produce a liability in the future) and rent payments to landlords. To date, none of the 29 units are in the closure programme nor have we received any notification from landlord's or market intelligence that there are any problems with lease payments by Comet in relation to the 29 former ENWL leases.

The 29 stores have lease expiry dates ranging from 2013 to 2021. The total annual accommodation cost, which includes rent, rates, service charge, insurance and maintenance, for these 29 properties for the next year is £7.0m. However based on the favourable location and size of the stores ENWL management expects to be able to relet the majority of these properties within a relatively short time period and considers any exposure to be in the total range of £5m-10m (pre tax, undiscounted).

This figure is subject to a significant degree of uncertainty as it involves making judgements on 29 individual retail premises, the period of vacant possession and negotiations with individual landlords, letting agents and tenants.

## Notes *(continued)*

### 31. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is North West Electricity Networks (Finance) Limited and 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.

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

First State Investments Fund Management S.à.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF ('EDIF') and IIF Int'l Holding GP Ltd ('IIF') have been identified as ultimate controlling parties and are advised by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.

### 32. EVENTS AFTER THE BALANCE SHEET

At the balance sheet date, ENWL had index-linked swaps totalling £200m notional, with a single accretion payment on maturity in 2038. The swaps had mandatory breaks as follows; £66m notional in July 2013, £66m notional in July 2016 and £68m notional in July 2019. On these break dates, ENWL could have been liable to pay the full mark-to-market value of the swaps to the swap counterparties.

On 2 May 2012, the £66m notional with a mandatory break in July 2013 was re-structured to remove the mandatory break clause and to convert to a 'pay-as-you-go' profile, with accretion pay downs scheduled every five years from July 2012 until maturity in 2038, rather than a single payment on maturity. The real-rate coupon payable was also amended on re-structure.

The index-linked swaps meet the IAS39 definition of a derivative and are, therefore, accounted for at fair value through profit or loss. At the balance sheet date, i.e. prior to re-structure, the £66m notional index-linked swaps were included in the Statement of Financial Position as a £35.3m liability, part of the derivative liabilities totalling £126.1m. On 2 May 2012, immediately prior to re-structure, these swaps were a £33.8m liability. The impact of the re-structure was to increase the £33.8m liability by £45.9m, to £79.7m. The £45.9m impact is a non-cash fair value movement through the income statement post the balance sheet date.

# NORTH WEST ELECTRICITY NETWORKS (HOLDINGS) LIMITED

## Annual Report and Consolidated Financial Statements

## for the year ended 31 March 2011

## Contents

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

The information supplied in the Directors' Report has been drawn up and presented in accordance with English company law. The liabilities of the Directors in connection with that Report shall be subject to the limitations and restrictions provided by such law.

### Business Review

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

### Cautionary statement regarding forward-looking statements

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

### Website and Investor Relations

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

## Directors' Report

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

### Business review and principal activities

North West Electricity Networks (Holdings) Limited ('NWENH') acts as a holding company for the Group and is a non-trading entity.

The Group's principal activity is the operation and maintenance of the North West's electricity distribution network. The distribution of electricity is regulated by the terms of Electricity North West Limited's ('ENWL's') Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority.

On the 30 June 2010 the Company's subsidiary, ENWL completed the purchase of United Utilities Electricity Services Limited ('UUES') from United Utilities Group PLC ('UU'). The purchase of UUES, which had been contracted to operate and maintain the network on behalf of ENWL, has enabled the Group to establish one business which owns, operates, manages and maintains its network. UUES was subsequently renamed Electricity North West Services Limited ('ENWSL') and is referred to as such throughout. On 31 March 2011, the trade and assets of ENWSL were transferred to ENWL at book value.

### *Key performance indicators*

The performance of the Group is monitored by the ENWL Board of Directors by reference to key performance indicators. Performance against these measures for the year ended 31 March 2011 is set out in the following table.

| | 2011 | Restated 2010 |
|---|---|---|
| Revenue | **£394m** | £324m |
| Operating profit | **£201m** | £146m |
| Profit/(loss) before tax | **£84m** | (£28m) |
| RAV Gearing[1] | **91%** | 89% |
| Interest cover[2] | **2.2 times** | 1.3 times |

(1) RAV Gearing is measured as borrowings at nominal value net of cash and short-term deposits divided by the allowed Regulatory Asset Value ('RAV') of £1,403m (2010: £1,344m) based on March closing prices.

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

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

For an understanding of the Group's operational performance, non-financial key performance indicators are presented for ENWL and are disclosed in the annual report and consolidated financial statements of that company.

#### *Revenue*

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

ENWL has submitted a request to restate its losses position in respect of the year ended 31 March 2010. If agreed by Ofgem, this restatement will reduce the total revenue over-recovery.

#### *Operating profit*

Operating profit has increased by 38% to £201m a result of increased revenue and the delivery of efficiencies arising from the acquisition and integration of UUES and from the Company's DPC5 transformation programme. The cost benefits have been off-set by non-recurring costs associated with the acquisition and integration activities and increased depreciation.

#### *Net finance costs*

Net finance expense for the year was £117m (2010: £174m). The 31 March 2011 position reflects adverse fair value movements of £29m on financial instruments (2010: £59m).

#### *Taxation*

The Government announced on 23 March 2011 that the UK corporation tax rate will reduce from 28% to 26%, effective from 1 April 2011. The reduction in corporation tax rate contributes to a deferred tax credit to the Group's income statement of £33m. The deferred tax provision has remained broadly unchanged year on year

## Directors' Report *(continued)*

*Taxation (continued)*

The deferred tax provision has remained broadly unchanged year on year given offsetting taxation on the IAS 19 Employee Benefits credit in the year.

### Profit and dividends

The results for the year, set out in the Consolidated Income Statement on page 9, show that profit for the year after tax was £93m (2010: loss £33m).

The Company paid an interim dividend of £6m (2010: £nil). The Directors do not propose a final dividend for the year ended 31 March 2011 (2010: £nil).

### Liquidity

The Group's primary source of liquidity is from Group operations and from funding raised through external borrowings.

ENWL has an agreed regulatory price control to 2015 which provides certainty for a large majority of the Group's revenues from ongoing operations, providing both a stable and a predictable source of funds.

*Short-term liquidity*

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

In total at 31 March 2011, unutilised committed facilities of £150m (31 March 2010: £284m), together with £204m (31 March 2010: £112m) of cash and short-term deposits provide substantial short-term liquidity for the Group and Company.

Utilisation of undrawn facilities is with reference to RAV gearing restrictions for the Group.

*Long-term liquidity*

The Group's term debt was £1,490m at 31 March 2011 compared with £1,351m at 31 March 2010. Amounts repayable after more than five years comprise bonds and bank loans.

The Group's borrowings net of cash and short-term deposits of £1,286m at 31 March 2011 (2010: £1,239m) comprised substantially all bonds and bank loans with medium to long-term maturities.

The bonds include those at nominal value of £450m at 8.875 per cent that mature in 2026, £100m of 1.4746 per cent index-linked bonds maturing in 2046, £200m at 6.125 per cent that mature in 2021 and bonds which have nominal value of £300m at 6.75 per cent that mature in 2015. The bank loans amount to £353m (31 March 2010: £227m), of which £nil (31 March 2010: £nil) matures within one year, £79m (31 March 2010: £nil) matures in more than one year but less than two years and £274m (31 March 2010: £227m) matures in more than two years.

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

### Treasury policy

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

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

### Treasury operations

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

## Directors' Report *(continued)*

*Credit (counterparty) risk management*

Exposure limits with counterparties are reviewed regularly. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group's exposure and the credit ratings of its counterparties are monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

*Market risk management*

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

Derivatives are used to hedge exposure to fluctuations in interest rates and inflation. A derivative is a financial instrument, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date. At present, the Group uses interest rate swaps to manage interest rate risk and inflation swaps to convert fixed rate debt to index-linked borrowing. The Group has one portfolio of financial instruments designated in a formal cash flow hedge relationship.

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

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

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

During the year, ENWL entered into interest rate swaps to amend the interest rate profile on a nominal £250m of ENWL's fixed rate bond, maturing in 2026. The swaps mature in 2013 and have the effect of better aligning the Group's interest rate costs with the profile of revenue set by Ofgem over the regulatory period. These derivatives do not qualify for hedge accounting and all movements in fair value are reflected in the income statement.

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

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

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

This has led to fair value losses of £29m being recognised in the income statement for this year (31 March 2010: £59m fair value loss). As noted above these movements have no cash flow impact in this year or the prior year.

### Principal risks and uncertainties

The Board considers the following risks to be the principal ones that may affect the Group's performance and results, in addition to the financial risks described above and those identified in the ENWL accounts.

The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that Company, and ultimately the Group, are discussed in the ENWL Annual Report and consolidated financial statements, which are available on our website, www.enwl.co.uk.

## Directors' Report *(continued)*

*Failure to comply with investor and banking covenants*

The Group has a comprehensive set of covenants contained within the legal agreements surrounding the external borrowings. A detailed review of all the covenants has been undertaken and appropriate owners identified within the business who are responsible for ensuring compliance.

A compliance reporting regime is well established and the compliance status is reviewed and approved by the CFO and CEO, and is reported to the Board on a monthly basis. There have been no covenant breaches in the current year. Further, there are no covenant breaches forecast nor expected in the most recent approved business plan to 31 March 2015.

*Refinancing*

The Company is a subsidiary within a group of companies established specifically for the purpose of purchasing ENWL on 19 December 2007. The purchase was financed by a combination of equity and bank acquisition finance, which were refinanced in July 2009. The acquisition finance 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. There is also in place a £130m capex facility, maturing June 2012 and a £75m revolving credit facility at ENWL, 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 undrawn facilities, provides the appropriate liquidity platform to allow the Company and Group to meet their operational and financial commitments for the foreseeable future.

### Employees

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

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

The Group sets policies and encourages a working culture that recognises, respects, values and harnesses diversity for the benefit of the Group and the individual, and we are committed to integrating equality and diversity into all that we do. Our aim is to ensure that our workforce reflects the population to whom we provide a service. The Group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, equal consideration is given to applicants with disabilities in the Group's employment criteria. The business will modify equipment and practices wherever it is safe and practical to do so, both for new employees and for those employees that become disabled during the course of their employment.

### Environment, social and community

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

### Directors

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

| | |
|---|---|
| S Johnson | |
| M McCallion | (appointed 13 August 2010, resigned 31 August 2010. Reappointed 2 September 2010) |
| P Taylor | (appointed 14 July 2010, resigned 25 January 2011) |
| C Thompson | (resigned 2 September 2010) |
| P Bircham | (appointed 2 August 2010, resigned 23 August 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 Group's business.

## Directors' Report *(continued)*

### Going concern

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

- Management has prepared, and the Directors have reviewed, updated Group forecasts for the DPC5 period which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty, our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue, and demonstrate that there is sufficient headroom to key covenants and that sufficient resources are available within the forecast period;
- ENWL's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000; and
- The Group and Company have considerable financial resources. Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, committed undrawn bank facilities are available from lenders of £80m within ENWL and £50m in the Company, which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions the covenants are not forecast to pose any operational restrictions.

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

### Directors' and Officers' insurance

The Group maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006.

### Political and charitable donations

The Company and Group made no political donations in the year (2010: £nil).

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

### Essential contractual relationships

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

### Policy on the payment of suppliers and creditors

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

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

## Directors' Report *(continued)*

### Research and development

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

### Financial instruments

The risk management objectives and policies of the Group and the Company in relation to the use of financial instruments can be found above and in note 17 to the financial statements.

### Events after the balance sheet date

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

### 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 Group and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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 Group and Company's auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### 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 auditor of the Company.

### Registered address

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

Registered number: 6428375

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

**S Johnson**
Director

## Independent auditor's report to the members of North West Electricity Networks (Holdings) Limited

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

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

### Respective responsibilities of directors and auditor

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

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

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

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

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

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

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

Alan Fendall (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
26 May 2011

# CONSOLIDATED INCOME STATEMENT
## For the year ended 31 March 2011

| | Note | Group 2011 £m | Restated* Group 2010 £m |
|---|---|---|---|
| **Revenue** | 2 | **393.7** | 323.6 |
| Employee benefits expense | 3,4 | **(33.9)** | (6.7) |
| Depreciation and amortisation expense (net) | 3 | **(77.8)** | (70.3) |
| Other operating costs | 3 | **(81.3)** | (100.9) |
| **Total operating expenses** | | **(193.0)** | (177.9) |
| **Operating profit** | 3 | **200.7** | 145.7 |
| Investment income | 5 | **2.2** | 0.6 |
| Finance expense | 6 | **(118.9)** | (174.7) |
| **Profit/(loss) before taxation** | | **84.0** | (28.4) |
| Taxation | 7 | **8.7** | (4.6) |
| **Profit/(loss) for the year** | 24 | **92.7** | (33.0) |

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

*See notes 1 and 2 for details of the restatement

# CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME

## For the year ended 31 March 2011

| | Note | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|---|
| Profit/(loss) for the financial year | | **92.7** | **14.1** | (33.0) | 1.9 |
| **Other comprehensive income/(expense):** | | | | | |
| Actuarial gains/(losses) on defined benefit pension schemes | *19* | **84.4** | **-** | (119.3) | - |
| Fair value loss on cash flow hedges | | **(1.4)** | **(1.4)** | (3.0) | (3.0) |
| Deferred tax on items taken directly to equity | *20* | **(24.6)** | **0.2** | 34.2 | 0.9 |
| **Other comprehensive income/(expense) for the year** | | **58.4** | **(1.2)** | (88.1) | (2.1) |
| **Total comprehensive income/(expense) for the year and attributable to equity holders** | | **151.1** | **12.9** | (121.2) | (0.2) |

# CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
## At 31 March 2011

| | Note | Group 2011 £m | Company 2011 £m | Re-presented* Group 2010 £m | Re-presented* Company 2010 £m |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets and goodwill | 10 | **216.6** | **-** | 207.8 | - |
| Property, plant and equipment | 11 | **2,325.0** | **-** | 2,200.7 | - |
| Investments | 12 | **-** | **3.0** | - | 3.0 |
| | | **2,541.6** | **3.0** | 2,408.5 | 3.0 |
| **Current assets** | | | | | |
| Inventories | 13 | **5.6** | **-** | - | - |
| Trade and other receivables | 14 | **78.3** | **669.7** | 35.4 | 669.2 |
| Money market deposits | 15 | **76.2** | **-** | - | - |
| Cash and cash equivalents | 15 | **127.8** | **-** | 111.7 | 0.1 |
| Derivative financial instruments | 17 | **1.0** | **-** | 1.1 | - |
| Deferred tax asset | 20 | **-** | **1.2** | - | 0.9 |
| Current income tax asset | | **-** | **0.4** | - | - |
| | | **288.9** | **671.3** | 148.2 | 670.2 |
| **Total assets** | | **2,830.5** | **674.3** | 2,556.7 | 673.2 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 18 | **(654.7)** | **(520.1)** | (619.8) | (538.6) |
| Current income tax liabilities | | **(9.5)** | **-** | (5.5) | - |
| | | **(664.2)** | **(520.1)** | (625.3) | (538.6) |
| **Net current (liabilities)/assets** | | **(375.3)** | **151.2** | (477.1) | 131.6 |
| **Non-current liabilities** | | | | | |
| Borrowings | 16 | **(1,490.5)** | **(139.7)** | (1,350.9) | (128.7) |
| Derivative financial instruments | 17 | **(97.3)** | **(4.5)** | (70.6) | (3.1) |
| Deferred tax liabilities | 20 | **(402.8)** | **-** | (412.0) | - |
| Customer contributions | 21 | **(126.5)** | **-** | (90.7) | - |
| Refundable customer deposits | 22 | **(1.6)** | **-** | (3.5) | - |
| Retirement benefit obligation | 19 | **(41.3)** | **-** | (142.8) | - |
| | | **(2,160)** | **(144.2)** | (2,070.5) | (131.8) |
| **Total liabilities** | | **(2,824.2)** | **(664.3)** | (2,695.8) | (670.4) |
| **Net assets/(liabilities)** | | **6.3** | **10.0** | (139.1) | 2.8 |
| **EQUITY** | | | | | |
| Share capital | 23, 24 | **3.0** | **3.0** | 3.0 | 3.0 |
| Retained earnings/(deficit) | 24 | **6.6** | **10.3** | (142.1) | (0.2) |
| Hedging Reserve | 24 | **(3.3)** | **(3.3)** | - | - |
| **Total equity** | 24 | **6.3** | **10.0** | (139.1) | 2.8 |

*See note 17 for details of the re-presentation.

The financial statements of North West Electricity Network (Holdings) Limited (registered number 6428534) were approved by the board of directors on 26 May 2011 and signed on its behalf by:

M McCallion,
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 March 2011

### Group

| | Called up share capital £m | Retained (deficit)/ earnings £m | Hedging reserve £m | Total Equity £m |
|---|---|---|---|---|
| At 1 April 2009 | 3.0 | (21.0) | - | (18.0) |
| Loss for the year | - | (33.0) | - | (33.0) |
| Actuarial losses on defined benefit schemes | - | (119.3) | - | (119.3) |
| Fair value loss on cash flow hedges | - | (3.0) | - | (3.0) |
| Tax on components of comprehensive income | - | 34.2 | - | 34.2 |
| Total comprehensive expense for the year | - | (121.1) | - | (121.1) |
| At 31 March 2010 | 3.0 | (142.1) | - | (139.1) |
| Transfer[1] | - | 2.2 | (2.2) | - |
| Profit for the year | - | 92.7 | - | 92.7 |
| Actuarial gains on defined benefit schemes | - | 84.4 | - | 84.4 |
| Fair value loss on cash flow hedges | - | - | (1.4) | (1.4) |
| Tax on components of comprehensive income | - | (24.9) | 0.3 | (24.6) |
| **Total comprehensive income/(expense) for the year** | **-** | **154.4** | **(3.3)** | **151.1** |
| **Transactions with owners recorded directly in equity** | | | | |
| Equity dividends | - | (5.7) | - | (5.7) |
| **At 31 March 2011** | **3.0** | **6.6** | **(3.3)** | **6.3** |

[1] The transfer from the opening retained deficit relates to the opening position on fair value losses, net of deferred tax, in respect of cash flow hedges which have been reclassified in the current year in order to provide increased transparency in the financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 March 2011

### Company

| | Called up share capital £m | Retained earnings/ (deficit) £m | Hedging reserve £m | Total Equity £m |
|---|---|---|---|---|
| At 1 April 2009 | 3.0 | - | - | 3.0 |
| Profit for the year | - | 1.9 | - | 1.9 |
| Fair value loss on cash flow hedges | - | (3.0) | - | (3.0) |
| Tax on components of comprehensive income | - | 0.9 | - | 0.9 |
| Total comprehensive expense for the year | - | (0.2) | - | (0.2) |
| At 31 March 2010 | 3.0 | (0.2) | - | 2.8 |
| Transfer[1] | - | 2.2 | (2.2) | - |
| Profit for the year | - | 14.1 | - | 14.1 |
| Fair value loss on cash flow hedges | - | - | (1.4) | (1.4) |
| Tax on components of comprehensive income | - | (0.1) | 0.3 | 0.2 |
| **Total comprehensive income/(expense) for the year** | **-** | **16.2** | **(3.3)** | **12.9** |
| **Transactions with owners recorded directly in equity** | | | | |
| Equity dividends | - | (5.7) | - | (5.7) |
| **At 31 March 2011** | **3.0** | **10.3** | **(3.3)** | **10.0** |

[1] The transfer from the opening retained deficit relates to the opening position on fair value losses, net of deferred tax, in respect of cash flow hedges which have been reclassified in the current year in order to provide increased transparency in the financial statements.

## CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
### For the year ended 31 March 2011

| | Note | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Cash generated from operations | 28 | **243.6** | **-** | 218.1 | - |
| Interest paid | | **(97.4)** | **(25.3)** | (95.4) | (25.8) |
| Tax paid | | **(20.7)** | **-** | (6.1) | - |
| **Net cash generated from/(absorbed by) operating activities** | | **125.5** | **(25.3)** | 116.6 | (25.8) |
| **Investing activities** | | | | | |
| Interest received and similar income | | **1.0** | **25.2** | 0.6 | 25.4 |
| Dividend received | | **-** | **14.0** | - | 2.4 |
| Purchase of property, plant and equipment | | **(173.9)** | **-** | (168.9) | - |
| Acquisition of subsidiary, net of cash acquired | 26 | **(14.3)** | **-** | - | - |
| Purchase of intangible assets | | **(3.0)** | **-** | (5.0) | - |
| Customer contributions received | | **37.1** | **-** | 43.9 | - |
| Proceeds from sale of property, plant and equipment | | **0.6** | **-** | 0.2 | - |
| **Net cash (used in)/generated by investing activities** | | **(152.5)** | **39.2** | (129.2) | 27.8 |
| **Financing activities** | | | | | |
| Dividend paid | | **(5.7)** | **(5.7)** | - | - |
| Transfer to money market deposits | | **(76.2)** | **-** | - | - |
| Proceeds from borrowings | | **150.0** | **10.1** | 572.3 | 0.1 |
| Repayment of borrowings | | **(25.0)** | **(18.4)** | (490.7) | - |
| Decrease in Group borrowings | | **-** | **-** | - | (2.4) |
| **Net cash generated from/(absorbed by) financing activities** | | **43.1** | **(14.0)** | 81.6 | (2.3) |
| **Net increase/(decrease) in cash and cash equivalents** | | **16.1** | **(0.1)** | 69.0 | (0.3) |
| **Cash and cash equivalents at beginning of the year** | 15 | **111.7** | **0.1** | 42.7 | 0.4 |
| **Cash and cash equivalents at end of the year** | 15 | **127.8** | **-** | 111.7 | 0.1 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

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

**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union, including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, investment properties and certain property, plant and equipment.

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

**Basis of preparation – going concern basis**

The performance, financial position and key risks impacting the Company are detailed in the Directors' Report on pages 2 to 7. The Company is ultimately a subsidiary of the North West Electricity Networks (Jersey) Limited Group, which manages its working capital on a pooled basis across the Group. The ability of the Company to meet its debts as they fall due is dependent on the fellow Group subsidiary's ability to service its debts to the Company. In consideration of this the Directors of this Company are cognisant of the following going concern disclosure which appears in the financial statements of North West Electricity Networks (Jersey) Limited for the year ended 31 March 2011:

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

The above text from North West Electricity Networks (Jersey) Limited's accounts cross refers to disclosures within its Directors' Report. This information is also included within the Directors' Report to these financial statements.

Consequently, after making the appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. 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.

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.

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

*IFRIC 18 'Transfers of Assets from Customers'*

In the current financial year, the Group has adopted IFRIC 18 'Transfers of Assets from Customers'. IFRIC 18 is effective for annual periods beginning on or after 31 October 2009, with earlier application permitted. Having been endorsed by the EU on 27 November 2009, this has been applied by Electricity North West Limited ('ENWL') during the year ending 31 March 2011. The standard has been applied to transfers received on or after 1 July 2009. The amortisation of customer contributions received in respect of certain connections assets is now shown as revenue rather than within operating costs. Comparatives have been restated accordingly. This has resulted in a prior year adjustment as outlined in note 2.

*IFRS 3 (2008) - Business combinations*

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

*Improvements to IFRSs*

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

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

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

IFRS 9: Financial Instruments

IAS 24 (amended): Related Party Disclosures

IAS 32 (amended): Classification of Rights Issues

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

IFRIC 14 (amended): Prepayments of a Minimum Funding Requirement

Improvements to IFRSs (May 2010)

**Basis of consolidation**

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

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

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

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### Subsidiaries

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

### Investments (Company only)

Investments in subsidiary undertakings are stated at cost less any provisions for permanent diminution in value. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

### Business combinations

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

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

### Intangible assets and goodwill

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

| | |
|---|---|
| Licence | Indefinite life |
| Computer software | 3-10 years |

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

### Property, plant and equipment

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

#### *Operational structures*

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

# 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Freehold land and assets in the course of construction are not depreciated. Other assets are depreciated by writing off their cost evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows:

Buildings 30-60 years

Fixtures, fittings, tools and equipment 3-40 years

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

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

**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 cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

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

**Financial instruments**

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

**Trade receivables**

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

**Trade payables**

Trade payables are stated at their nominal value.

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

### Cash and cash equivalents

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

### Money market deposits

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

### Financial investments

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

### Financial liabilities and equity

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

### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise. The effective interest rate is a method of calculating the amortised cost of a financial liability and of allocating interest expense to the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### Borrowing costs and finance income

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

### Derivatives and borrowings

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

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

The Group applied the fair value through profit or loss option to the £250m 8.875% 2026 bond upon initial recognition as the complexity of the associated swaps at that time meant that the criteria to allow hedge

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(continued)*

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

accounting was not met and the otherwise inconsistent accounting treatment that would have resulted allowed the Group to satisfy the criteria for this designation. Whilst these swaps were closed out during the year, IAS 39 does not permit the reclassification of the bond, which remains designated at fair value through profit or loss.

### Derivative financial instruments and hedge accounting

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

All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. Changes in the fair value of all derivative financial instruments that are not in a hedging relationship are recognised in the income statement within finance expense as they arise. The Group designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial Instruments: Recognition and Measurement' are met. The Group currently has one portfolio of financial instrument designated in a hedging relationship; to the extent that the hedging relationship is determined to be effective, the change in fair value of the derivative financial instruments is recognised directly in equity, with any ineffective portion of the gain or loss being recognised immediately in the income statement. The Group elects to designate a financial liability at inception as fair value through the profit or loss on the basis that it meets the conditions specified in IAS 39 'Financial Instruments: Recognition and measurement'.

### Hedge accounting

There are two types of hedge accounting strategies that the Group considers; a fair value hedge and a cash flow hedge. Currently the Group has one formal hedging relationship that is designated as a cash flow hedge.

#### *Cash flow hedge*

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

### Operating profit

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

### Taxation

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

#### *Current taxation*

Current tax, representing UK corporation tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the 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

## Notes *(continued)*

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

***Deferred taxation*** *(continued)*

computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

**Retirement benefit obligations**

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

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

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

In July 2010, the government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. The Company has taken legal advice on how this change will impact the Scheme. This change has been reflected in the Company's accounting figures at 31 March 2011 and a reduction in the benefit obligation of £3m has been recognised in equity as a result of this change in assumptions.

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

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

## Notes *(continued)*

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

**Provisions**

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

**Revenue recognition**

Revenue represents the fair value of the income receivable in the ordinary course of business primarily for the distribution of electricity during the year, exclusive of value-added tax. Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year end. Remaining sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

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

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

**Customer contributions**

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

**Refundable customer deposits**

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

**Leases**

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

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

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

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

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

## Notes *(continued)*

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

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

The carrying value of property, plant and equipment (PPE) as at 31 March 2011 was £2,325.0m (2010: £2,200.7m). Additions to PPE totalled £188.1m (2010: £167.3m) and the depreciation charge was £75.2m in the year ended 31 March 2011 (2010: £68.5m). The estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

***Revenue recognition***

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

The customers of the electricity distribution business are the electricity supply companies that utilise Electricity North West Limited's distribution network to distribute electricity from generators to the end consumer. The receivable billed is dependent upon the volume of electricity distributed, including estimates of the units distributed to customers. The estimated usage is based on historical data, judgement and assumptions. Operating revenues are gradually adjusted to reflect actual usage in the period over which the meters are read.

***Accounting for provisions and contingencies***

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

***Retirement benefits***

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

## Notes *(continued)*

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

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

The Group uses derivative financial instruments to manage the exposure to interest rate risk and bond issues. The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date.

Changes in the fair value of all derivative financial instruments that are not in a hedging relationship are recognised in the income statement within finance expense as they arise. The Group designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial; Instruments: Recognition and Measurement' are met. The Group is therefore subject to volatility in the income statement due to changes in the fair values of the derivative financial instruments. Further information is provided in note 17.

***Impairment of intangibles***

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

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

During the year the Group has acquired the share capital of ENWSL. On acquisition, in line with IFRS 3 requirements, management has performed a review for intangibles as part of the assessment of fair values. For an intangible asset to be recognised it must be possible to separately identify it and also to reliably measure the value. Management did not identify any intangible assets arising as a result of the acquisition of ENWSL, and consequently the excess of the total consideration over acquired net assets, after fair value adjustments, of £10.1 million has been recognised as goodwill.

### 2. REVENUE

| | **2011 £m** | Restated 2010 £m |
|---|---|---|
| Revenue | **393.7** | 323.6 |

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

Included within the above are revenues of approximately £313.9m (31 March 2010: £254.4m) which arose from sales to the Group's five largest customers. Customer 1 represented £98.7m (2010: £78.6m), Customer 2 £79.7m (2010: £64.4m), Customer 3 £55.6m (2010: £43.5m), Customer 4 £40.3m (2010: £35.1m) and Customer 5 £39.6m (2010: £32.9m) of revenues. No other customer represented more than 10 per cent of revenues.

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

## Notes *(continued)*

### 3. OPERATING PROFIT

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

| | 2011 £m | Restated 2010 £m |
|---|---|---|
| **Employee benefits expense** | | |
| Employee costs (note 4) | **33.9** | 6.7 |
| **Depreciation and amortisation expense (net)** | | |
| Depreciation of property, plant and equipment | | |
| Owned assets (note 11) | **75.2** | 68.5 |
| Amortisation of intangible assets and Customer contributions | | |
| Software (note 10) | **4.3** | 3.5 |
| Customer contributions[1] (note 21) | **(1.7)** | (1.7) |
| | **77.8** | 70.3 |
| **Other income** | | |
| Profit on disposal of property, plant and equipment | **(0.6)** | (0.2) |
| **Other operating costs include:** | | |
| Research and development | **1.5** | 1.3 |
| Acquisition and restructuring costs[2] | **2.2** | - |
| Operating leases: | | |
| - Plant and Machinery | **0.6** | 0.9 |
| - land and buildings | **0.5** | 1.7 |

[1] For the year ended 31 March 2011, £1.1m (2010: £0.2m) of customer contributions amortisation has been amortised through revenue as a result of the adoption of IFRIC 18 (see notes 1 and 2).
[2] Acquisition and restructuring costs include severance costs of £1.1m and acquisition costs totalling £1.1m.

## Notes *(continued)*

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

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

| | **2011 £m** | 2010 £m |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Group accounts pursuant to legislation | **0.1** | 0.1 |
| Total audit fees | **0.1** | 0.1 |
| Other services: | | |
| - Other services provided by the auditor* | **-** | - |
| - Tax services | **0.1** | - |
| - Corporate finance services | **0.1** | 0.1 |
| Total non-audit services | **0.2** | 0.1 |
| Total fees payable | **0.3** | 0.2 |

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

Fees payable for the audit of the Company's accounts were £4,000 (2010: £3,000).

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

### 4. EMPLOYEE BENEFITS EXPENSE

**Employee costs**

| | **2011 £m** | 2010 £m |
|---|---|---|
| Wages and salaries (including directors' remuneration, see note 9) | **51.8** | 6.4 |
| Social security costs | **3.9** | 0.5 |
| Pension costs (see note 19) | **12.6** | 6.7 |
| | **68.3** | 13.6 |
| Costs transferred directly to fixed assets | **(34.4)** | (6.9) |
| Charged to the income statement | **33.9** | 6.7 |

## Notes *(continued)*

### 4. EMPLOYEE BENEFITS EXPENSE *(continued)*

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

| | **2011 Number** | 2010 Number |
|---|---|---|
| Electricity distribution | **1,189** | 94 |

The increase in employee numbers in the current year primarily relates to the acquisition of ENWSL, see note 26 for further details. The total expense included within operating profit in respect of share-based payments was £nil (2010:£nil).

There are no employees of the Company (2010: same).

### 5. INVESTMENT INCOME

| | **2011 £m** | 2010 £m |
|---|---|---|
| Interest receivable on short-term bank deposits held at amortised cost | **1.0** | 0.6 |
| Expected return on pension scheme assets (note 19) | **51.7** | - |
| Interest cost on pension scheme obligations (note 19) | **(50.5)** | - |
| | **2.2** | 0.6 |

### 6. FINANCE EXPENSE

| | **2011 £m** | **2011 £m** | 2010 £m | 2010 £m |
|---|---|---|---|---|
| **Interest payable** | | | | |
| Expected return on pension scheme assets (note 19) | **-** | | (41.7) | |
| Interest cost on pension scheme obligations (note 19) | **-** | | 46.6 | |
| Net pension interest expense | | **-** | | 4.9 |
| Interest payable on bank borrowings | **0.4** | | 0.3 | |
| Interest payable on borrowings held at amortised cost | **62.4** | | 56.5 | |
| Interest payable on bank borrowings at fair value | **22.2** | | 22.2 | |
| Net (receipts)/payments on derivatives for trading | **(20.9)** | | 3.8 | |
| Other (income) finance charges related to index linked bonds | **5.3** | | (1.6) | |
| Interest payable to Group undertakings | **20.4** | | 20.6 | |
| | | **89.8** | | 101.8 |
| **Fair value (gains)/losses on financial instruments** | | | | |
| Borrowings designated at fair value through profit and loss | **6.8** | | 26.3 | |
| Derivatives designated at fair value through profit and loss | **22.3** | | 33.1 | |
| Cash settlement on close-out of amortising swaps | **-** | | (18.0) | |
| Cash settlement on close-out of gilt locks | **-** | | 26.6 | |
| | | **29.1** | | 68.0 |
| **Total Finance Expense** | | **118.9** | | 174.7 |

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

## Notes *(continued)*

### 7. TAXATION

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

| | | **2011 £m** | | 2010 £m |
|---|---|---|---|---|
| **Current tax:** | | | | |
| UK corporation tax - current year | **26.0** | | 3.8 | |
| - prior year | **(1.3)** | | 4.5 | |
| | | **24.7** | | 8.3 |
| **Deferred tax (note 20):** | | | | |
| Current year | **(0.9)** | | (12.3) | |
| Prior year | **-** | | 8.6 | |
| Impact from change in future tax rates | **(32.5)** | | - | |
| | | **(33.4)** | | (3.7) |
| | | **(8.7)** | | 4.6 |

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

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

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

| | **2011 £m** | **2011 %** | 2010 £m | 2010 **%** |
|---|---|---|---|---|
| Profit/(loss) before tax | **84.0** | | (28.4) | |
| Tax at the UK corporation tax rate of 28% (2010: 28%) | **23.5** | **28.0** | (8.0) | (28.0) |
| Prior year adjustments | **(1.3)** | **(1.5)** | 13.1 | 46.1 |
| Impact from withdrawal of IBA's | **1.4** | **1.7** | 0.9 | 3.3 |
| Non-taxable income | **-** | **-** | (1.5) | (5.3) |
| Deferred tax on amounts not in the income statement | **0.2** | **0.2** | 0.1 | 0.1 |
| Impact from change in future tax rates | **(32.5)** | **(38.8)** | - | - |
| | **(8.7)** | **10.4** | 4.6 | (16.2) |

In addition to the amount charged to the Income Statement, deferred tax relating to actuarial gains on defined benefit schemes of £24.9m charge (2010: £33.4m credit) and the fair value loss on cash flow hedges of £0.3m credit (2010: £0.8m credit) was also taken to the Statement of Comprehensive Income.

## Notes *(continued)*

### 8. DIVIDENDS

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

| | **2011** | 2010 |
|---|---|---|
| | **£m** | £m |
| Interim dividend for the year ended 31 March 2011 of £0.90 per share (31 March 2010: £Nil per share) | **5.7** | - |

The directors have not proposed a final dividend for the period ended 31 March 2011 (2010: same).

### 9. DIRECTORS AND THEIR INTERESTS

| | **Group 2011 £m** | **Company 2011 £m** | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|
| Salaries | **1.0** | **0.8** | 0.5 | 0.5 |
| Accrued bonus | **0.6** | **0.6** | 0.5 | 0.5 |
| Pension | **0.1** | **0.1** | 0.1 | 0.1 |
| | **1.7** | **1.5** | 1.1 | 1.1 |

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

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

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

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

As at 31 March 2011 the Directors have no interests in the ordinary shares of the Company (2010: same). All remuneration was borne by ENWL.

## Notes *(continued)*

### 10. INTANGIBLE ASSETS AND GOODWILL

| Group | Goodwill £m | Software £m | Licence £m | Assets in course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2009 | - | 34.5 | 186.9 | 1.4 | 222.8 |
| Additions | - | - | - | 5.1 | 5.1 |
| Transfers | - | 0.9 | - | (0.9) | - |
| At 31 March 2010 | - | 35.4 | 186.9 | 5.6 | 227.9 |
| Arising on acquisition of subsidiary | 10.1 | - | - | - | 10.1 |
| Additions | - | 0.4 | - | 2.6 | 3.0 |
| Transfers | - | 2.2 | - | (2.2) | - |
| **At 31 March 2011** | **10.1** | **38.0** | **186.9** | **6.0** | **241.0** |
| **Amortisation** | | | | | |
| At 1 April 2009 | - | 16.6 | - | - | 16.6 |
| Charge for the year | - | 3.5 | - | - | 3.5 |
| At 31 March 2010 | - | 20.1 | - | - | 20.1 |
| Charge for the year | - | 4.3 | - | - | 4.3 |
| **At 31 March 2011** | **-** | **24.4** | **-** | **-** | **24.4** |
| **Net book value at 31 March 2011** | **10.1** | **13.6** | **186.9** | **6.0** | **216.6** |
| Net book value at 31 March 2010 | - | 15.3 | 186.9 | 5.6 | 207.8 |
| Net book value at 1 April 2009 | - | 17.9 | 186.9 | 1.4 | 206.2 |

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

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

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

#### Impairment testing

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

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

## Notes *(continued)*

### 11. PROPERTY, PLANT AND EQUIPMENT

| Group | Operational structures £m | Non operational land and buildings £m | Fixtures and equipment, vehicles and other £m | Assets in course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2009 | 2,784.2 | 11.2 | 11.7 | 190.4 | 2,997.5 |
| 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 | 2,944.8 | 11.1 | 11.6 | 186.3 | 3,153.8 |
| Additions | 54.2 | 1.3 | 4.0 | 128.6 | 188.1 |
| Transfers | 104.5 | 0.4 | 1.4 | (106.3) | - |
| Arising on acquisition | - | - | 18.3 | - | 18.3 |
| Disposals | (7.3) | - | (0.3) | - | (7.6) |
| **At 31 March 2011** | **3,096.2** | **12.8** | **35.0** | **208.6** | **3,352.6** |
| **Depreciation** | | | | | |
| At 1 April 2009 | 885.3 | 3.5 | 6.8 | - | 895.6 |
| Charge for the year | 67.1 | 0.2 | 1.2 | - | 68.5 |
| Disposals | (11.0) | - | - | - | (11.0) |
| At 31 March 2010 | 941.4 | 3.7 | 8.0 | - | 953.1 |
| Charge for the year | 70.0 | 0.3 | 4.9 | - | 75.2 |
| Arising on acquisition | - | - | 6.9 | - | 6.9 |
| Disposals | (7.3) | - | (0.3) | - | (7.6) |
| **At 31 March 2011** | **1,004.1** | **4.0** | **19.5** | **-** | **1,027.6** |
| **Net book value at 31 March 2011** | **2,092.1** | **8.8** | **15.5** | **208.6** | **2,325.0** |
| Net book value at 31 March 2010 | 2,003.4 | 7.4 | 3.6 | 186.3 | 2,200.7 |
| Net book value at 1 April 2009 | 1,898.9 | 7.7 | 4.9 | 190.4 | 2,101.9 |

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

## Notes *(continued)*

### 12. INVESTMENTS

| | **Company 2011 £m** | Company 2010 £m |
|---|---|---|
| Cost | **3.0** | 3.0 |

Details of the investments at 31 March 2011 are as follows:

**Company**

| **Subsidiary undertaking** | **Description of holding** | **Proportion held** | **Nature of business** |
|---|---|---|---|
| North West Electricity Networks Group Limited | Ordinary shares of £1 each | 100% | Non-trading |
| **Indirect subsidiaries** | | | |
| North West Electricity Networks Limited | Ordinary shares of £1 each | 100% | Non-trading |
| Electricity North West Limited | Ordinary shares of 50p each | 100% | Energy distribution |
| Electricity North West Services Limited | Ordinary shares of £1 each | 100% | Operation and maintenance of electricity network |
| 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 |
| ENW Capital Finance plc | Ordinary shares of £1 each | 100% | Financing company |
| ENW Finance plc | Ordinary shares of £1 each | 100% | Financing company |

| **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 *(continued)*

### 13. INVENTORIES

| | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|
| Raw Materials and Consumables | **5.6** | **-** | - | - |

### 14. TRADE AND OTHER RECEIVABLES

| | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|
| Trade receivables | **33.2** | **-** | 2.0 | - |
| Amounts owed by group undertakings | **3.4** | **669.7** | - | 669.2 |
| Prepayments and accrued income | **41.7** | **-** | 33.4 | - |
| | **78.3** | **669.7** | 35.4 | 669.2 |

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

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Of the trade receivables, 10.0% (2010: 2.3%) are past due but not impaired. The majority of balances are less than 45 days past due; a balance of £1.3m is greater than 45 days past due at 31 March 2011 (2010: £0.1m), against which an allowance for doubtful debt of £0.1m (2010: £nil) has been made.

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

| | Group 2011 £m | Company 2011 £m | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|
| Balance at beginning of year | **0.3** | **-** | 0.6 | - |
| Charged to income statement | **-** | **-** | 0.3 | - |
| Utilised | **(0.2)** | **-** | (0.6) | - |
| Balance at end of year | **0.1** | **-** | 0.3 | - |

Trade receivables comprise 654 (2010: 32) individual customers and 68.5% (2010: 26.4%) of the trade receivables balance above relates to the regulated provision of infrastructure to electricity retail companies. The Group is required by the regulator to accept any company that has obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by the regulator to sign and adhere to the terms.

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

## Notes *(continued)*

### 14. TRADE AND OTHER RECEIVABLES *(Continued)*

The allowed RAV is set by the regulator for each year of the current price review period (April 2005 – March 2010) and is £1,403.3m for the year ended 31 March 2011 based on March closing prices (2010: £1,343.8m).

At 31 March 2011 £71.1m (2010: £87.2m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £9.7m (2010: £9.7m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

### 15. CASH AND CASH EQUIVALENTS AND MONEY MARKET DEPOSITS

| | **Group 2011 £m** | **Company 2011 £m** | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|
| Short-term bank deposits including cash at bank and in hand | **127.8** | **-** | 111.7 | 0.1 |
| Cash and Cash Equivalents | **127.8** | **-** | 111.7 | 0.1 |
| Short-term money market deposits (maturity over three months) | **76.2** | **-** | - | - |
| | **204.0** | **-** | 111.7 | 0.1 |

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

The effective interest rate on short-term deposits was a weighted average of 0.97% (2010: 0.52%) and these deposits had an average maturity of 182 days (2010: 67.9 days).

### 16. BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk and liquidity risk see note 17.

| | **Group 2011 £m** | **Company 2011 £m** | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Bonds | **1,137.3** | **-** | 1,124.1 | - |
| Bank and other term borrowings | **353.2** | **139.7** | 226.8 | 128.7 |
| | **1,490.5** | **139.7** | 1,350.9 | 128.7 |
| **Current liabilities** | | | | |
| Amounts owed to parent undertaking (note 18) | **508.7** | **508.7** | 527.0 | 527.0 |
| | **1,999.2** | **648.4** | 1,877.9 | 655.7 |

## Notes *(continued)*

### 16. BORROWINGS *(continued)*

**Carrying value by category**

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

| | Year of maturity | **Group 2011 Carrying value £m** | **Company 2011 Carrying value £m** | Group 2010 Carrying value £m | Company 2010 Carrying value £m |
|---|---|---|---|---|---|
| **Borrowings designated at fair value through profit and loss** | | | | | |
| 8.875% £250m bond | 2026 | **335.2** | **-** | 328.4 | - |
| **Borrowings measured at amortised cost** | | | | | |
| 8.875% £200m bond | 2026 | **195.4** | **-** | 195.4 | - |
| 6.125% £200m bond | 2021 | **195.2** | **-** | 194.9 | - |
| 6.75% £300m bond | 2015 | **295.4** | **-** | 294.6 | - |
| 1.4746%+RPI[1] £100m index-linked bond | 2046 | **116.1** | **-** | 110.8 | - |
| 1.5911%+RPI[1] £135m index-linked loan | 2024 | **135.0** | **-** | - | - |
| Amortising costs re: Long term loans at LIBOR plus 2.25% | 2012 | **(0.3)** | **-** | (0.6) | - |
| Long term loans at LIBOR plus 3.0% | 2012 | **78.8** | **-** | 98.7 | - |
| Long term loans at LIBOR plus 1.5% | 2014 | **139.7** | **139.7** | 128.7 | 128.7 |
| Amounts owed to parent undertaking | On demand | **508.7** | **508.7** | 527.0 | 527.0 |
| | | **1,999.2** | **648.4** | 1877.9 | 655.7 |

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

The 6.75% £300m bonds are secured and guaranteed by the issuing company, ENW Capital Finance plc, North West Electricity Networks Limited and NWEN Group Limited (the “Parent Company”). All other loans and borrowings are unsecured. There is no formal bank overdraft facility in place at 31 March 2011. All amounts are in sterling. The fair values of the Group’s financial instruments are shown in note 17.

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

**Borrowing facilities**

The Group had £150.0m (2010: £284.2m) in unutilised committed bank facilities at 31 March 2011 of which £nil expires within one year (2010: £25.0m), £125.0m expires after one year but less than two years (2010: £Nil) and £25.0m expires in more than two years (2010: £259.2m). The Company has committed undrawn bank facilities of £20.0m that expire in more than two years (2010: £30.0m).

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS

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

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

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

The accounting policy for derivatives is provided in note 1.

### Control over financial instruments

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

### Risk management

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. The Electricity North West Limited's treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee.

The Group's policies and processes for managing risk and the methods used to measure risk have not changed since the prior year.

### Credit risk

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

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

Significant changes in the economy or in the utilities sector could result in losses not necessarily provided for at the statement of financial position date. The total number of customers in 2011: 654 (2010: 32), however there are five principal customers the creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal customers could have a significant impact on the Group due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

**Credit risk** *(continued)*

protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management therefore closely monitor adherence to this process.

**a) Trade receivables**

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

**b) Treasury investments**

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

As at 31 March 2011 none (2010: None) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been renegotiated with any counterparty. The Group has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

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

| Credit Rating | **2011 £m** | **2011 %** | 2010 £m | 2010 % |
|---|---|---|---|---|
| AAA | **33.7** | **15.6** | - | - |
| AA | **1.0** | **0.5** | 1.1 | 1.0 |
| AA- | **96.0** | **44.6** | 47.0 | 41.7 |
| A+ | **59.7** | **27.7** | 39.0 | 34.6 |
| A | **25.0** | **11.6** | 25.7 | 22.7 |
| | **215.4** | **100.0** | 112.8 | 100.0 |

No collateral is held in relation to Treasury assets.

**Exposure to credit risk**

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, in the statement of financial position. For trade receivables, the value is net of any collateral held in cash deposits (please refer to note 14 for further details).

| Credit risk by class | **2011 Group £m** | **2011 Company £m** | 2010 Group £m | 2010 Company £m |
|---|---|---|---|---|
| Trade receivables | **33.2** | **-** | 2.0 | - |
| Derivative financial instruments (assets) | **1.0** | **-** | 1.1 | - |
| Cash and cash equivalents | **127.8** | **-** | 111.7 | 0.1 |
| Money market deposits (maturity over three months) | **76.2** | **-** | - | - |
| **Total** | **238.2** | **-** | 114.8 | 0.1 |

Cash and cash equivalents and money market deposits are measured at cost. Trade receivables and derivative financial instruments are measured at fair value.

# Notes *(continued)*

## 17. FINANCIAL INSTRUMENTS *(continued)*

### Liquidity risk

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

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and 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 cash flows 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:

| Available Liquidity | **2011 Group £m** | **2011 Company £m** | 2010 Group £m | 2010 Company £m |
|---|---|---|---|---|
| Cash and cash equivalents | **127.8** | **-** | 111.7 | 0.1 |
| Money market deposits | **76.2** | **-** | - | - |
| Committed undrawn bank facilities | **150.0** | **20.0** | 284.2 | 30.0 |
| **Total** | **354.0** | **20.0** | 395.9 | 30.1 |

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

Committed undrawn bank facilities include £nil (2010: £25.0) of facilities that expire within one year, £125.0m (2010: £Nil) that expires after one year but less than two years and £25.0m (2010: £259.2m) that expires in more than two years.  The Company has committed undrawn bank facilities of £20.0m that expires in more than two years (2010: £30.0m).

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

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

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

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

**Liquidity risk** *(continued)*

| **Group** **As at 31 March 2011** | **On demand** | **<1 year** | **1-2 years** | **2-3 years** | **3-4 years** | **>4 years** | **Total** |
|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Trade payables | **(9.9)** | **-** | **-** | **-** | **-** | **-** | **(9.9)** |
| Amount owed to parent undertaking | **(508.7)** | **-** | **-** | **-** | **-** | **-** | **(508.7)** |
| Bonds | **-** | **(74.2)** | **(74.2)** | **(74.2)** | **(74.2)** | **(1,652.6)** | **(1,949.4)** |
| Borrowings | **-** | **(9.1)** | **(87.5)** | **(5.9)** | **(145.5)** | **(155.3)** | **(403.3)** |
| Derivative financial instruments (net) | **-** | **12.3** | **12.3** | **(25.0)** | **5.1** | **10.6** | **15.3** |
| | **(518.6)** | **(71.0)** | **(149.4)** | **(105.1)** | **(214.6)** | **(1,797.3)** | **(2,856.0)** |

| As at 31 March 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Trade payables | (33.2) | - | - | - | - | - | (33.2) |
| Amount owed to parent undertaking | (527.0) | - | - | - | - | - | (527.0) |
| Bonds | - | (74.2) | (74.0) | (74.0) | (74.0) | (1,717.5) | (2,013.7) |
| Borrowings | - | (7.9) | (7.0) | (104.1) | (3.1) | (134.0) | (256.1) |
| Derivative financial instruments (net) | - | 6.4 | 4.8 | 4.7 | 4.7 | (35.5) | (14.9) |
| | (560.2) | (75.7) | (76.2) | (173.4) | (72.4) | (1,887.0) | (2,844.9) |

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

**Liquidity risk** *(continued)*

| **Company**<br>**As at 31 March 2011** | **On demand £m** | **<1 year £m** | **1-2 years £m** | **2-3 years £m** | **3-4 years £m** | **>4 years £m** | **Total £m** |
|---|---|---|---|---|---|---|---|
| Amount owed to parent undertaking | **(508.7)** | **-** | **-** | **-** | **-** | **-** | **(508.7)** |
| Borrowings and overdrafts | **-** | **(3.6)** | **(3.7)** | **(3.7)** | **(143.4)** | **-** | **(154.4)** |
| Derivative financial instruments (net) | **-** | **(2.9)** | **(2.9)** | **(2.8)** | **(2.8)** | **-** | **(11.4)** |
| | **(508.7)** | **(6.5)** | **(6.6)** | **(6.5)** | **(146.2)** | **-** | **(674.5)** |
| As at 31 March 2010 | | | | | | | |
| Amount owed to parent undertaking | (527.0) | - | - | - | - | - | (527.0) |
| Borrowings and overdrafts | - | (3.9) | (3.1) | (3.1) | (3.1) | (133.3) | (146.5) |
| Derivative financial instruments (net) | - | (1.6) | (3.1) | (3.1) | (3.1) | (3.1) | (14.0) |
| | (527.0) | (5.5) | (6.2) | (6.2) | (6.2) | (136.4) | (687.5) |

**Market risk**

Market risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation (RPI), equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk. The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered into. The management of market risk is undertaken using risk limits approved by the finance director under delegated authority. The Group has very little foreign exchange and equity exposure. The Group borrows in the major global debt markets at both fixed and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

**Interest rate risk**

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

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

**Sensitivity analysis**

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

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

**Sensitivity analysis** *(continued)*

| **Sensitivity Analysis** | **Year ended 31 March 2011** | | Year ended 31 March 2010 | |
|---|---|---|---|---|
| | ***1% change in interest rates*** | ***3% change in interest rates*** | *1% change in interest rates* | *3% change in interest rates* |
| | **£m** | **£m** | £m | £m |
| Debt held at fair value | **11.4** | **62.5** | 30.5 | 80.8 |
| Interest rate swaps | **(3.9)** | **(13.4)** | 4.4 | 13.3 |
| Total fair value movement | **7.5** | **49.1** | 34.9 | 94.1 |

The sensitivity analysis above shows the amount by which the fair value of items recorded on the statement of financial position at fair value would be adjusted 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.

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

The Group has an inflation linked bond held on its statement of financial position, as inflation is the key driver of future earnings.

**Inflation risk**

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

The carrying value of index-linked debt at 31 March 2011 was £251.1m (2010: £110.8m). Whilst management does not formally monitor the sensitivity to changes in inflation, it is estimated that a 1% increase in inflation would lead to a £1.2m (2010: £1.1m) decrease in profits in relation to this index-linked debt.

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

**Currency risk**

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

**Hedging**

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

# Notes *(continued)*

## 17 FINANCIAL INSTRUMENTS *(continued)*

### Fair values

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

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

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

| **Financial assets:**<br>**2011** | **Group Carrying value £m** | **Group Fair value £m** | **Company Carrying value £m** | **Company Fair value £m** |
|---|---|---|---|---|
| ***Current assets:*** | | | | |
| Cash and cash equivalents | **127.8** | **127.8** | **-** | **-** |
| Money market deposits | **76.2** | **76.2** | **-** | **-** |
| Derivative financial instruments - held for trading swaps | **1.0** | **1.0** | **-** | **-** |
| | **205.0** | **205.0** | **-** | **-** |
| 2010 | | | | |
| *Current assets:* | | | | |
| Cash and cash equivalents | 111.7 | 111.7 | 0.1 | 0.1 |
| Derivative financial instruments - held for trading swaps | 1.1 | 1.1 | - | - |
| | 112.8 | 112.8 | 0.1 | 0.1 |

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

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

## Notes *(continued)*

### 17. FINANCIAL INSTRUMENTS *(continued)*

**Fair values**

| **2011** | **Group Carrying value £m** | **Group Fair value £m** | **Company Carrying value £m** | **Company Fair value £m** |
|---|---|---|---|---|
| **Financial liabilities:** | | | | |
| ***Non-current liabilities***: | | | | |
| Borrowings designated at fair value through profit and loss | **335.2** | **335.2** | **-** | **-** |
| Borrowings measured at amortised cost | **1,155.2** | **1,282.9** | **139.7** | **139.7** |
| Derivative financial instruments - held for trading swaps | **97.3** | **97.3** | **4.5** | **4.5** |
| | **1,587.7** | **1,715.4** | **144.2** | **144.2** |
| ***Current liabilities:*** | | | | |
| Borrowings - amounts owed to parent undertaking (note 18) | **508.7** | **508.7** | **508.7** | **508.7** |
| | **508.7** | **508.7** | **508.7** | **508.7** |

| 2010 (Re-presented) | **Group Carrying value £m** | **Group Fair value £m** | **Company Carrying value £m** | **Company Fair value £m** |
|---|---|---|---|---|
| **Financial liabilities:** | | | | |
| ***Non-current liabilities***: | | | | |
| Borrowings designated at fair value through profit and loss | 328.4 | 328.4 | - | - |
| Borrowings measured at amortised cost | 1,022.5 | 1,143.4 | 128.7 | 128.7 |
| Derivative financial instruments - held for trading swaps | 70.6 | 70.6 | 3.1 | 3.1 |
| | 1,421.5 | 1,542.4 | 131.8 | 131.8 |
| ***Current liabilities:*** | | | | |
| Borrowings - amounts owed to parent undertaking (note 18) | 527.0 | 527.0 | 527.0 | 527.0 |
| | 527.0 | 527.0 | 527.0 | 527.0 |

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

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

## Notes *(continued)*

### 17. 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).

| | **31 March 2011** | | | |
|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
| **Financial assets at fair value through profit or loss** | | | | |
| Derivative financial assets | **-** | **1.0** | **-** | **1.0** |
| **Total** | **-** | **1.0** | **-** | **1.0** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Derivative financial liabilities | **-** | **97.3** | **-** | **97.3** |
| Financial liabilities designated at FVTPL | **335.2** | **-** | **-** | **335.2** |
| **Total** | **335.2** | **97.3** | **-** | **432.5** |

| | 31 March 2010 | | | |
|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £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 | - | (70.6) | - | (70.6) |
| Financial liabilities designated at FVTPL | (328.4) | - | - | (328.4) |
| Total | (328.4) | (73.8) | - | (402.2) |

There were no transfers between levels during the current year.

## Notes *(continued)*

### 18. TRADE AND OTHER PAYABLES

| | **Group 2011 £m** | **Company 2011 £m** | Group 2010 £m | Company 2010 £m |
|---|---|---|---|---|
| Trade payables | **9.9** | **-** | 33.2 | - |
| Amounts owed to parent undertaking | | | | |
| - Borrowings (see note 16) | **508.7** | **508.7** | 527.0 | 527.0 |
| - Accrued interest | **10.0** | **10.0** | 10.7 | 10.7 |
| Amounts owed to subsidiary undertaking | **-** | **0.2** | - | - |
| Other taxation and social security | **13.8** | **-** | 6.0 | - |
| Customers' contributions (note 21) | **3.0** | **-** | 2.5 | - |
| Refundable customer deposits (note 22) | **6.5** | **-** | 6.9 | - |
| Accruals and deferred income | **102.8** | **1.2** | 33.5 | 0.9 |
| | **654.7** | **520.1** | 619.8 | 538.6 |

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

### 19. RETIREMENT BENEFIT SCHEMES

#### Group

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

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

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

During the year the Group made contributions of £27.6m (2009: £15.4m) to the defined benefit sections of the scheme. The Group will continue to make payments into the scheme in accordance with the results of the formal actuarial valuation of the scheme as at 31 March 2010. The Group estimates that contributions for the year ending 31 March 2012 will amount to £26.5m. The total defined benefit pension expense for the year was £10.5m (2010: pension expense £11.4m). Information about the pension arrangements for the Executive Directors is contained in note 9.

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

## Notes *(continued)*

### 19. RETIREMENT BENEFIT SCHEMES *(continued)*

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

| | **At 31 March 2011 %** | At 31 March 2010 % |
|---|---|---|
| Discount rate – ENWL | **5.40** | 5.20 |
| Discount rate - UUES | **5.60** | 5.30 |
| Expected return on assets –ENWL | **5.70** | 6.00 |
| Expected return on assets – UUES | **6.80** | 7.20 |
| Pensionable salary growth - ENWL | **4.40** | 4.60 |
| Pensionable salary growth - UUES | **4.50** | 4.70 |
| Pension increases - ENWL | **3.40** | 3.60 |
| Pension increases - UUES | **3.50** | 3.70 |
| Price inflation – ENWL | **2.70** | 3.60 |
| Price inflation - UUES | **2.80** | 3.70 |

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

| | **At 31 March 2011** | At 31 March 2010 |
|---|---|---|
| Life expectancy at age 60: | | |
| Retired member | **25.8** | 26.0 |
| Non-retired member | **27.0** | 27.9 |

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

## Notes *(continued)*

### 19. RETIREMENT BENEFIT SCHEMES *(continued)*

As at 31 March 2011, the Group's share of the fair value of Scheme's assets, together with the liabilities in the Schemes recognised in the statement of financial position were as follows:

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

To develop the expected long-term rate of return on assets assumption, the Group considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset 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 £56.1m gain (2010: £176.4m loss). None of the pension scheme assets are held in the Group's own financial instruments or property occupied by, or other assets used by the Group.

## Notes *(continued)*

### 19. RETIREMENT BENEFIT SCHEMES *(continued)*

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

| | **2011 £m** | 2010 £m |
|---|---|---|
| At 1 April | **(984.1)** | (728.0) |
| Current service cost | **(11.4)** | (6.1) |
| Interest cost on scheme obligations | **(50.5)** | (46.6) |
| Member contributions | **(2.1)** | (2.2) |
| Past service cost | **(0.3)** | (0.4) |
| Actuarial gains/(losses) | **52.9** | (252.2) |
| Actuarial gains - experience | **27.1** | - |
| Benefits paid | **48.7** | 51.4 |
| ENWSL acquisition | **(5.4)** | - |
| **At 31 March** | **(925.1)** | (984.1) |

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

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

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

| | **2011 £m** | 2010 £m |
|---|---|---|
| Current service cost | **(11.4)** | (6.1) |
| Past service cost | **(0.3)** | (0.4) |
| Expected return on scheme assets | **51.7** | 41.7 |
| Interest on scheme obligations | **(50.5)** | (46.6) |
| Net pension expense before taxation | **(10.5)** | (11.4) |

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 or finance expense as appropriate.

## Notes *(continued)*

### 19. RETIREMENT BENEFIT SCHEMES *(continued)*

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

| | **2011** **£m** | 2010 £m |
|---|---|---|
| At 1 April | **(142.8)** | (27.5) |
| Expense recognised in the income statement | **(10.5)** | (11.4) |
| Contributions paid | **27.6** | 15.4 |
| Actuarial gain/(loss) gross of taxation | **84.4** | (119.3) |
| At 31 March | **(41.3)** | (142.8) |

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

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

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

## Notes *(continued)*

### 20. DEFERRED TAX

The following are the major deferred tax liabilities recognised by the Group, and the movements thereon, during the current reporting year.

| **Group** | **Accelerated tax depreciation £m** | **Retirement benefit obligations £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| At 1 April 2009 | 458.6 | (7.6) | (1.1) | 449.9 |
| Charged/(credited) to the income statement | 6.3 | 1.0 | (11.0) | (3.7) |
| Credited to equity for the year | - | (33.4) | (0.8) | (34.2) |
| At 31 March 2010 | 464.9 | (40.0) | (12.9) | 412.0 |
| (Credited)/charged to the income statement | (34.7) | 4.4 | (3.2) | (33.4) |
| Arising on acquisition | - | - | (0.4) | (0.4) |
| Charged/(credited) to equity for the year | - | 24.9 | (0.3) | 24.6 |
| **At 31 March 2011** | **430.2** | **(10.7)** | **(16.1)** | **402.8** |

| **Company** | **Other £m** | **Total £m** |
|---|---|---|
| At 1 April 2009 | - | - |
| Credited to equity for the year | (0.9) | (0.9) |
| At 31 March 2010 | (0.9) | (0.9) |
| Credited to equity for the year | **(0.3)** | **(0.3)** |
| **At 31 March 2011** | **(1.2)** | **(1.2)** |

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

Other deferred tax in both the Group and Company relates primarily to derivative financial instruments.

## Notes *(continued)*

### 21. CUSTOMER CONTRIBUTIONS

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

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

| **Group** | **£m** |
|---|---|
| At 1 April 2009 | 51.2 |
| Additions in the year | 43.9 |
| Amortisation | (1.9) |
| At 31 March 2010 | 93.2 |
| Additions in the year | 39.1 |
| Amortisation | (2.8) |
| **At 31 March 2011** | **129.5** |
| Amounts due in less than one year (note 18) | **3.0** |
| Amounts due after more than one year | **126.5** |
| | **129.5** |

### 22. REFUNDABLE CUSTOMER DEPOSITS

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

| **Group** | **2011 £m** | 2010 £m |
|---|---|---|
| Amounts due in less than one year (note 18) | **6.5** | 6.9 |
| Amounts due after more than one year | **1.6** | 3.5 |
| | **8.1** | 10.4 |

### 23. SHARE CAPITAL

| **Group and Company** | **2011 £** | 2010 £ |
|---|---|---|
| **Authorised:** | | |
| 3,000,000 ordinary shares of £1 each | **3,000,000** | 3,000,000 |
| **Allotted, called up and fully paid:** | | |
| 3,000,000 ordinary shares of £1 each | **3,000,000** | 3,000,000 |

## Notes *(continued)*

### 24. SHAREHOLDER'S EQUITY

| **Group** | **Called up share capital £m** | **Retained (deficit) / earnings £m** | **Hedging reserve £m** | **Total £m** |
|---|---|---|---|---|
| At 1 April 2009 | 3.0 | (21.0) | - | (18.0) |
| Loss for the year | - | (33.0) | - | (33.0) |
| Post tax fair value loss on cash flow hedge | - | (2.2) | - | (2.2) |
| Post employment benefits: Post tax actuarial losses on defined benefit schemes | - | (85.9) | - | (85.9) |
| At 31 March 2010 | 3.0 | (142.1) | - | (139.1) |
| Transfer[1] | **-** | **2.2** | **(2.2)** | **-** |
| Profit for the year | **-** | **92.7** | **-** | **92.7** |
| Dividends paid | **-** | **(5.7)** | **-** | **(5.7)** |
| Post tax fair value loss on cash flow hedge | **-** | **-** | **(1.1)** | **(1.1)** |
| Post employment benefits: Post tax actuarial gains on defined benefit schemes | **-** | **59.5** | **-** | **59.5** |
| **At 31 March 2011** | **3.0** | **6.6** | **(3.3)** | **6.3** |

As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The amount of profit after tax for the financial period dealt with in the Company's income statement is £14.1m (2010: £1.9m profit).

| **Company** | **Called up share capital £m** | **Retained deficit £m** | **Hedging reserve £m** | **Total £m** |
|---|---|---|---|---|
| At 1 April 2009 | 3.0 | - | - | 3.0 |
| Profit for the year | - | 1.9 | - | 1.9 |
| Post tax fair value loss on cash flow hedge | - | (2.1) | - | (2.1) |
| At 31 March 2010 | 3.0 | (0.2) | - | 2.8 |
| Transfer[1] | **-** | **2.2** | **(2.2)** | **-** |
| Profit for the year | **-** | **14.1** | **-** | **14.1** |
| Dividend paid | **-** | **(5.7)** | **-** | **(5.7)** |
| Post tax fair value loss on cash flow hedge | **-** | **-** | **(1.1)** | **(1.1)** |
| Tax on components of comprehensive income | **-** | **(0.1)** | | **(0.1)** |
| **At 31 March 2011** | **3.0** | **10.3** | **(3.3)** | **10.0** |

[1] The transfer from the opening retained deficit relates to the opening position on fair value losses, net of deferred tax, in respect of cash flow hedges which have been reclassified in the current year in order to provide increased transparency in the financial statements.

# Notes *(continued)*

## 25. OPERATING LEASES

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

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

The Company does not hold any non-cancellable operating leases as at the 31 March 2011.

## 26. ACQUISITION OF SUBSIDIARIES

Electricity North West Services Limited

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

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

## Notes *(continued)*

### 26. ACQUISITION OF SUBSIDIARIES *(continued)*

| | ENWSL's carrying amount before combination £m | Provisional Fair value adjustments £m | Provisional Fair value £m |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment | 12.1 | (0.7) | 11.4 |
| Inventories | 6.2 | (1.0) | 5.2 |
| Trade receivables | 36.8 | (0.3) | 36.5 |
| Bank and cash balances | 9.2 | - | 9.2 |
| Trade payables | (47.2) | - | (47.2) |
| Deferred tax liability | (0.1) | 0.4 | 0.3 |
| Total identifiable assets | 17.0 | (1.6) | 15.4 |
| Goodwill arising on acquisition (provisional) | | | 10.1 |
| | | | 25.5 |
| Cash | | | 23.5 |
| Deferred consideration | | | 2.0 |
| **Total consideration** | | | 25.5 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | | | (23.5) |
| Cash and cash equivalents acquired | | | 9.2 |
| | | | 14.3 |

The fair value of the acquired identifiable intangible assets and net assets are provisional pending completion of final valuations given the proximity of the acquisition to the reporting year end.

## Notes *(continued)*

### 26. ACQUISITION OF SUBSIDIARIES *(continued)*

The goodwill arising on the acquisition of ENWSL is attributable to the synergies and other benefits arising from controlling all the operations and maintenance of the company's operational assets and capturing the profit earned by the Company. None of the goodwill recognised is expected to be deductible for income tax purposes.

In accordance with IFRS 3 revised, £0.8m of acquisition costs have been expensed within the period.

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

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

If the acquisition had been completed on 1 April 2010, total group revenue for the period would have been £393.8m, and profit for the period would have been £93.1m.

Deferred consideration will be paid on the 31 December 2011.

### 27. RELATED PARTY TRANSACTIONS

**Group and Company**

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

During the period, group companies entered into the following transactions with related parties who are not members of the Group:

| | **2011** | 2010 |
|---|---|---|
| | **£m** | £m |
| Interest paid | **20.4** | 20.6 |
| Loans from related parties | **518.7** | 537.0 |
| Directors' fees | **0.1** | 0.1 |

The loans from related parties comprise amounts loaned from the immediate parent undertaking, North West Electricity Networks (Finance) Limited. £200.0 million carries interest at 10% per annum and £308.7 million is interest free and are all repayable on demand.

Amounts outstanding at 31 March 2011 between the North West Electricity Networks (Holdings) Limited Group and other companies within the Group are provided in notes 14 and 18.

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

## Notes *(continued)*

### 27. RELATED PARTY TRANSACTIONS *(continued)*

The Company entered into the following transactions with related parties:

| | **2011 £m** | 2010 £m |
|---|---|---|
| Loans (including accrued interest) from North West Electricity Networks (Finance) Limited | **518.7** | 537.0 |
| Loans (including accrued interest) to North West Electricity Networks Limited | **(669.7)** | (658.0) |
| Interest paid to North West Electricity Networks (Finance) Limited | **(20.4)** | (20.6) |
| Interest received from North West Electricity Networks Limited | **26.0** | 25.4 |

The loan to North West Electricity Networks Limited comprises £200.0 million which carries interest at 10% per annum, £327.0 million which is interest free and £131.0 million which carries interest at LIBOR plus 1.5%. All amounts are all repayable on demand.

The loan from North West Electricity Networks (Finance) Limited comprises a principal amount of £200m with an interest rate of £10% per annum and £308.7m is interest free. Both loans are repayable on demand.

### 28. CASH GENERATED FROM OPERATIONS

| **Cash generated from operations** | **2011 Group £m** | **2011 Company £m** | 2010 Group £m | 2010 Company £m |
|---|---|---|---|---|
| Profit/(loss) before taxation | **84.0** | **-** | (28.4) | 1.7 |
| Adjustment for investment income, finance expense and other gains and losses | **116.7** | **-** | 174.1 | (1.7) |
| Operating profit | **200.7** | **-** | 145.7 | - |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | **75.2** | **-** | 68.5 | - |
| Amortisation of intangible assets | **4.3** | **-** | 3.5 | - |
| Amortisation of customer contributions | **(2.8)** | **-** | (1.9) | - |
| Profit on disposal of property, plant and equipment | **(0.6)** | **-** | (0.2) | - |
| Cash contributions in excess of pension charge to operating profit | **(15.9)** | **-** | (11.9) | - |
| Operating cash flows before movement in working capital | **260.9** | **-** | 203.7 | - |
| Changes in working capital: | | | | |
| Increase in inventories | **(0.3)** | **-** | - | - |
| (Increase)/decrease in trade and other receivables | **(6.5)** | **-** | 8.6 | - |
| (Decrease)/increase in trade and other payables | **(10.5)** | **-** | 5.8 | - |
| Cash generated from continuing operations | **243.6** | **-** | 218.1 | - |

# Notes *(continued)*

### 29. CONTINGENT LIABILITY

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

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

### 30. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is North West Electricity Networks (Finance) Limited and 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.

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

First State Investments Fund Management S.à.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF ('EDIF') and IIF Int'l Holding GP Ltd ('IIF') have been identified as ultimate controlling parties and are advised by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.

Company Registration No. 6428374

# NORTH WEST ELECTRICITY NETWORKS (FINANCE) LIMITED

## Annual Report and Financial Statements

## for the year ended 31 March 2012

# Contents

# Directors' Report

The Directors present their annual report and the audited financial statements of North West Electricity Networks (Finance) Limited (the 'Company') for the year ended 31 March 2012.

## Principal activities and results

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

The Company operates solely as an investment company and therefore there are no non-financial key performance indicators. For an understanding of the Group's non-financial key performance indicators these are presented for the Group in the financial statements of Electricity North West Limited ('ENWL').

The results for the year are set out in the Income Statement on page 4.

## Dividends

The Company paid interim dividends of £15.0m (2011: £5.7m). The Directors do not propose a final dividend for the year ended 31 March 2012 (2011: £nil).

## Principal risks and uncertainties

The Board considers the principal risks and uncertainties facing the Company to be those that affect the larger Group. The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the business model, the regulatory environment, the resources and principal risks and uncertainties facing that company, and ultimately the Group, are discussed in the Business Review section of the ENWL annual report and consolidated financial statements.

## Directors

The Directors of the Company during the year ended 31 March 2012 and thereafter are set out below. All were Directors for the whole year.

S Johnson
M McCallion

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

## Going Concern

After making enquires, and based on the assumptions, sensitivities and uncertainties outlined in note 1 to the financial statements, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Directors' and Officers' insurance

The Company maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006.

## 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 period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

## Directors' Report *(Continued)*

### Information given to auditor

Each of the persons who is a Director at the date of approval of the financial statements confirms that:

(1) so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) he has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor of the company. In accordance with section 487 of the Companies Act 2006, Deloitte LLP are deemed to be re-appointed as auditor of the Company.

### Registered address

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

Registered number: 6428374

Approved by the Board on 1 June 2012 and signed on its behalf by:

**S Johnson**
Director

**M McCallion**
Director

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH WEST ELECTRICITY NETWORKS (FINANCE) LIMITED

We have audited the financial statements of North West Electricity Networks (Finance) Limited for the year ended 31 March 2012 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### Respective responsibilities of directors and auditor

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

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

**Alan Fendall (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
1 June 2012

## INCOME STATEMENT
## For the year ended 31 March 2012

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Operating profit** | 2 | **-** | - |
| Investment income | 4 | **35.5** | 26.2 |
| Finance expense | 5 | **(20.5)** | (20.5) |
| **Profit before taxation** | | **15.0** | 5.7 |
| Taxation | 6 | **-** | - |
| **Profit for the year and attributable to equity holders** | 14 | **15.0** | 5.7 |

All the results shown in the Income Statement, for both the current and preceding years, derive from continuing operations.

There are no other recognised gains and losses for the current or previous financial years other than the result shown above. Accordingly, a separate Statement of Comprehensive Income has not been prepared.

## STATEMENT OF FINANCIAL POSITION
### At 31 March 2012

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments | 8 | **3.0** | 3.0 |
| **Current assets** | | | |
| Trade and other receivables | 9 | **520.2** | 519.1 |
| Cash and cash equivalents | 10 | **0.1** | 0.2 |
| | | **520.3** | 519.3 |
| **Total assets** | | **523.3** | 522.3 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **(10.1)** | (10.1) |
| Borrowings | 12 | **(509.7)** | (508.7) |
| **Net current assets** | | **0.5** | 0.5 |
| **Total liabilities** | | **(519.8)** | (518.8) |
| **Net assets** | | **3.5** | 3.5 |
| **EQUITY** | | | |
| Share capital | 13 | **3.0** | 3.0 |
| Retained earnings | 14 | **0.5** | 0.5 |
| **Total equity** | 14 | **3.5** | 3.5 |

The financial statements of North West Electricity Networks (Finance) Limited (registered number 6428374) were approved by the Board of Directors on 1 June 2012 and signed on its behalf by:

**M McCallion**
Director

## STATEMENT OF CHANGES IN EQUITY
### For the year ended 31 March 2012

| | Share capital £m | Retained earnings £m | Total Equity £m |
|---|---|---|---|
| At 1 April 2010 | 3.0 | 0.5 | 3.5 |
| Profit for the year | - | 5.7 | 5.7 |
| **Total comprehensive income for the year** | **-** | **5.7** | **5.7** |
| Equity dividends | - | (5.7) | (5.7) |
| **At 31 March 2011** | **3.0** | **0.5** | **3.5** |
| At 1 April 2011 | 3.0 | 0.5 | 3.5 |
| Profit for the year | - | 15.0 | 15.0 |
| **Total comprehensive income for the year** | **-** | **15.0** | **15.0** |
| Equity dividends | - | (15.0) | (15.0) |
| **At 31 March 2012** | **3.0** | **0.5** | **3.5** |

## STATEMENT OF CASH FLOWS
## For the year ended 31 March 2012

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Operating profit** | | **-** | - |
| Interest paid | | **(20.5)** | (20.5) |
| **Net cash used in operating activities** | | **(20.5)** | (20.5) |
| **Investing activities** | | | |
| Interest received | | **20.5** | 20.5 |
| Dividends received | | **15.0** | 5.7 |
| **Net cash generated from investing activities** | | **35.5** | 26.2 |
| **Financing activities** | | | |
| Proceeds from intercompany borrowings | | **1.0** | - |
| Dividends paid | | **(15.0)** | (5.7) |
| Proceeds on issue of intercompany borrowings | | **(1.1)** | - |
| **Net cash used in financing activities** | | **(15.1)** | (5.7) |
| **Net decrease in cash and cash equivalents** | | **(0.1)** | - |
| **Cash and cash equivalents at beginning of the year** | | **0.2** | 0.2 |
| **Cash and cash equivalents at end of the year** | 10 | **0.1** | 0.2 |

# Notes to the Annual Report and Financial Statements

North West Electricity Networks (Finance) Limited is a company incorporated in the United Kingdom under the Companies Act.

## 1. ACCOUNTING POLICIES

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

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by 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.

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

### Basis of preparation - going concern basis

The performance, financial position and key risks impacting the Company are detailed in the Directors' Report on page 1. The Company is ultimately a subsidiary of the North West Electricity Networks (Jersey) Limited group, which manages its working capital on a pooled basis across the Group. The ability of the Company to meet its debts as they fall due is dependent on the fellow Group subsidiary's ability to service its debts to the Company. In consideration of this the Directors of this Company are cognisant of the following going concern disclosure which appears in the financial statements of North West Electricity Networks (Jersey) Limited for the year ended 31 March 2012:

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

The above text from North West Electricity Networks (Jersey) Limited's financial statements cross refers to disclosures within its Directors' Report. This information is also available within the statutory financial statements of Electricity North West Limited, the main trading company of the Group, and can be read in that company's financial statements.

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

## Notes *(continued)*

### 1. ACCOUNTING POLICIES *(CONTINUED)*

### Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have had no impact on the amounts reported or the presentation and disclosure in these financial statements. However, they may impact the accounting for future transactions and arrangements.

- IAS 24 (Nov 2009) Related Party Disclosures;
- IAS 32 (amended) Classification of Rights Issues;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
- IFRIC 14 (amended) Prepayments of a Minimum Funding Requirement; and
- Improvements to IFRSs (May 2010).

### 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:

- IFRS 9 'Financial Instruments';
- Amendments to IFRS 7 'Financial Instruments; Disclosures' on transfers of financial assets;
- Amendment to IFRS 1 'First time adoption' on fixed dates and hyperinflation;
- Amendment to IAS 12 'Income Taxes' on deferred tax: recovery of underlying assets;
- Amendment to IAS 1 'Financial Statement Presentation' regarding other comprehensive income;
- Amendment to IAS 19 'Employee Benefits';
- IFRS 10 'Consolidated Financial statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosures of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement';
- IAS 27 (revised 2011), 'Separate Financial Statements'; and
- IAS 28 (revised 2011) 'Associates and Joint Ventures'.

### Exemption from preparing group financial statements

The financial statements contain information about North West Electricity Networks (Finance) Limited as an individual company and do not contain consolidated information as a parent of a group. At 31 March 2012, the Company was exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements, as it and its subsidiary undertakings were included by full consolidation in the financial statements of North West Electricity Networks (UK) Limited, a company incorporated in the United Kingdom.

### Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

### Trade receivables

Trade receivables are stated at historical cost which given their short term nature approximately equates to their fair value, with any allowances made for any estimated irrecoverable amounts.

## Notes *(continued)*

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

#### Trade payables

Trade payables are stated at their historical cost which given their short term nature approximately equates to their fair value, which in turn approximates to carrying value and represents accrued interest.

#### Cash and cash equivalents

In the Statement of Cash Flows and related notes, cash and cash equivalents includes cash at bank and in hand.

#### Financial Liabilities

The Company derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### Finance expense and interest income

All borrowing costs and finance income, that are not directly attributable to the acquisition, issue or disposal of a financial asset or financial liability are recognised in the income statement in the year in which they are accrued. No transaction costs have been incurred by the Company.

#### Dividend income

Dividend income is recognised when the company's right to receive payment is established.

#### Operating profit

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

#### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

#### *Current taxation*

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

#### *Deferred taxation*

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

## Notes *(continued)*

### 1. ACCOUNTING POLICIES *(CONTINUED)*

#### Critical Accounting Policies

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

#### Intercompany receivables

The Company holds a significant receivable with its subsidiary undertaking. Consideration is therefore given, on at least an annual basis, as to the recoverability of the outstanding balance and the need for a provision.

### 2. OPERATING PROFIT

Fees payable to Deloitte LLP for the audit of the Company's accounts of £2,864 (2011: £4,000) were borne by another Group company and have not been recharged. Fees payable to Deloitte LLP for non-audit services in the year were £nil (2011: £nil).

### 3. DIRECTORS AND EMPLOYEES

The Company had no employees during the year (2011: none) and the Directors received no remuneration during the year from the Company (2011: £nil).

### 4. INVESTMENT INCOME

| | **2012** **£m** | 2011 £m |
|---|---|---|
| Interest income: | | |
| Interest receivable from Group undertakings | **20.5** | 20.5 |
| Total interest income | **20.5** | 20.5 |
| Dividend received | **15.0** | 5.7 |
| Total investment income | 35.5 | 26.2 |

### 5. FINANCE EXPENSE

| | **2012** **£m** | 2011 £m |
|---|---|---|
| Interest payable to Group undertakings and total interest expense | **20.5** | 20.5 |

## Notes *(continued)*

### 6. TAXATION

There was no current or deferred tax charge in either the current or preceding year. Corporation tax is calculated at 26% (2011: 28%) of the estimated assessable profit for the year.

| | **2012 £m** | **2012 %** | 2011 £m | 2011 % |
|---|---|---|---|---|
| Profit before tax | **15.0** | | 5.7 | |
| Tax at the UK corporation tax rate of 26% | **3.9** | **26%** | 1.6 | 28% |
| Non-taxable income | **(3.9)** | **(26%)** | (1.6) | (28%) |
| **Tax Charge** | **-** | **-** | **-** | **-** |

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

### 7. DIVIDENDS

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

| | **2012 £m** | 2011 £m |
|---|---|---|
| Interim dividend for the year ended 31 March 2012 of £5.00 per share (year ended 31 March 2011: £1.90 per share) | **15.0** | 5.7 |

The Company has not proposed a final dividend for the year ended 31 March 2012 (2011: £nil).

## Notes *(continued)*

### 8. INVESTMENTS

| | £m |
|---|---|
| **Cost** | |
| **At 31 March 2011 and 2012** | **3.0** |

Details of the investments at 31 March 2012, which were all incorporated within the UK, are as follows:

| Subsidiary undertaking | Description of holding | Proportion held | Nature of business |
|---|---|---|---|
| North West Electricity Networks (Holdings) Limited | Ordinary shares of £1 each | 100% | Holding company |
| **Indirect subsidiaries** | | | |
| NWEN Group Limited | Ordinary shares of £1 each | 100% | Non-trading |
| North West Electricity Networks Limited | Ordinary shares of £1 each | 100% | Non-trading |
| Electricity North West Limited | Ordinary shares of 50p each | 100% | Energy distribution |
| Electricity North West Services Limited | Ordinary shares of £1 each | 100% | Dormant |
| ENW Capital Finance plc | Ordinary shares of £1 each | 100% | Financing company |
| ENW Finance plc | Ordinary shares of £1 each | 100% | Financing company |
| 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 |

1

## Notes *(continued)*

### 9. TRADE AND OTHER RECEIVABLES

| | 2012 £m | 2011 £m |
|---|---|---|
| **Current assets** | | |
| Amounts owed by subsidiary undertakings (note 15) | **520.2** | 519.1 |

### 10. CASH AND CASH EQUIVALENTS

| | 2012 £m | 2011 £m |
|---|---|---|
| Cash at bank and in hand | **0.1** | 0.2 |

### 11. TRADE AND OTHER PAYABLES

| | 2012 £m | 2011 £m |
|---|---|---|
| **Current liabilities** | | |
| Amounts owed to immediate parent undertakings (note 15) | **10.1** | 10.1 |

### 12. BORROWINGS

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

| | 2012 £m | 2011 £m |
|---|---|---|
| **Current liabilities** | | |
| Amounts owed to immediate parent undertakings (note 15) | **509.7** | 508.7 |

### 13. SHARE CAPITAL

| | 2012 £m | 2011 £m |
|---|---|---|
| **Authorised:** | | |
| 3,000,000 ordinary shares of £1 each | **3.0** | 3.0 |

| | 2012 £m | 2011 £m |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| 3,000,000 ordinary shares of £1 each | **3.0** | 3.0 |

## Notes *(continued)*

### 14. SHAREHOLDERS' EQUITY

| | **Called up share capital £m** | **Retained earnings £m** | **Total £m** |
|---|---|---|---|
| At 1 April 2010 | 3.0 | 0.5 | 3.5 |
| Profit for the year | - | 5.7 | 5.7 |
| Dividends paid | - | (5.7) | (5.7) |
| At 31 March 2011 | 3.0 | 0.5 | 3.5 |
| Profit for the year | **-** | 15.0 | 15.0 |
| Dividends paid | **-** | (15.0) | (15.0) |
| **At 31 March 2012** | **3.0** | **0.5** | **3.5** |

### 15. RELATED PARTY TRANSACTIONS

During the period, the Company entered into the following transactions with related parties:

| | **2012 £m** | 2011 £m |
|---|---|---|
| Interest paid to North West Electricity Networks (UK) Ltd | **(20.5)** | (20.5) |
| Interest received from North West Electricity Networks (Holdings) Ltd | **20.5** | 20.5 |
| Divided paid to North West Electricity Networks (UK) Ltd | **(15.0)** | (5.7) |
| Dividend received from North West Electricity Networks (Holdings) Ltd | **15.0** | 5.7 |

## Notes *(continued)*

### 15. RELATED PARTY TRANSACTIONS *(continued)*

Amounts outstanding with related parties are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **£m** | £m |
| Loans to North West Electricity Networks (UK) Limited | **0.1** | 0.1 |
| Receivable from North West Electricity Networks (Holdings) Limited | **0.3** | 0.2 |
| Interest payable to North West Electricity Networks (UK) Limited | **(10.1)** | (10.0) |
| Interest Receivable from North West Electricity Networks (Holdings) Limited | **10.1** | 10.0 |
| Loans to North West Electricity Networks (Holdings) Limited | **509.7** | 508.7 |
| Loans from North West Electricity Networks (UK) Limited | **(509.7)** | (508.7) |

The loans from related parties comprise amounts loaned from the immediate parent undertaking, North West Electricity Networks (UK) Limited. £200m (2011: £200m) carries interest at 10% per annum and £309.7m (2011: £308.7m) which is interest free. Both loans are repayable on demand.

The loan to North West Electricity Networks (Holdings) Limited reflects principal amounts of £200m with an interest rate of 10% per annum and £309.7m which is interest free. Both loans are repayable on demand.

### 16. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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

The largest group in which the results of the Company are consolidated is that headed by North West Electricity Networks (Jersey) Limited incorporated in Jersey. The smallest group in which the results of the Company are consolidated is that headed by North West Electricity Networks (UK) Limited incorporated in the UK.

First State Investments Fund Management S.a.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF (‘EDIF’) and IIF Int’l Holding GP Ltd (‘IIF’) have been identified as ultimate controlling parties and are advised by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.

Company Registration No. 6428374

# NORTH WEST ELECTRICITY NETWORKS (FINANCE) LIMITED

## Annual Report and Financial Statements
## for the year ended 31 March 2011

## Contents

## Directors' Report

The Directors present their annual report and the audited financial statements of North West Electricity Networks (Finance) Limited (the 'Company') for the year ended 31 March 2011.

### Principal activities and results

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

The Company operates solely as an investment company and therefore there are no non-financial key performance indicators. For an understanding of the Group's non-financial key performance indicators these are presented for the Group in the financial statements of Electricity North West Limited ('ENWL').

The results for the year are set out in the Income Statement on page 4.

The Company paid an interim dividend of £5.7m (31 March 2010: £Nil). The Directors do not propose a final dividend for the year ended 31 March 2011 (2010: £Nil).

### Principal risks and uncertainties

The Board considers the principal risks and uncertainties facing the Company to be those that affect the larger Group. The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the business model, the regulatory environment, the resources and principal risks and uncertainties facing that Company, and ultimately the Group, are discussed in the Business Review section of the ENWL annual report and financial statements.

### Directors

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

| | |
|---|---|
| S Johnson | |
| M McCallion | (appointed 13 August 2010, resigned 31 August 2010. Reappointed 2 September 2010) |
| P Taylor | (appointed 14 July 2010, resigned 25 January 2011) |
| C Thompson | (resigned 2 September 2010) |
| P Bircham | (appointed 2 August 2010, resigned 23 August 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.

### Going Concern

After making enquires, and based on the assumptions and sensitivities outlined in note 1 to the financial statements, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Directors' and Officers' insurance

The Company maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006.

## Directors' Report *(continued)*

**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 period. In preparing these financial statements, Directors are required to:

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

The Directors are responsible for keeping 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.

**Information given to auditor**

Each of the persons who is a Director at the date of approval of the financial statements confirms that:

(1) so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) he/she has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

This confirmation is given and should be interpreted within the provisions of s418 of the Companies Act 2006.

**Auditor**

Deloitte LLP have expressed their willingness to continue in office as auditor of the company. In accordance with section 487 of the Companies Act 2006, Deloitte LLP are deemed to be re-appointed as auditor of the Company.

**Registered address**

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

Registered number: 6428374

By order of the Board

**S Johnson**
Director

26 May 2011

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH WEST ELECTRICITY NETWORKS (FINANCE) LIMITED**

We have audited the financial statements of North West Electricity Networks (Finance) Limited for the year ended 31 March 2011 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

**Respective responsibilities of directors and auditor**

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

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

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

**Opinion on financial statements**

In our opinion:

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

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

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

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

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

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

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

26 May 2011

## INCOME STATEMENT
## For the year ended 31 March 2011

| | Note | 2011<br>£m | 2010<br>£m |
|---|---|---|---|
| **Operating profit** | 2 | **-** | - |
| Investment income | 4 | **26.2** | 20.6 |
| Finance expense | 5 | **(20.5)** | (20.6) |
| **Profit before taxation** | | **5.7** | - |
| Taxation | 6 | **-** | - |
| **Profit for the year and attributable to equity holders** | 14 | **5.7** | - |

All the results shown in the Income Statement, for both the current and preceding years, derive from continuing operations.

There are no other recognised gains and losses for the current or previous financial years other than the result shown above. Accordingly, a separate Statement of Comprehensive Income has not been prepared.

# STATEMENT OF FINANCIAL POSITION
## At 31 March 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments | 8 | **3.0** | 3.0 |
| **Current assets** | | | |
| Trade and other receivables | 9 | **519.1** | 537.3 |
| Cash and cash equivalents | 10 | **0.2** | 0.2 |
| | | **519.3** | 537.5 |
| **Total assets** | | **522.3** | 540.5 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | (10.1) | (10.0) |
| Borrowings | 12 | (508.7) | (537.0) |
| **Net current assets** | | **0.5** | 0.5 |
| **Total liabilities** | | **(518.8)** | (537.0) |
| **Net assets** | | **3.5** | 3.5 |
| **EQUITY** | | | |
| Share capital | 13 | **3.0** | 3.0 |
| Retained earnings | 14 | **0.5** | 0.5 |
| **Total equity** | 14 | **3.5** | 3.5 |

The financial statements of North West Electricity Network (Finance) Limited (registered number 6428374) were approved by the Board of Directors on 25 May 2011 and signed on its behalf by:

**M McCallion**
Director

26 May 2011

## STATEMENT OF CHANGES IN EQUITY
### At 31 March 2011

| | Called up share capital £m | Retained earnings £m | Total Equity £m |
|---|---|---|---|
| At 1 April 2009 | 3.0 | 0.5 | 3.5 |
| Profit for the year | - | - | - |
| Total comprehensive income for the year | - | - | - |
| At 31 March 2010 | 3.0 | 0.5 | 3.5 |
| Profit for the year | - | 5.7 | 5.7 |
| **Total comprehensive income for the year** | - | 5.7 | 5.7 |
| **Transactions with owners recorded directly in equity** | | | |
| Equity dividends | - | (5.7) | (5.7) |
| **At 31 March 2011** | **3.0** | **0.5** | **3.5** |

# STATEMENT OF CASH FLOWS
## For the year ended 31 March 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Operating profit** | | **-** | - |
| Interest paid | | **(20.5)** | (20.6) |
| **Net cash used in operating activities** | | **(20.5)** | (20.6) |
| **Investing activities** | | | |
| Interest received and similar income | | **20.5** | 20.6 |
| Dividends received | | **5.7** | - |
| **Net cash generated from investing activities** | | **26.2** | 20.6 |
| **Financing activities** | | | |
| Dividends paid | | **(5.7)** | - |
| Group borrowings issued | | **-** | (0.1) |
| **Net cash absorbed by financing activities** | | **(5.7)** | (0.1) |
| **Net decrease in cash and cash equivalents** | | **-** | (0.1) |
| **Cash and cash equivalents at beginning of the year** | | **0.2** | 0.3 |
| **Cash and cash equivalents at end of the year** | 10 | **0.2** | 0.2 |

# Notes to the Financial Statements

## 1. ACCOUNTING POLICIES

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

**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union, including International Accounting Standards ('IAS') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

The financial statements have been prepared on the historical cost basis.

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

**Basis of preparation - going concern basis**

The performance, financial position and key risks impacting the Company are detailed in the Directors' Report on page 1. The Company is ultimately a subsidiary of the North West Electricity Networks (Jersey) Limited Group, which manages its working capital on a pooled basis across the Group. The ability of the Company to meet its debts as they fall due is dependent on the fellow Group subsidiary's ability to service its debts to the Company. In consideration of this the Directors of this Company are cognisant of the following going concern disclosure which appears in the financial statements of North West Electricity Networks (Jersey) Limited for the year ended 31 March 2011:

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

The above text from North West Electricity Networks (Jersey) Limited's accounts cross refers to disclosures within its Directors' Report. This information is also available within the statutory financial statements of Electricity North West Limited, the main trading company of the Group, and can be read in that company's financial statements.

Consequently, after making the appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. 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 by the Company and have had no impact on the amounts reported or the presentation and disclosure in these financial statements of this Company:

IFRIC 18 'Transfers of Assets from Customers';
IFRS 3 (2008) 'Business combinations'; and
Improvements to IFRSs.

# Notes *(continued)*

## 1. ACCOUNTING POLICIES *(CONTINUED)*

**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 expect that the adoption of these standards and interpretations will have no material impact on the Company's financial statements and that the Company will adopt these standards and interpretations on their effective dates:

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

**Investments in debt and equity securities**

Investments in subsidiaries are carried at cost less impairment in the parent company accounts.

**Trade receivables**

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

**Trade payables**

Trade payables are stated at their fair value, which approximates to carrying value and represents accrued interest.

**Cash and cash equivalents**

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

**Financial investments**

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

***Financial Liabilities***

The Company derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

***Borrowing costs and finance income***

All borrowing costs and finance income, the related party borrowings and receivables, 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. No transaction costs have been incurred by the Company.

**Operating profit**

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

## Notes *(continued)*

### 1. ACCOUNTING POLICIES *(CONTINUED)*

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

***Current taxation***

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

***Deferred taxation***

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

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

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

***Critical Accounting Policies***

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.

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

*Intercompany receivables*

The Company holds a significant receivable with its subsidiary undertaking. Consideration is therefore given, on at least an annual basis, as to the recoverability of the outstanding balance and the need for a provision.

### 2. OPERATING PROFIT

Fees payable for the audit of the Company's accounts of £4,000 (2010: £5,000) were borne by another Group company and have not been recharged. Fees payable to Deloitte LLP for non-audit services in the year were £Nil (2010: £Nil).

## Notes *(continued)*

### 3. DIRECTORS AND EMPLOYEES

The Company had no employees during the year (2010: none) and the Directors received no remuneration during the year from the Company (2010: £nil).

### 4. INVESTMENT INCOME

| | **2011 £m** | 2010 £m |
|---|---|---|
| Dividends received | **5.7** | - |
| Interest receivable from Group undertakings | **20.5** | 20.6 |
| | **26.2** | 20.6 |

### 5. FINANCE EXPENSE

| | **2011 £m** | 2010 £m |
|---|---|---|
| Interest payable to Group undertakings | **20.5** | 20.6 |

### 6. TAXATION

There was no current or deferred tax charge in either the current or preceding year. Corporation tax is calculated at 28% (2010: 28%) of the estimated assessable profit for the year.

| | **2011 £m** | **2011 %** | 2010 £m | 2010 % |
|---|---|---|---|---|
| Profit before tax | **5.7** | | - | |
| Tax at the UK corporation tax rate of 28% | **1.6** | 28% | - | - |
| Non-taxable income | **(1.6)** | (28%) | - | - |
| **At 31 March 2011** | **-** | **-** | **-** | **-** |

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

### 7. DIVIDENDS

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

| | **2011 £m** | 2010 £m |
|---|---|---|
| Interim dividend for the year ended 31 March 2011 of £1.90 per share (year ended 31 March 2010: £Nil per share) | **5.7** | - |

The Company has not proposed a final dividend for the year ended 31 March 2011 (2010: £Nil).

## Notes *(continued)*

### 8. INVESTMENTS

| | £m |
|---|---|
| **Cost** | |
| **At 31 March 2010 and 2011** | **3.0** |

Details of the investments at 31 March 2011, which were all incorporated within the UK, are as follows:

| Subsidiary undertaking | Description of holding | Proportion held | Nature of business |
|---|---|---|---|
| North West Electricity Networks (Holdings) Limited | Ordinary shares of £1 each | 100% | Non-trading |
| **Indirect subsidiaries** | | | |
| North West Electricity Networks Group Limited | Ordinary shares of £1 each | 100% | Non-trading |
| North West Electricity Networks Limited | Ordinary shares of £1 each | 100% | Non-trading |
| Electricity North West Limited | Ordinary shares of 50p each | 100% | Energy distribution |
| Electricity North West Services Limited | Ordinary shares of £1 each | 100% | Operation and maintenance of electricity network[1] |
| ENW Capital Finance plc | Ordinary shares of £1 each | 100% | Financing company |
| ENW Finance plc | Ordinary shares of £1 each | 100% | Financing company |
| 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 |
| Electricity North West (Construction and Maintenance) Limited | Ordinary shares of £1 each | 100% | Construction, operation and maintenance of electricity assets |

[1] As at 31 March 2011 the trade and assets of ENWSL were hived-up to ENWL. This company is no longer expected to trade.

## Notes *(continued)*

### 9. TRADE AND OTHER RECEIVABLES

| | 2011 £m | 2010 £m |
|---|---|---|
| Prepayments and accrued income | **-** | 0.1 |
| Amounts owed by subsidiary undertakings (note 15) | **519.1** | 537.2 |
| | **519.1** | 537.3 |

### 10. CASH AND CASH EQUIVALENTS

| | 2011 £m | 2010 £m |
|---|---|---|
| Cash at bank and in hand | **0.2** | 0.2 |

### 11. TRADE AND OTHER PAYABLES

| | 2011 £m | 2010 £m |
|---|---|---|
| **Current liabilities** | | |
| Amounts owed to parent undertakings (note 15) | **10.1** | 10.0 |

### 12. BORROWINGS

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

| | 2011 £m | 2010 £m |
|---|---|---|
| **Current liabilities** | | |
| Amounts owed to parent undertakings (note 15) | **508.7** | 527.0 |

### 13. SHARE CAPITAL

| | 2011 £m | 2010 £m |
|---|---|---|
| **Authorised:** | | |
| 3,000,000 ordinary shares of £1 each | **3.0** | 3.0 |

| | 2011 £m | 2010 £m |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| 3,000,000 ordinary shares of £1 each | **3.0** | 3.0 |

## Notes *(continued)*

### 14. SHAREHOLDERS' EQUITY

| | Called up share capital £m | Retained earnings £m | Total £m |
|---|---|---|---|
| At 1 April 2009 | 3.0 | 0.5 | 3.5 |
| Profit for the year | - | - | - |
| Dividends paid | - | - | - |
| At 31 March 2010 | 3.0 | 0.5 | 3.5 |
| Profit for the year | - | 5.7 | 5.7 |
| Dividends paid | - | (5.7) | (5.7) |
| **At 31 March 2011** | **3.0** | **0.5** | **3.5** |

### 15. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

| | **2011 £m** | 2010 £m |
|---|---|---|
| Loans to North West Electricity Networks (UK) Limited | **(0.1)** | (0.1) |
| Loans to North West Electricity Networks (Holdings) Limited | **(519.0)** | (537.0) |
| Loans from North West Electricity Networks (UK) Limited | **518.8** | 537.0 |
| Interest paid to North West Electricity Networks (UK) Limited | **20.5** | 20.6 |
| Interest received from North West Electricity Networks (Holdings) Limited | **(20.5)** | (20.6) |

The loans from related parties comprise amounts loaned from the immediate parent undertaking, North West Electricity Networks (UK) Limited. £200m carries interest at 10% per annum and £308.8m is interest free. Both loans are repayable on demand.

The loan to North West Electricity Networks (Holdings) Limited reflects a principal amounts of £200m with an interest rate of £10% per annum and £308.7m is interest free. Both loans are repayable on demand.

### 16. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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

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

First State Investments Fund Management S.à.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF ('EDIF') and IIF Int'l Holding GP Ltd ('IIF') have been identified as ultimate controlling parties and are advised by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.

**THE ISSUER**

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