UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED
(FORMERLY EDF ENERGY (SERVICES) LIMITED)

Registered Number 2228168

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

TUESDAY
L7JZETTA
LD4 03/05/2011 56
COMPANIES HOUSE

CONTENTS

Page

2	Directors' report
5	Statement of Directors' responsibilities
6	Independent Auditor report
7	Profit and loss account
7	Statement of total realised gains and losses
8	Balance sheet
9	Notes to the financial statements

Directors

Andrew John Hunter
Neil Douglas McGee
Basil Scarsella

Company Secretary

Christopher Baker

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Registered Office

Newington House,
237 Southwark Bridge Road
London
SE1 6NP

DIRECTORS' REPORT

The Directors present their annual report and financial statements for the year ended 31 December 2010

Principal activities and review of the business

The Company's principal activity during the year continued to be the management of various electricity distribution systems It will continue in this activity for the foreseeable future

On 29 October 2010, UK Power Networks Holdings Limited (formerly Eclipse First Network Limited) acquired the Distribution Networks and associated non-regulated businesses, including UK Power Networks Services (Contracting) Limited (formerly EDF Energy (Services) Limited), from EDF Energy plc

Change of name

On 1 November 2010, subsequent to the acquisition, the Company changed its name from EDF Energy (Services) Limited to UK Power Networks Services (Contracting) Limited

Business Review

The profit for the year, before taxation, amounted to £33,171,000 (2009 £38,690,000) and after taxation, to £27,333,000 (2009 £28,120,000) No dividends were paid in the year (2009 £nil)

The UK Power Networks group ("the Group") manages its operations on a business segment basis For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business The performance of the business segments including this Company is discussed in the Group's Annual Report which does not form part of this Report

Future developments

The Directors regard the results for the year and the year end financial position as satisfactory and expect the Company to continue to perform to a satisfactory level in the future

Directors

Directors who held office during the year and to the date of this report were as follows

Thomas Kusterer	(resigned on 29 October 2010)
Laurent Ferrari	(resigned on 29 October 2010)
Richard Martin Harpley	(appointed on 20 October 2010 and resigned on 29 October 2010)*
Andrew John Hunter	(appointed on 29 October 2010)
Neil Douglas McGee	(appointed on 29 October 2010)
Basil Scarsella	(appointed on 29 October 2010)

*Appointed as alternate director to Laurent Ferrari

None of the Directors had a service contract with the Company in the current or prior year

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report

DIRECTORS' REPORT Continued

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risks the Directors consider relevant to this Company are credit risk, liquidity risk and interest rate risk

Liquidity and credit risk

The Company's exposure to credit and liquidity risk is reduced as it is a 100% subsidiary of the UK Power Networks Services Holdings Group of companies The Company's principal financial assets are cash, trade debtors and amounts owed from Group companies Credit risk is mitigated by the nature of the debtor balances owed, as the other group companies are able to repay their debts if required Liquidity risk is mitigated by the financial support given by UK Power Networks Services Holdings Limited, the immediate parent

Going Concern

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements

Creditors payment policy

The Company's current policy concerning the payment of its trade creditors and other suppliers is to

- agree the terms of payment with those creditors/suppliers when agreeing the terms of each transaction,
- ensure that those creditors/suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- pay in accordance with its contractual and other legal obligations

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception At 31 December 2010, the Company had an average of 3 days purchases outstanding in its trade creditors (2009 6 days)

DIRECTORS' REPORT Continued

Employees

The Company's policies and procedures relating to Health and Safety at work are kept under constant review to ensure a safe and healthy working environment for all employees

Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting their employment and on the various factors affecting the performance of the Company and Group This is carried out in a number of ways, including formal and informal briefings, departmental meetings and regular reports in staff newsletters and on the Group intranet

Equal opportunities

The Company is fully committed to ensuring that all current and potential future employees and customers are treated fairly and equally, regardless of their gender, marital status, disability, race, colour, nationality or ethnic origin in accordance with the appropriate legislation and Government guidelines The Company provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities In the event of employees becoming disabled during employment, where possible, assistance and retraining is given so that they may attain positions compatible with their ability

Political and charitable contributions

The Company made no charitable contributions during the year (2009 £848) and no political contributions (2009 £nil)

Disclosure of information to Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware, and
- the Director 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

On 6 July 1999 the Company passed an elective resolution dispensing with the requirement to appoint an auditor annually In accordance with s487 of the Companies Act 2006, Deloitte LLP are deemed re-appointed until such time as the members or the Directors determine otherwise

Approved by the Board and signed on its behalf by -

B Scarsella
Director
26 April 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 the affairs of the Company and of the profit and loss of the Company for the year In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable United Kingdom Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

INDEPENDENT AUDITOR REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

We have audited the financial statements of UK Power Networks Services (Contracting) Limited (formerly EDF Energy (Services) Limited) for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 20 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 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 (United Kingdom 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

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 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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

Makhan Chahal

Makhan Chahal (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 April 2011

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Turnover	2	**66,154**	67,136
Gross profit		**66,154**	67,136
Distribution expenses		**(9,890)**	(8,790)
Administrative expenses		**(21,532)**	(16,355)
Profit on ordinary activities before interest and taxation	3	**34,732**	41,991
Interest payable and similar charges	7	**(1,561)**	(3,301)
Profit on ordinary activities before taxation		**33,171**	38,690
Tax on profit on ordinary activities	8	**(5,838)**	(10,570)
Profit for the financial year	16	**27,333**	28,120

All results are derived from continuing operations in both the current and preceding year

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Profit for the financial year		**27,333**	28,120
Actuarial loss net of deferred tax on defined benefit pensions	18	**(2,048)**	(2,180)
Deferred tax rate change	18	**(30)**	-
Total recognised gain relating to the year		**25,255**	25,940

The deferred tax credit reflected in the actuarial loss net of deferred tax on defined benefit pensions amounted to £757,000 (2009 £848,000) The deferred tax rate change of £30,000 represents the reduction in the main stream corporation tax rate from 28% to 27% from 1 April 2011

BALANCE SHEET
AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	**277,410**	277,859
Total fixed assets		**277,410**	277,859
Current assets			
Stocks	11	**272**	118
Debtors			
- due within one year	12	**780**	3,060
- due after one year	12	**32,863**	35,574
Cash		**10,307**	-
Total current assets		**44,222**	38,752
Creditors: amounts falling due within one year	13	**(143,054)**	(165,088)
Net current liabilities		**(98,832)**	(126,336)
Total assets less current liabilities		**178,578**	151,523
Provisions for liabilities and charges	14	**(37,963)**	(38,271)
Net assets excluding pension liability		**140,615**	113,252
Pension liability	18	**(4,787)**	(2,679)
Net assets		**135,828**	110,573
Called up share capital	15	**10,100**	10,100
Capital reserves	16	-	-
Profit and loss account	16	**125,728**	100,473
Shareholder's funds	16	**135,828**	110,573

The financial statements of UK Power Networks Services (Contracting) Limited, registered number 2228168 on pages 7 to 24 were approved by the Board of Directors on 26 April 2011
and were signed on its behalf by

B Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies are set out below They have all been applied consistently throughout the year and the preceding year

Basis of preparation

These financial statements have been prepared under the historical cost convention except as noted below in respect of share-based payments and in accordance with applicable United Kingdom law and accounting standards

The Company is exempt from preparing a cash flow statement under the terms of FRS 1 'Cash flow statements (revised 1996)' as it is a member of a group, headed by UK Power Networks Holdings Limited, whose consolidated accounts include a cash flow statement and are publicly available

Going concern

The financial statements have been prepared on the going concern basis The grounds for adopting this basis are discussed in the Directors' report

Intangible assets - Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

Tangible fixed assets

The cost of individual tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition Cost includes staff costs where employees participate directly in the construction of assets Tangible fixed assets are stated at cost, net of depreciation and provision for impairment The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows

Operational assets		
Network assets excluding cable	–	Over 30 years
Cable	–	Over 50 years
Leasehold land and buildings	–	Shorter of lease term or 40 years
Non-operational assets		
Fixtures and equipment	–	Over 5 years
Motor vehicles	–	Over 5 years
Software	–	Over 5 years
IT equipment	–	Over 3 years

Assets in the course of construction are not depreciated

1. Accounting policies continued

Stocks

Stocks are stated at the lower of cost and net realisable value Cost includes all costs incurred in bringing each product to its present location and condition, as follows

Work in progress

- Cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated contract value less any further costs expected to be incurred to completion and disposal

Provisions are made for obsolete, slow moving or defective items where appropriate

Long-term contracts

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract

In assessing contractual performance, the amounts recorded are dependent upon negotiations with customers, which are often complex and unlikely to be resolved in the short term Accordingly, management have made their best estimate of the likely future outcomes based upon the information currently available to them

Taxation

Current tax, including United Kingdom corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses,

- provision is made for gains on re-valued fixed assets only where there is a commitment to dispose of the re-valued assets and the attributable gain can neither be rolled over nor eliminated by capital losses, and

- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted

Deferred tax is measured on an undiscounted basis

Operating Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term, even if payments are not made on such a basis

NOTES TO THE FINANCIAL STATEMENTS Continued

1. Accounting policies continued

Pensions

The Company has obligations under two funded defined benefit pension arrangements as part of the UK Power Networks group and the Company accounts for these schemes in accordance with FRS 17 'Retirement Benefits', ("FRS 17")

The amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments Past service costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately the costs are recognised over the period until vesting occurs The interest cost and the expected return on the assets are shown as a net amount of other finance costs or credits adjacent to interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in a separate trustee administered fund Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

Share-based payments

Whilst part of the EDF Energy group the Company participated in a share based payment scheme, the ACT 2007 Free Award Share Plan, from August 2007 to August 2009 Based on the specific rules of the plan employees were awarded shares of the former ultimate parent company Electricité de France SA ("EDF") which is partially listed on Euronext, the French Stock exchange The share-based payments to employees were measured at fair value on the date of announcement of the plan in August 2007 using the Black-Scholes model and expensed on a straight line basis over the two year vesting period A corresponding amount was recognised as a capital contribution from EDF within equity This was offset by the repayment required to EDF, recognised as a liability at the prevailing market value of the shares, until the final award and settlement in 2009

2. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of the management of various electricity distribution systems

3. Profit on ordinary activities before interest and taxation

This is stated after charging/(crediting)	**2010** **£000**	2009 £000
Depreciation of fixed assets - owned	**11,058**	11,052
Operating lease rentals		
- Other	**411**	432
- Land and Buildings	**359**	222
Loss/(profit) on disposal of fixed assets	**61**	(6,279)

Fees payable by the Company to Deloitte LLP and their associates for the audit of the Company's annual accounts amounted to £21,000 (2009 £22,000) Fees payable for non-audit services were £nil (2009 £nil)

NOTES TO THE FINANCIAL STATEMENTS Continued

4. Directors' emoluments

The Directors are not employed directly by the Company and did not receive any remuneration for services to the Company during the year or preceding year

5. Staff costs

	2010	2009
	£000	£000
Wages and salaries	**5,703**	5,740
Social security costs	**550**	522
Other pension costs	**991**	613
Share-based payment (note 6)	**-**	65
	7,244	6,940

The monthly average number of employees during the year was as follows

	2010	2009
	Number	Number
Indirect	**82**	69
Direct	**74**	72
	156	141

NOTES TO THE FINANCIAL STATEMENTS Continued

6. Share-based payments

ACT 2007

The ACT 2007 Free Award Share Plan entitled all persons who, on 30 of August 2007, were bound by an employment contract with the former ultimate parent company Electricité de France SA ("EDF") or one of its subsidiaries, a free distribution of EDF ordinary shares in accordance with the Rules and Regulations of the plan Each employee who agreed to take part in the plan was guaranteed to receive 10 free shares plus an additional number of shares proportional to their June 2007 salary The award of shares in August 2009 was dependent on the employee remaining in continuous employment within the EDF SA group for two years and also relied on the EDF SA group achieving certain financial targets

ACT 2007 Impact

	2010 £000	2009 £000
At 1 January	-	18
Granted during the year	-	65
Revaluation	-	(98)
Cumulative loss transferred to profit and loss account (note 16)	-	15
Balance carried forward in capital reserves	-	-

The value of the shares 'Granted during the year' represents the charge to the Profit and Loss account pro rata over the 2 year vesting period computed using the share price (base price) on date of announcement of the plan in August 2007, namely €72 50 or £48 99 The 'Revaluation' line is the cost of the shares at current market price, also accrued pro rata over the vesting period The net 'Balance carried forward in Capital reserves', represents the cumulative difference between the two valuations Upon completion of the vesting period in August 2009, the adverse balance was transferred to the Profit and Loss account During 2009 the Company paid £178,586 to EDF SA in exchange for the final award of 3,349 shares to the Company's employees

7. Interest payable and similar charges

	2010 £000	2009 £000
Net interest cost on pension scheme (note 18)	159	89
Interest due on bank overdraft	1,402	3,212
	1,561	3,301

NOTES TO THE FINANCIAL STATEMENTS Continued

8 Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2010	2009
UK current tax	**£000**	£000
UK corporation tax charge on profit for the year	**8,147**	9,426
Adjustment in respect of previous years	**(2,000)**	(651)
Total current tax charge (note (b))	**6,147**	8,775
UK deferred tax		
Origination and reversal of timing differences	**750**	1,757
Adjustment in respect of previous years	**300**	38
Effect of tax rate change on opening balance	**(1,359)**	-
Total deferred tax (credit)/charge	**(309)**	1,795
Total tax charge on profit on ordinary activities	**5,838**	10,570

Factors affecting tax charge for the year

The tax assessed for the year is lower (2009 lower) than the standard rate of corporation tax in the UK

	2010	2009
The differences are explained below	**£000**	£000
Profit on ordinary activities before taxation	**33,171**	38,690
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28 0% (2009 28 0%)	**9,288**	10,833
Effect of		
Disallowed expenses and non-taxable income	**8**	350
Capital allowances in excess of depreciation	**(1,158)**	(1,635)
Movement in pension liability	**9**	(92)
Other timing differences	**-**	(30)
Adjustment in respect of previous years	**(2,000)**	(651)
Current tax charge for the year	**6,147**	8,775

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No2) Act 2010 included legislation to reduce the main stream rate of corporation tax from 28% to 27% from 1 April 2011 As a result of the change the deferred tax balances have been remeasured The impact was to increase the deferred tax credit by £1,359,000

Additional changes were announced in the March 2011 Budget Statement to further reduce the main stream rate of corporation tax to 26% from 1 April 2011 and thereafter by 1% per annum to 23% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements

NOTES TO THE FINANCIAL STATEMENTS Continued

9. Intangible fixed assets

Goodwill	£000
Cost	
At 1 January and 31 December 2010	**1,314**
Amortisation	
At 1 January and 31 December 2010	**1,314**
Net book value	
At 31 December 2010	**-**
At 31 December 2009	-

The carrying value of goodwill was impaired to nil at the end of 2007 as it was established that no future economic benefits were likely to be derived from this asset

10. Tangible fixed assets

	Network assets	Assets in the course of construction	Non-operational land and buildings	Fixtures & equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2010	315,776	9,659	247	12,855	**338,537**
Additions	-	10,670	-	-	**10,670**
Transfers	8,023	(8,023)	-	-	**-**
Disposals	(115)	-	-	(2)	**(117)**
At 31 December 2010	**323,684**	**12,306**	**247**	**12,853**	**349,090**
Depreciation					
At 1 January 2010	51,855	-	247	8,576	**60,678**
Charge for the year	9,147	-	-	1,911	**11,058**
Disposals	(54)	-	-	(2)	**(56)**
At 31 December 2010	**60,948**	**-**	**247**	**10,485**	**71,680**
Net book value					
At 31 December 2010	**262,736**	**12,306**	**-**	**2,368**	**277,410**
At 31 December 2009	263,921	9,659	-	4,279	277,859

NOTES TO THE FINANCIAL STATEMENTS Continued

11 Stocks

	2010 £000	2009 £000
Work in progress	**272**	118

There is no material difference between the balance sheet value of stock and their replacement cost

12. Debtors

	2010 £000	2009 £000
Debtors. amounts falling due within one year		
Trade debtors	**446**	2,577
Amounts owed by Group undertakings	**192**	308
Other debtors	**116**	89
Prepayments and accrued income	**26**	86
	780	3,060
Debtors: amounts falling due after more than one year		
Prepayments and accrued income	**32,863**	35,574
	33,643	38,634

13. Creditors amounts falling due within one year

	2010 £000	2009 £000
Bank overdraft	-	139,613
Trade creditors	**159**	289
Other creditors	**234**	17
Amounts owed to Group undertakings	**137,107**	2,644
Other taxation	**1,275**	617
Corporation tax (Group payments)	**1,848**	19,760
Accruals and deferred income	**2,431**	2,148
	143,054	165,088

NOTES TO THE FINANCIAL STATEMENTS Continued

14 Provisions for liabilities and charges

The movements in provisions during the current year are as follows

	At 1 January 2010 £000	Released during the year £000	**At 31 December 2010 £000**
Deferred tax	38,271	(308)	**37,963**
	38,271	**(308)**	**37,963**

Deferred taxation provided in the financial statements is as follows

	2010 £000	2009 £000
Accelerated capital allowances	**37,963**	38,285
Other timing differences	**-**	(14)
Provision for deferred tax	**37,963**	38,271

The movements in deferred taxation are as follows

	At 1 January 2010 £000	Profit and loss account £000	Statement of total recognised gains and losses £000	**At 31 December 2010 £000**
Provision for deferred tax	38,271	(308)	-	**37,963**
Deferred tax shown against pension liability	(1,042)	(1)	(727)	**(1,770)**
	37,229	**(309)**	**(727)**	**36,193**

15. Share capital

Authorised	**2010 Number**	2009 Number	**2010 £000**	2009 £000
Ordinary shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000

Allotted, called up and fully paid	**2010 Number**	2009 Number	**2010 £000**	2009 £000
Ordinary shares of £1 each	**10,100,000**	10,100,000	**10,100**	10,100

NOTES TO THE FINANCIAL STATEMENTS Continued

16. Reconciliation of shareholder's funds

	Share Capital £000	Capital Reserves £000	Profit and loss account £000	**Total share-holder's funds £000**
At 1 January 2009	10,100	18	74,548	**84,666**
Profit for the year	-	-	28,120	**28,120**
Share based payment (note 6)	-	(33)	-	**(33)**
Transfer to profit and loss account (note 6)	-	15	(15)	-
Actuarial loss net of deferred tax on defined benefit pensions (note 18)	-	-	(2,180)	**(2,180)**
At 31 December 2009	10,100	-	100,473	**110,573**
Profit for the year	-	-	27,333	**27,333**
Actuarial loss net of deferred tax on defined benefit pensions (note 18)	-	-	(2,048)	**(2,048)**
Deferred tax rate change	-	-	(30)	**(30)**
At 31 December 2010	**10,100**	-	**125,728**	**135,828**

17. Financial commitments

Amounts contracted for but not provided in the financial statements amounted to £29,320,000 (2009 £49,810,000)

At 31 December 2010 the Company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2010 £000	**Other 2010 £000**	Land and buildings 2009 £000	Other 2009 £000
Operating leases which expire				
Within one year	-	**24**	-	52
In two to five years	**244**	**242**	67	298
In over five years	**59**	-	209	3
	303	**266**	276	353

18. Pension commitments

The Group operates two funded defined benefit pension schemes

- The UK Power Networks Group of the ESPS (the UKPN Grp) – formerly the Networks Section of the EDF Energy Group of the Electricity Supply Pension Scheme (ESPS), and
- The UK Power Networks Pension Scheme (UKPNPS) – formerly the Networks Section of the EDF Energy Pension Scheme (EEPS)

The new parent company UK Power Networks Holdings Limited assumed responsibility for these defined benefit arrangements on 29 October 2010, the date of acquisition of the Distribution Networks and associated non-regulated businesses from the former parent company EDF Energy plc Scheme assets and liabilities were assigned to the individual legal entities of the Group, including this Company, using a revised allocation methodology based on the attribution portions agreed with the industry regulator Ofgem, within the latest price control determination, DPCR5 This resulted in some transfers between legal entities of the Group where the revised allocation differed from the results of the roll forward method used by EDF Energy since 2005

The actuarial valuation at 29 October 2010 and an updated valuation as at 31 December 2010 were carried out by Aon Hewitt The most recent triennial valuation of the schemes for funding purposes has been performed as at 31 March 2010 Under the funding schedule agreed with the scheme trustees, the Group aims to eliminate the current deficit over the next 15 years The Group will monitor funding levels annually and the funding schedule will be reviewed between the Group and the trustees every three years based on actuarial valuations The next triennial actuarial valuation is due to be completed at 31 March 2013 The Group considers that the contribution rates agreed with the trustees are sufficient to eliminate the current deficit over the agreed period

The principal financial assumptions used to calculate scheme liabilities under FRS 17 were

	2010	2009
	%	%
Discount rate		
- UKPN Grp	**5.5**	5 7
- UKPNPS	**5.4**	5 6
Rate of increase in RPI		
- UKPN Grp	**3.5**	3 6
- UKPNPS	**3.6**	3 8
Rate of increase in CPI		
- UKPNPS	**2.8**	3 0
Rate of increase in salaries		
- UKPN Grp	**5.0**	5 6
- UKPNPS	**5.1**	5 3
Rate of increase of pensions		
- RPI (UKPN Grp)	**3.5**	3 6
- RPI up to 5% (UKPNPS - service to 31 March 2006)	**3.4**	3 5
- RPI up to 2 5% (UKPNPS - service from 1 April 2006)	**2.2**	2 3

NOTES TO THE FINANCIAL STATEMENTS Continued

18. Pension commitments continued

The table below shows details of assumptions around mortality rates used to calculate the FRS 17 pension liabilities

UKPN Grp	At 31 December 2010 years
Life expectancy for current male pensioner aged 60	28
Life expectancy for current female pensioner aged 60	30
Life expectancy for future male pensioner currently aged 40 from age 60	30
Life expectancy for future female pensioner currently aged 40 from age 60	32

UKPNPS	At 31 December 2010 years
Life expectancy for current male pensioner aged 65	22
Life expectancy for current female pensioner aged 65	24
Life expectancy for future male pensioner currently aged 45 from age 65	24
Life expectancy for future female pensioner currently aged 45 from age 65	27

These assumptions are governed by FRS 17 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2010, which determined the Company's contribution rate for future years

The amount recognised in the balance sheet in respect of the Company's defined benefit retirement benefit plan is as follows

	UKPN Grp 2010 £000	UKPNPS 2010 £000	Total 2010 £000	Total 2009 £000
Fair value of scheme assets	33,195	4,000	37,195	10,853
Present value of defined benefit obligations	(38,475)	(5,277)	(43,752)	(14,574)
Deficit in scheme	(5,280)	(1,277)	(6,557)	(3,721)
Related deferred tax asset	1,426	344	1,770	1,042
Liability recognised in balance sheet	(3,854)	(933)	(4,787)	(2,679)

This amount is presented in pension liabilities

NOTES TO THE FINANCIAL STATEMENTS Continued

18 Pension commitments continued

Analysis of the amounts (charged)/ credited to the profit and loss account in respect of the defined benefit schemes are as follows

	UKPN Grp 2010 £000	UKPNPS 2010 £000	Total 2010 £000	Total 2009 £000
Current service cost	(376)	(615)	(991)	(423)
Interest cost	(849)	(239)	(1,088)	(609)
Expected return on scheme assets	732	197	929	520
	(493)	(657)	(1,150)	(512)

Of the charge for the year, £991,000 (2009 £423,000) has been included in staff costs and an expense of £159,000 (2009 £89,000) has been included in interest payable

The estimated amount of contributions expected to be paid to the schemes during 2011 is £1,463,000

Movements in the present value of defined obligations in the current period were as follows

	UKPN Grp 2010 £000	UKPNPS 2010 £000	Total 2010 £000	Total 2009 £000
At 1 January	(11,107)	(3,467)	(14,574)	(9,831)
Current service cost	(376)	(615)	(991)	(423)
Interest cost	(849)	(239)	(1,088)	(609)
Actuarial loss	(26,795)	(759)	(27,554)	(3,960)
Benefits paid/(received)	652	(197)	455	249
At 31 December	(38,475)	(5,277)	(43,752)	(14,574)

The actuarial loss includes a net transfer in of scheme liabilities amounting to £27,220,000 at 29 October 2010 as a result of a review of the allocation of the scheme liabilities across the participating companies

NOTES TO THE FINANCIAL STATEMENTS Continued

18 Pension commitments continued

Movements in the present value of fair value of scheme assets in the current period were as follows

	UKPN Grp 2010 £000	UKPNPS 2010 £000	Total 2010 £000	Total 2009 £000
At 1 January	**8,122**	2,731	**10,853**	8,810
Expected return on scheme assets	**732**	197	**929**	520
Actuarial gain	**24,494**	255	**24,749**	932
Contributions by employer	**304**	421	**725**	680
Deficit payment	**195**	199	**394**	160
Benefits (paid)/received	**(652)**	197	**(455)**	(249)
At 31 December	**33,195**	4,000	**37,195**	10,853

The actuarial gain includes a net transfer in of scheme assets amounting to £23,645,000 at 29 October 2010 as a result of a review of the allocation of the scheme assets across the participating companies

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows

	Expected Return		Fair value of assets			
	2010	2009	**UKPN Grp 2010**	**UKPNPS 2010**	**Total 2010**	Total 2009
	%	%	**£000**	**£000**	**£000**	£000
Gilts - fixed	**4 3**	4 6	**4,869**	**-**	**4,869**	869
- index linked	**4.2**	4 5	**3,674**	**-**	**3,674**	918
Equities	**7.9**	8 2	**13,278**	**1,333**	**14,611**	4,671
Property	**7 8**	8 7	**1,313**	**444**	**1,757**	259
Corporate bonds	**5 4**	5 9	**8,158**	**1,223**	**9,381**	3,438
Hedge Funds	**5 4**	5 9	**192**	**-**	**192**	-
Cash	**1 4**	0 7	**1,711**	**1,000**	**2,711**	698
			33,195	**4,000**	**37,195**	10,853

The Group employs a building block approach in determining the long term rate of return on pension plan assets Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles The assumed long-term rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for each scheme as at 31 December 2010

The actual return on scheme assets in the year was a gain of £2,033,000 (2009 loss £1,452,000)

NOTES TO THE FINANCIAL STATEMENTS Continued

18. Pension commitments continued

History of experience gains and losses are as follows

	2010	2009	2008	2007	2006
	£000	£000	£000	£000	£000
Fair value of scheme assets	**37,195**	10,853	8,810	10,061	8,918
Present value of defined benefit obligations	**(43,752)**	(14,574)	(9,831)	(11,314)	(10,246)
Deficit in the scheme	**(6,557)**	(3,721)	(1,021)	(1,253)	(1,328)
Experience adjustments on scheme liabilities					
Amount (£000)	**(334)**	(91)	161	(408)	(14)
Percentage of scheme liabilities (%)	**0.8**	0 6	1 6	3 6	0 1
Experience adjustments on scheme assets					
Amount (£000)	**1,104**	932	(2,363)	30	86
Percentage of scheme assets (%)	**3.0**	8 6	26 8	0 3	1 0

The amounts recognised in the statement of total recognised gains and losses are as follows

	UKPN Grp	**UKPNPS**	**Total**	Total
	2010	**2010**	**2010**	2009
	£000	**£000**	**£000**	£000
At 1 January	**(1,718)**	**(463)**	**(2,181)**	(1)
Actuarial loss	**(2,301)**	**(504)**	**(2,805)**	(3,028)
Deferred taxation	**621**	**136**	**757**	848
Deferred tax rate change	**(24)**	**(6)**	**(30)**	-
At 31 December	**(3,422)**	**(837)**	**(4,259)**	**(2,181)**

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is a loss of £4,259,000 (2009 £2,181,000)

19. Related parties

In accordance with FRS 8 'Related party disclosures', the Company is exempt from disclosing transactions with entities that are part of the Group or investees of the Group qualifying as related parties, as it is a wholly owned subsidiary of a parent, which prepares consolidated accounts which are publicly available

NOTES TO THE FINANCIAL STATEMENTS Continued

20. Parent undertaking and controlling party

UK Power Networks Services Holdings Limited holds a 100% interest in UK Power Networks Services (Contracting) Limited and is considered to be the immediate parent company

UK Power Networks Services Holdings Limited heads the smallest group for which consolidated accounts are prepared which include the results of the Company UK Power Networks Holdings Limited heads the largest group for which consolidated financial statements are prepared which include the Company Copies of both sets of consolidated financial statements are available from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX

UK Power Networks Holdings Limited is owned by a consortium consisting of

Power Assets Holdings Limited (Formerly Hong Kong Electric Holdings Limited)	Incorporated in Hong Kong
Li Ka Shing Foundation Limited	Incorporated in Hong Kong
Cheung Kong Infrastructure Holdings Limited	Incorporated in Bermuda

It is the opinion of the Directors that the parent company, UK Power Networks Holdings Limited has no single controlling party as that company is controlled jointly by the consortium.