UK Power Networks Services (Commercial) Limited

Registered Number 2965182

Annual Report and Financial Statements

for the period from 31 December 2014 to 31 March 2016

CONTENTS

COMPANY INFORMATION

Directors	Andrew John Hunter Basil Scarsella Loi Shun Chan
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

STRATEGIC REPORT

The principal activity of UK Power Networks Services (Commercial) Limited (the "Company") is the supply of electrical contracting services.

Change of year end

The Company has changed its accounting reference date from 30 December to 31 March to align with that of other Group companies. As a result the reported period is an extended period from 31 December 2014 to 31 March 2016 and is not directly comparable to the prior period (1 January 2014 to 30 December 2014).

Review of the business

The results for the period amounted to a profit before taxation of £541,000 (1 January 2014 to 30 December 2014: £2,243,000) and a profit after taxation of £163,000 (1 January 2014 to 30 December 2014: £1,379,000). No dividends were paid in either period.

The Company is part of the UK Power Networks Services group ("the Group") which manages its operations on a business segment basis. 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.

Key performance indicators (KPI's)

The key performance indicators used by the Board of Directors in their monitoring of the Company centre on the areas of safety, operational efficiency and customer service. These include:

		31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Financial performance			
Turnover		**62,244**	81,443
EBITDA	1	**437**	2,730
Non financial performance			
Lost time incidents	2	**2**	2

1 Profit before interest, tax, depreciation and amortisation
2 Injuries at work resulting in lost time of one day or more

STRATEGIC REPORT continued

Key performance indicators continued

Financial performance indicators represent the key financial metrics that reflect the financial health of the business. Turnover was £62,244,000 for the period ended 31 March 2016 compared to £81,443,000 for the period ended 30 December 2014. A significant proportion of turnover is cyclical in nature resulting in variations as contracts commence and expire. Earnings before interest, tax, depreciation and amortisation ("EBITDA") decreased by £2,293,000 to £437,000 in the period. This was due to the reduction in turnover, partially offset by the effect of lower operating costs.

The key non-financial performance indicator relates to safety. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. A lost time incident is recorded if an employee or contractor suffers an injury at work which results in lost time of one day or more. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign has been developed for all operational staff. The two lost time incidents recorded in the current period involved an employee in a road traffic collision between work locations and a sub-contractor pulling a muscle while loading a van. The circumstances of every incident are recorded and reviewed in detail by management to assess whether adequate safety precautions are in place and if additional safety measures are necessary to avoid similar incidents in the future.

Principal risks and uncertainties

As well as the opportunities the Company has to grow and develop its business, certain risks and uncertainties are faced in achieving its objectives. The Company's principal risks and uncertainties are set out below.

Health and Safety
There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public, or a third party. Any such incident could lead to potential prosecution, a fine and have an adverse impact on the reputation of the Company.

Network Assets
There are significant risks associated with network assets where failure of those assets could result in a loss of service to customers. Customer service and continuity and quality of supply are important customer requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company.

Supply chain
Any interruption to the supply of critical materials or services could have a significant impact on the progress of electrical contracting projects. In addition, volatility in commodity prices can have a significant impact on costs.

There are a variety of mechanisms in place to manage these risks. The Group has an embedded risk awareness culture to understand and manage significant business risks. The risk management framework sets out policies, procedures and responsibilities designed to assess, mitigate, monitor and report risks. This leads to a higher level of risk management assurance for the board of directors.

STRATEGIC 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 financial obligations as they fall due. 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 and liquidity 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 trade debtors and amounts owed from Group companies. Credit risk is mitigated by the nature of the debtor balances owed, with these being due from entities of strong financial standing. Liquidity risk is mitigated by the financial support given by UK Power Networks Services Holdings Limited, the immediate parent.

Future developments

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

Going concern

In considering the going concern basis in preparing the Annual Report and financial statements, the Directors have regard to the Company's budget for 2016 and the Company's strategic business plan which extends to 31 December 2019. In particular the following factors have been taken into account:

- the Company's existing long-term contracts are profitable, providing a steady and predictable stream of revenues and cash flows;
- the Company continues to pursue new opportunities in the electrical infrastructure market and is currently bidding for a number of major projects;
- the Company has considerable financial resources and no external debt.

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

Approved by the Board and signed on its behalf by:

....

B Scarsella
Director
10 August 2016
Newington House
237 Southwark Bridge Road
London
SE1 6NP

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the period 31 December 2014 to 31 March 2016.

Details of future developments and going concern are included in the Strategic report and form part of this report by cross reference.

Political contributions
No political donations were made in either period.

Directors
The directors who held office during the period and subsequently were as follows:

Andrew John Hunter

Basil Scarsella

Loi Shun Chan

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

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

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation
The Group places considerable value on the engagement and involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, various media channels and publications. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

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.

DIRECTORS' REPORT continued

Reappointment of Auditor

The Auditor Deloitte LLP is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board and signed on its behalf by:

....
B Scarsella
Director
10 August 2016
Newington House
237 Southwark Bridge Road
London
SE1 6NP

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 period. 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 affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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'S REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

We have audited the financial statements of UK Power Networks Services (Commercial) Limited for the period from 31 December 2014 to 31 March 2016, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 18. 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'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 Statement of Directors' Responsibilities (set out on page 7), 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 (APB'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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the 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 2016 and of its profit for the period from 31 December 2014 to 31 March 2016;
- 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 Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED (continued)

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.

James A. Leigh

James Leigh FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London
EC4A 3BZ
10 August 2016

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM 31 DECEMBER 2014 TO 31 MARCH 2016

	Note	31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Turnover	2	**62,244**	81,443
Cost of sales		**(54,490)**	(66,982)
Gross profit		**7,754**	14,461
Other operating expenses		**(7,450)**	(12,157)
Operating profit	3	**304**	2,304
Finance charges (net)			
Other interest receivable and similar income	6	**237**	-
Interest payable and similar charges	6	**-**	(61)
		237	(61)
Profit on ordinary activities before taxation		**541**	2,243
Tax on profit on ordinary activities	7	**(378)**	(864)
Profit for the financial period	14	**163**	1,379

All results are derived from continuing operations in both the current and prior period.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD FROM 31 DECEMBER 2014 TO 31 MARCH 2016

	Note	**31 December 2014 to 31 March 2016 £000**	1 January 2014 to 30 December 2014 £000
Profit for the financial period		**163**	1,379
Actuarial (loss)/gain on pension schemes	16	**(1,454)**	1,203
Deferred tax relating to actuarial loss/(gain) on pension schemes	16	**262**	(241)
Deferred tax rate change relating to historical actuarial losses	16	**(92)**	-
Total recognised gains and losses relating to the period		**(1,121)**	**2,341**

The deferred tax rate change represents the reduction in main stream corporation tax from 20% to 18%.

BALANCE SHEET
AS AT 31 MARCH 2016

	Note	31 March 2016 £000	30 December 2014 £000
Fixed assets			
Tangible assets	8	-	133
Current assets			
Stocks	9	**4,579**	486
Debtors falling due within one year	10	**67,012**	72,090
Cash at bank and in hand		-	12,847
		71,591	85,423
Creditors: Amounts falling due within one year	11	**(39,992)**	(54,390)
Net current assets		**31,599**	31,033
Total assets less current liabilities		**31,599**	31,166
Provisions for liabilities	12	**(2,491)**	(700)
Net assets excluding pension liability		**29,108**	30,466
Net pension liability	16	**(3,437)**	(3,674)
Net assets including pension liability		**25,671**	26,792
Capital and reserves			
Called up share capital	13	**33,371**	33,371
Profit and loss account	14	**(7,700)**	(6,579)
Shareholders' funds		**25,671**	26,792

The financial statements of UK Power Networks Services (Commercial) Limited, registered number 2965182, were approved by the Board of Directors and authorised for issue on 10 August 2016.
They were signed on its behalf by:

....
B Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principle accounting policies are set out below. They have all been applied consistently throughout the current and prior period.

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards.

Exemption from preparing a cash flow statement
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
As discussed in the Strategic Report the Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Tangible Fixed 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 tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Depreciation method and rate
Fixtures and equipment	5 years
Vehicles	5 years

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

Raw materials, consumables and goods for resale:

• Purchase cost on an average price basis.

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 selling price 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
Long-term contracts are valued at cost plus attributable profit less any foreseeable losses. Profit is recognised when the outcome of a contract can be assessed with reasonable certainty. The excess of turnover over payments on account is included in debtors. To the extent payments on account exceed turnover and long term contract balances they are included as payments on account within creditors.

Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

Taxation
Current tax, including UK 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

Hire purchase and leasing

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

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 schemes are funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. 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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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 electrical contracting services.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Operating profit

Operating profit is stated after charging/(crediting):

	31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Operating lease rentals - vehicles	**415**	320
Operating leases - land and buildings	**44**	35
Depreciation of owned assets (note 8)	**133**	426
Profit on sale of tangible fixed assets	**-**	(11)
Staff Costs (note 4)	**12,592**	9,610

Amounts payable to Deloitte LLP were £24,200 (1 January 2014 to 30 December 2014: £22,200) in respect of audit services and £nil (1 January 2014 to 30 December 2014: £nil) in respect of non audit services. Auditor's remuneration was borne in both periods by another Group company.

4 Particulars of employees

The aggregate payroll costs were as follows:

	31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Wages and salaries	**10,199**	7,905
Social security costs	**1,033**	785
Other pension schemes	**1,287**	915
Severance costs	**73**	5
	12,592	9,610

The average number of persons employed by the company (including directors) during the period, was as follows:

	31 December 2014 to 31 2016 Number	1 January 2014 to 30 2014 Number
Average monthly number of employees	**138**	134

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Directors' remuneration

The Directors are not employed by the Company and did not receive any remuneration for services to the Company during the current or prior period.

6 Finance charges (net)

	31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Interest receivable and similar income		
Net interest income on pension schemes	**237**	-
	237	-
Interest payable and similar charges		
Net interest cost on pension scheme	**-**	(61)
	-	(61)
Total Finance Charges (net)	**237**	(61)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation

Tax on profit on ordinary activities

	31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Current tax		
Corporation tax charge	(17)	559
Adjustments in respect of previous periods	(2)	1
UK Corporation tax	(19)	560
Deferred tax		
Origination and reversal of timing differences	379	304
Deferred tax adjustment relating to previous periods	2	-
Effect of changes in tax rates	16	-
Total deferred tax	397	304
Tax on profit on ordinary activities	378	864

Factors affecting current tax charge for the period
The tax on profit on ordinary activities for the period is lower (1 January 2014 to 30 December 2014: higher) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Profit on ordinary activities before tax	541	2,243
Corporation tax at standard rate of 20.2% (1 January 2014 to 30 December 2014: 21.5%)	109	482
Depreciation in excess of capital allowances	4	67
Other timing differences	(429)	(241)
Expenses not deductible for tax purposes	299	251
Adjustment for prior periods	(2)	1
Total current tax	(19)	560

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation (continued)

Tax rate changes
The UK corporation tax rate changed from 23% to 21% effective from 1 April 2014 and to 20% from 1 April 2015. This resulted in an average corporation tax rate for the period of 20.2% (1 January 2014 to 30 December 2014: 21.5%).

Deferred tax reduced from 20% to 18%, following the enactment in 2015 of further rate changes to 19% from 1 April 2017 and 18% from 1 April 2020. The effect of revaluing the opening deferred tax asset at 18%, increased the tax charge in the current period by £16,000.

A lower tax rate of 17% effective from 1 April 2020 was announced in the 2016 Budget. However this rate change had not been substantively enacted in Law at the balance sheet date and therefore is not relevant to these financial statements.

8 Tangible fixed assets

	Fixtures and fittings £000	Motor vehicles £000	**Total £000**
Cost			
At 31 December 2014	3,714	112	**3,826**
Disposals	-	(68)	**(68)**
At 31 March 2016	3,714	44	**3,758**
Depreciation			
At 31 December 2014	3,581	112	**3,693**
Charge for the period	133	-	**133**
Eliminated on disposals	-	(68)	**(68)**
At 31 March 2016	3,714	44	**3,758**
Net book value			
At 31 March 2016	-	-	**-**
At 30 December 2014	133	-	**133**

9 Stocks

	31 March 2016 £000	30 December 2014 £000
Work in progress	**4,579**	486

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Debtors

	31 March 2016 £000	30 December 2014 £000
Amounts falling due within one year		
Trade debtors	**727**	1,197
Amounts owed by group undertakings	**63,047**	63,061
Other debtors	**2**	254
Deferred tax	**102**	164
Prepayments and accrued income	**2,358**	7,414
Corporation tax (Group relief receivable)	**776**	-
	67,012	72,090

Amounts owed by Group undertakings include an interest free loan of £63,000,000 to UK Power Networks Services (South East) Ltd which is repayable on demand.

Deferred tax
The movement in the deferred tax asset in the period is as follows:

	Deferred tax £000
At 31 December 2014	**164**
Charged to the profit and loss account	**(62)**
At 31 March 2016	**102**

Analysis of deferred tax

	31 March 2016 £000	30 December 2014 £000
Difference between accumulated depreciation and amortisation and capital allowances	**87**	94
Other timing differences	**15**	70
	102	164

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Creditors: Amounts falling due within one year

	31 March 2016 £000	30 December 2014 £000
Bank loans and overdrafts	**494**	-
Trade creditors	**1,373**	4,685
Corporation tax	**-**	946
Other taxes and social security	**402**	800
Other creditors	**1,293**	1,747
Accruals and deferred income	**34,202**	43,519
Amounts owed to Group undertakings	**2,228**	2,693
	39,992	54,390

12 Provisions

	Other £000
At 31 December 2014	**700**
Charged to the profit and loss account	**2,441**
Amounts unused and reversed	**(650)**
At 31 March 2016	**2,491**

Other provisions relate to legal and constructive obligations which are expected to become payable within the next two years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Share capital

Allotted, called up and fully paid shares

	31 March 2016 Number	31 March 2016 £000	30 December 2014 No.	30 December 2014 £000
Ordinary Shares of £1 each	33,370,733	33,371	33,370,733	33,371

14 Reserves

	Share Capital £000	Profit and loss account £000	Total Share holder's funds £000
At 1 January 2014	33,371	(8,920)	**24,451**
Profit for the period	-	1,379	**1,379**
Actuarial gain on pension schemes	-	1,203	**1,203**
Deferred tax relating to actuarial gain on pension schemes	-	(241)	**(241)**
At 30 December 2014	33,371	(6,579)	**26,792**
Profit for the period	-	163	**163**
Actuarial loss on pension schemes	-	(1,454)	**(1,454)**
Deferred tax relating to actuarial loss on pension schemes	-	262	**262**
Deferred tax rate change relating to historical actuarial losses	-	(92)	**(92)**
At 31 March 2016	33,371	(7,700)	**25,671**

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Financial Commitments

Amounts contracted for but not provided for in the financial statements amounted to £Nil (2014: £Nil).

At 31 March 2016 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2016 £000	**Other 2016 £000**	Land and Buildings 2014 £000	Other 2014 £000
Operating leases which expire:				
Within one year	**18**	**4**	-	11
In two to five years	**74**	**262**	35	217
In over five years	**-**	**44**	-	109
	92	**310**	35	337

16 Pension schemes

Defined benefit pension schemes

The Group operates two funded defined benefit pension schemes:

• The UK Power Networks Group of the ESPS (the UKPN Group scheme); and

• The UK Power Networks Pension Scheme (UKPNPS).

Both defined benefit schemes are closed to new entrants.

Defined contribution pension scheme

A defined contribution retirement benefit scheme, the UK Power Networks Personal Pension Plan, was launched in 2011 for new employees. Joiners can opt for a contribution rate of between 3% and 5% of their salary with the employer making double this contribution. The Company's contributions to this scheme during the period amounted to £154,000 (1 January 2014 to 31 December 2014: £97,000).

Allocation and valuation of defined benefit scheme assets and liabilities

Scheme assets and liabilities are assigned to participating entities of the Group using an allocation methodology based on employment records and attribution portions agreed with the industry regulator Ofgem. Aon Hewitt provided an actuarial valuation at the balance sheet date. The Group monitors funding levels annually and the funding schedule is reviewed between the Group and the trustees every three years based on actuarial valuations. A funding schedule was agreed with the trustees in June 2014, based on the last triennial valuation at 31 March 2013. The Group considers these contribution rates to be sufficient to eliminate the current deficit over the next ten years. The next triennial valuation as at 31 March 2016 was in progress at the time of approval of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Pension schemes (continued)

The principal financial assumptions (% per annum) used to calculate scheme liabilities under FRS 17 were:

	At 31 March 2016 %	At 30 December 2014 %
Discount rate		
- UKPN Group	**3.4**	3.6
- UKPNPS	**3.5**	3.7
Rate of increase in RPI		
- UKPN Group	**2.9**	3.0
- UKPNPS	**3.0**	3.0
Rate of increase in CPI		
- UKPN Group	**1.9**	2.0
- UKPNPS	**2.0**	2.0
Rate of increase in salaries		
- UKPN Group	**3.4**	3.5
- UKPNPS	**3.5**	3.5
Rate of pension increases in payment		
- Pensions in excess of GMP (UKPN Group)	**2.9**	3.0
- Post 88 GMP (UKPN Group)	**1.7**	1.8
- RPI up to 5% per annum (UKPNPS)	**2.9**	2.8
- RPI up to 2.5% per annum (UKPNPS)	**2.1**	2.0
- Post 88 GMP (UKPNPS)	**1.8**	1.7
Rate of pension increases in deferment		
- UKPN Group	**2.9**	3.0
- CPI up to 5% per annum (UKPNPS)	**2.0**	2.0
- CPI up to 2.5% per annum (UKPNPS)	**2.0**	2.0

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Pension schemes (continued)

The table below shows the mortality rate assumptions used to calculate the FRS 17 pension liabilities.

	At 31 March 2016 Years	At 30 December 2014 Years
UKPN Group		
Life expectancy for current male pensioner aged 60	**28**	27
Life expectancy for current female pensioner aged 60	**30**	29
Life expectancy for future male pensioner from age 60 retiring in 2036	**30**	30
Life expectancy for future female pensioner from age 60 retiring in 2036	**32**	32
UKPNPS		
Life expectancy for current male pensioner aged 65	**23**	23
Life expectancy for current female pensioner aged 65	**25**	25
Life expectancy for future male pensioner from age 65 retiring in 2036	**25**	24
Life expectancy for future female pensioner from age 65 retiring in 2036	**27**	27

The assumptions set out in the preceding tables are governed by FRS 17 and do not reflect the assumptions used by the independent actuary in the triennial valuations which determine the Company's contribution rates for future years.

The amount recognised in the balance sheet in respect of the Company's obligation to the defined benefit schemes is as follows:

	UKPN Grp 31 Mar 2016 £000	**UKPNPS 31 Mar 2016 £000**	**Total 31 Mar 2016 £000**	Total 30 Dec 2014 £000
Fair value of scheme assets	**29,999**	**11,035**	**41,034**	38,132
Present value of defined benefit obligations	**(32,375)**	**(12,851)**	**(45,226)**	(42,725)
Deficit in scheme	**(2,376)**	**(1,816)**	**(4,192)**	(4,593)
Related deferred tax asset	**428**	**327**	**755**	919
Liability recognised in the balance sheet	**(1,948)**	**(1,489)**	**(3,437)**	(3,674)

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Pension schemes (continued)

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

	UKPN Grp 31 Dec 2014 to 31 Mar 2016 £000	UKPNPS 31 Dec 2014 to 31 Mar 2016 £000	Total 31 Dec 2014 to 31 Mar 2016 £000	Total 1 Jan 2014 to 30 Dec 2014 £000
Current service cost	**(593)**	**(602)**	**(1,195)**	(871)
Curtailments	**-**	**62**	**62**	-
Interest cost	**(1,445)**	**(461)**	**(1,906)**	(2,062)
Expected return on scheme assets	**1,544**	**599**	**2,143**	2,001
Net effect of settlements	**-**	**-**	**-**	53
	(494)	**(402)**	**(896)**	(879)

Of the charge for the period, an expense of £1,133,000 (1 January 2014 to 30 December 2014: £818,000) has been included in staff costs and a credit of £237,000 (1 January 2014 to 30 December 2014: expense of £61,000) included within net finance charges. The estimated amount of contributions expected to be paid to the scheme in the next 12 months is £1,582,000.

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

	UKPN Grp £000	UKPNPS £000	Total £000	Total £000
At 31 December 2014 / 1 January 2014	**(32,906)**	**(9,819)**	**(42,725)**	(46,390)
Current service cost	**(593)**	**(602)**	**(1,195)**	(871)
Curtailments	**-**	**62**	**62**	-
Interest cost	**(1,445)**	**(461)**	**(1,906)**	(2,062)
Actuarial gain/(loss)	**770**	**(1,754)**	**(984)**	5,614
Benefits paid/(received)	**1,799**	**(277)**	**1,522**	1,522
Settlements	**-**	**-**	**-**	(538)
At 31 March 2016 / 30 December 2014	(32,375)	(12,851)	(45,226)	(42,725)

The actuarial loss (1 January 2014 to 30 December 2014: gain) includes a net transfer out of scheme liabilities amounting to £418,000 (1 January 2014 to 30 December 2014: £8,768,000 transfer out) as a result of a review of the allocation of the scheme liabilities across the Group based on staff transfers between participating companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Pension schemes (continued)

Movements in the fair value of scheme assets were as follows:

	UKPN Grp £000	UKPNPS £000	Total £000	Total £000
At 31 December 2014 / 1 January 2014	**29,603**	**8,529**	**38,132**	39,477
Expected return on scheme assets	**1,544**	**599**	**2,143**	2,001
Actuarial (loss)/gain	**(1,042)**	**572**	**(470)**	(4,411)
Contributions by employer	**689**	**523**	**1,212**	1,242
Deficit payments	**1,004**	**535**	**1,539**	754
Benefits (paid)/received	**(1,799)**	**277**	**(1,522)**	(1,522)
Settlements	**-**	**-**	**-**	591
At 31 March 2016 / 30 December 2014	**29,999**	**11,035**	**41,034**	38,132

The actuarial loss includes a net transfer out of scheme assets amounting to £489,000 (1 January 2014 to 30 December 2014: £7,812,000 transfer out) as a result of a review of the allocation of the scheme assets across the Group based on staff transfers between participating companies.

The fair value of scheme assets is analysed as follows:

	UKPN Grp 31 Mar 2016 £000	UKPNPS 31 Mar 2016 £000	Total 31 Mar 2016 £000	Total 30 Dec 2014 £000
Liability-driven investments	**11,739**	**3,778**	**15,517**	11,882
Equities	**4,925**	**4,732**	**9,657**	13,315
Property	**381**	**559**	**940**	1,018
Corporate bonds	**2,804**	**941**	**3,745**	10,785
Hedge Funds	**10,100**	**857**	**10,957**	876
Cash	**50**	**168**	**218**	256
	29,999	**11,035**	**41,034**	38,132

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 overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for each scheme as at 31 March 2016.

The actual return on scheme assets in the period was a gain of £2,162,000 (1 January 2014 to 30 December 2014: £5,402,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Pension schemes (continued)

The history of experience gains and losses is as follows:

	31 Mar 2016 £000	30 Dec 2014 £000	31 Dec 2013 £000	31 Dec 2012 £000	31 Dec 2011 £000
Fair value of scheme assets	**41,034**	38,132	39,477	36,894	27,854
Present value of defined benefit obligations	**(45,226)**	(42,725)	(46,390)	(43,852)	(34,085)
Deficit in the scheme	**(4,192)**	(4,593)	(6,913)	(6,958)	(6,231)
Experience adjustments on scheme liabilities:					
Amount (£m)	**(72)**	160	(610)	(489)	(181)
Percentage of scheme liabilities (%)	**(0.2)**	0.4	(1.3)	(1.1)	(0.5)
Experience adjustments on scheme assets:					
Amount (£m)	**18**	3,385	1,793	1,182	(251)
Percentage of scheme assets (%)	**-**	8.9	4.5	3.2	(0.9)

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 as follows:

	UKPN Grp £000	UKPNPS £000	Total £000	Total £000
At 31 December 2014 / 1 January 2014	**(2,878)**	**(1,509)**	**(4,387)**	(5,349)
Actuarial (loss)/gain	**(272)**	**(1,182)**	**(1,454)**	1,203
Deferred taxation attributable to actuarial loss/(gain)	**49**	**213**	**262**	(241)
Deferred tax rate change	**(66)**	**(26)**	**(92)**	-
At 31 March 2016 / 30 December 2014	**(3,167)**	**(2,504)**	**(5,671)**	(4,387)

17 Related party transactions

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 financial statements that are publicly available.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Control

UK Power Networks Services (Asset Management) Limited holds a 100% interest in UK Power Networks Services (Commercial) Limited and is considered to be the immediate parent company.

UK Power Networks Services Holdings Limited heads the smallest group for which consolidated financial statements 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 results of 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	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.