



**UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED**

**Registered Number 2965182**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2013**



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### **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.

### Review of the business

The profit for the year, before taxation, amounted to £1,040,000 (2012: £2,803,000) and after taxation, to £154,000 (2012: £1,517,000). No dividends were paid in the year (2012: £nil).

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

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:

	Year to 31 December 2013 £000	Year to 31 December 2012 £000
<b>Financial performance</b>		
Turnover	62,785	55,414
EBITDA <sup>1</sup>	1,614	3,431
<b>Non-financial performance</b>		
Lost Time Incidents <sup>2</sup>	1	nil

1. Profit before interest, tax, depreciation and amortisation

2. Injuries at work resulting in lost time of one day or more

Financial performance indicators, represent the key financial metrics that reflect the financial health of the business. Turnover has increased by £7,371,000 in the year to £62,785,000 as a result of higher volumes of work delivered. Earnings before interest, tax, depreciation and amortisation ("EBITDA") reduced by £1,817,000 to £1,614,000 in the year. The increase in revenue was offset by an increase in operating costs excluding depreciation of £9,188,000.

The key non-financial performance indicator relates to safety. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting serious risk. 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.

## STRATEGIC REPORT continued

### 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 supply of electricity 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 in order to increase certainty of achieving strategic goals. This leads to a high level of risk management assurance for the board of directors. The business operates a risk and control self-assessment regime that helps in monitoring, anticipating and responding to business risks by checking, challenging and monitoring the progress of the business in managing its risks.

### 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. 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 cash, 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 with strong financial standing. Liquidity risk is mitigated by the financial support given by UK Power Networks Services Holdings Limited, the immediate parent. The Company has some exposure to the concentration of credit risk to a limited number of counterparties. In the event of counterparty default the Company has sufficient contractual recourse in order to maintain liquidity.

## STRATEGIC REPORT continued

### 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.

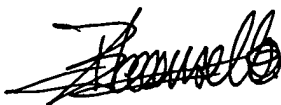
### Going concern

In considering the going concern basis in preparing the Annual Report and financial statements, the Directors have regard to the following:

- the Company's existing long-term contracts provide a steady and predictable stream of revenues and cash flows;
- the Company continues to pursue new opportunities in the electrical infrastructure market and within the last year began work on a major new rail contract for Network Rail; and
- 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  
8 May 2014

## **DIRECTORS' REPORT**

The Directors present their annual report and financial statements for the year ended 31 December 2013.

### **Directors**

Directors who held office during the year 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 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.

### **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.

### **Political contributions**

No political contributions were made in either year.

### **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.

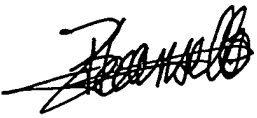
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**DIRECTORS' REPORT continued**

**Auditor**

On 20 October 2003 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 reappointed until such time as a member or the Directors determine otherwise.

Approved by the Board and signed on its behalf by :

A handwritten signature in black ink, appearing to read 'B Scarsella', written over a horizontal line.

B Scarsella  
Director  
8 May 2014

## **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 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 year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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, 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. 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 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 2013 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 Strategic Report and the Directors' Report for the financial year 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**

**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 Leigh FCA (Senior statutory auditor)**  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
8 May 2014

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	<i>Note</i>	<b>2013 £000</b>	<b>2012 £000</b>
<b>Turnover</b>	<b>2</b>	<b>62,785</b>	<b>55,414</b>
<b>Cost of sales</b>		<b>(53,231)</b>	<b>(41,615)</b>
<b>Gross profit</b>		<b>9,554</b>	<b>13,799</b>
<b>Other operating expenses</b>		<b>(8,368)</b>	<b>(10,815)</b>
<b>Profit on ordinary activities before interest and taxation</b>	<b>3</b>	<b>1,186</b>	<b>2,984</b>
<b>Interest payable and similar charges</b>	<b>6</b>	<b>(146)</b>	<b>(181)</b>
<b>Profit on ordinary activities before taxation</b>		<b>1,040</b>	<b>2,803</b>
<b>Tax on profit on ordinary activities</b>	<b>7</b>	<b>(886)</b>	<b>(1,286)</b>
<b>Profit for the financial year</b>	<b>14</b>	<b>154</b>	<b>1,517</b>

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

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2013**

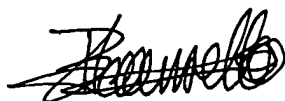
	<i>Note</i>	<b>2013 £000</b>	<b>2012 £000</b>
<b>Profit for the financial year</b>		<b>154</b>	<b>1,517</b>
<b>Actuarial loss on defined benefit pensions</b>	<b>16</b>	<b>(816)</b>	<b>(891)</b>
<b>Deferred tax attributable to actuarial loss</b>	<b>16</b>	<b>163</b>	<b>205</b>
<b>Deferred tax rate change attributable to historical actuarial losses</b>	<b>16</b>	<b>(209)</b>	<b>(125)</b>
<b>Total recognised (loss)/gain relating to the year</b>		<b>(708)</b>	<b>706</b>

The deferred tax rate change of £209,000 (2012: £125,000) represents the reduction in the mainstream corporation tax rate from 23% to 20% (2012: 25% to 23%).

**BALANCE SHEET**  
**AT 31 DECEMBER 2013**

	Notes	2013 £000	2012 £000
<b>Fixed assets</b>			
Tangible assets	8	559	987
<b>Current assets</b>			
Stocks	9	1,277	2,422
Debtors	10	74,965	71,121
Cash		8,603	11,185
<b>Total current assets</b>		<b>84,845</b>	<b>84,728</b>
<b>Creditors: amounts falling due within one year</b>	11	<b>(54,722)</b>	<b>(52,394)</b>
<b>Net current assets</b>		<b>30,123</b>	<b>32,334</b>
<b>Total assets less current liabilities</b>		<b>30,682</b>	<b>33,321</b>
Provisions for liabilities	12	(700)	(2,804)
<b>Net assets excluding pension liabilities</b>		<b>29,982</b>	<b>30,517</b>
Pension liabilities	16	(5,531)	(5,358)
<b>Net assets</b>		<b>24,451</b>	<b>25,159</b>
<b>Capital and reserves</b>			
Called up share capital	13	33,371	33,371
Profit and loss account	14	(8,920)	(8,212)
<b>Shareholder's funds</b>	14	<b>24,451</b>	<b>25,159</b>

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 8 May 2014.  
They 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 and in accordance with applicable United Kingdom law and accounting standards.

#### 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 operating for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### 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 Services Holdings Limited, whose consolidated accounts are publicly available and include a cash flow statement including the cash flows of the Company.

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

Motor vehicles	–	5 years
Equipment and fittings	–	5 years

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 1. Accounting policies continued

#### 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 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 revalued fixed assets only where there is a commitment to dispose of the revalued assets and the attributable gain can neither be rolled over or 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 in the profit and loss account on a straight-line basis over the lease term, even if payments are not made on such a basis.

#### 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. They are included as part of staff costs. 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.

Defined benefit schemes are funded, with the assets of the scheme 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.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 1. Accounting policies continued

#### Provisions

Provisions are recognised when the Group 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.

### 3. Profit on ordinary activities before interest and taxation

This is stated after charging:	<b>2013</b>	2012
	<b>£000</b>	£000
Depreciation of tangible fixed assets - owned	<b>428</b>	447
Operating lease rentals - Vehicles	<b>281</b>	374

In 2013 an amount of £21,700 (2012: £21,000) for the audit of the Company's annual accounts was payable to Deloitte LLP. The Auditor's remuneration was borne by another group company, in both years.

### 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

	<b>2013</b>	2012
	<b>£000</b>	£000
Wages and salaries	<b>11,089</b>	7,251
Social security costs	<b>601</b>	557
Other pension costs	<b>774</b>	962
	<b>12,464</b>	8,770

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

	<b>2013</b>	2012
	<b>Number</b>	Number
Indirect	<b>169</b>	133
Direct	<b>104</b>	80
	<b>273</b>	213

**NOTES TO THE FINANCIAL STATEMENTS continued**

**6. Interest payable and similar charges**

	<b>2013</b>	2012
	<b>£000</b>	£000
Net interest cost on pension scheme	<b>146</b>	181

**7. Tax on profit on ordinary activities**

(a) Analysis of tax charge in the year

	<b>2013</b>	2012
	<b>£000</b>	£000
<b>UK current tax</b>		
UK corporation tax charge on profit for the year	<b>368</b>	714
Adjustment in respect of previous years	<b>362</b>	601
<b>Total current tax charge for the year (note 7 (b))</b>	<b>730</b>	1,315

**UK deferred tax**

Origination and reversal of timing differences	<b>132</b>	(26)
Adjustment in respect of previous years	<b>14</b>	(17)
Effect of tax rate change on opening balance	<b>10</b>	14
<b>Total deferred tax charge/(credit) for the year</b>	<b>156</b>	(29)

**Total tax charge on profit on ordinary activities**

**886**      1,286

(b) Factors affecting tax charge for the year:

The tax assessed for the year is higher than the standard rate of corporation tax in the UK.

The differences are explained below:

	<b>2013</b>	2012
	<b>£000</b>	£000
Profit on ordinary activities before taxation	<b>1,040</b>	2,803
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	<b>242</b>	687
Effect of:		
Expenses not deductible for tax purposes	<b>259</b>	-
Depreciation in excess of capital allowances	<b>67</b>	67
Movement in short term timing differences	<b>(200)</b>	(40)
Adjustment in respect of previous years	<b>362</b>	601
<b>Current tax charge for the year</b>	<b>730</b>	1,315

**Tax rate changes**

The reduction in the tax rate from 24% to 23% effective from 1 April 2013 as announced in the March 2012 Budget and substantively enacted on 3 July 2012 resulted in an average corporation tax rate for 2013 of 23.25%. Further reductions to 21% from 1 April 2014 and to 20% from 1 April 2015 were announced in the March 2013 Budget and substantively enacted on 2 July 2013. Remeasurement of the opening deferred tax balance at 20% increased the deferred tax charge in the current year by £10,000.



NOTES TO THE FINANCIAL STATEMENTS continued

8. Tangible fixed assets

	Motor vehicles £000	Equipment and fittings £000	Total £000
<b>Cost</b>			
At 1 January 2013 and 31 December 2013	297	3,714	4,011
<b>Depreciation</b>			
At 1 January 2013	295	2,729	3,024
Charge for the year	1	427	428
<b>At 31 December 2013</b>	<b>296</b>	<b>3,156</b>	<b>3,452</b>
<b>Net book value</b>			
At 31 December 2013	1	558	559
At 31 December 2012	2	985	987

9. Stocks

	2013 £000	2012 £000
Work in progress	1,277	2,422

NOTES TO THE FINANCIAL STATEMENTS continued

10. Debtors

	2013 £000	2012 £000
<b>Debtors: amounts falling due within one year</b>		
Trade debtors	328	725
Amounts owed by Group undertakings	63,000	63,000
Other debtors	20	17
Prepayments and accrued income	11,324	7,151
Deferred tax asset	244	228
VAT debtor	49	-
	<b>74,965</b>	<b>71,121</b>

Amounts owed by Group undertakings represent an interest free loan to UK Power Networks (South East) Ltd which is repayable on demand.

Deferred taxation provided in the financial statements is as follows:

	2013 £000	2012 £000
Accelerated capital allowances	174	133
Other timing differences	70	95
Deferred tax asset	<b>244</b>	<b>228</b>

The movements in deferred taxation are as follows:

	At 1 January 2013 £000	Profit and loss account £000	Statement of total Recognised gains and losses £000	At 31 December 2013 £000
Deferred tax asset	228	16	-	244
Deferred tax shown against pension liability	1,600	(172)	(46)	1,382
<b>Total deferred tax asset</b>	<b>1,828</b>	<b>(156)</b>	<b>(46)</b>	<b>1,626</b>

**NOTES TO THE FINANCIAL STATEMENTS continued**

**11. Creditors: amounts falling due within one year**

	<b>2013</b>	2012
	<b>£000</b>	£000
Trade creditors	<b>1,537</b>	2,480
Amounts owed to Group undertakings	<b>2,183</b>	1,229
Corporation tax (Group payments)	<b>776</b>	889
Other taxation and social security	<b>-</b>	368
Other creditors	<b>1,609</b>	1,604
Accruals and deferred income	<b>48,617</b>	45,824
	<b>54,722</b>	52,394

**12. Provisions for liabilities**

The movements in provisions during the current year are as follows:

	At 1 January 2013 £000	Arising during the year £000	Released in the year £000	At 31 December 2013 £000
Loss making contracts	2,800	71	(2,171)	<b>700</b>
Other	4	-	(4)	-
	<b>2,804</b>	<b>71</b>	<b>(2,175)</b>	<b>700</b>

The provision for loss making contracts is expected to be utilised over the next two years.

**13. Share capital**

Authorised	<b>2013</b>	2012	<b>2013</b>	2012
	<b>Number</b>	Number	<b>£000</b>	£000
Ordinary shares of £1 each	<b>35,000,000</b>	35,000,000	<b>35,000</b>	35,000
Allotted, called up and fully paid	<b>2013</b>	2012	<b>2013</b>	2012
	<b>Number</b>	Number	<b>£000</b>	£000
Ordinary shares of £1 each	<b>33,370,733</b>	33,370,733	<b>33,371</b>	33,371

**NOTES TO THE FINANCIAL STATEMENTS continued**

**14. Reconciliation of shareholder's funds**

	Share Capital £000	Profit and Loss Account £000	Total £000
At 1 January 2012	33,371	(8,918)	24,453
Profit for the year	-	1,517	1,517
Actuarial loss net of deferred tax on defined pension benefits	-	(686)	(686)
Deferred tax rate change	-	(125)	(125)
At 31 December 2012	33,371	(8,212)	25,159
Profit for the year	-	154	154
Actuarial loss net of deferred tax on defined pension benefits	-	(653)	(653)
Deferred tax rate change	-	(209)	(209)
<b>At 31 December 2013</b>	<b>33,371</b>	<b>(8,920)</b>	<b>24,451</b>

**15. Financial commitments**

Amounts contracted for but not provided in the financial statements amounted to £nil (2012: £nil).

At 31 December 2013 the Company had annual commitments under non-cancellable operating leases as set out below:

	2013 £000	2012 £000
<b>Vehicles:</b>		
Operating leases which expire:		
Within one year	6	37
In two to five years	198	151
In over five years	116	93
	<b>320</b>	<b>281</b>
<b>Land and buildings</b>	<b>2013 £000</b>	<b>2012 £000</b>
Operating leases which expire:		
In two to five years	35	-

## NOTES TO THE FINANCIAL STATEMENTS continued

### 16. Pension commitments

The Group operates two funded defined benefit pension schemes:

- The UK Power Networks Group of the ESPS (the UKPN Grp); and
- The UK Power Networks Pension Scheme (UKPNPS).

The 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 employee data and the attribution portions agreed with the industry regulator Ofgem.

Aon Hewitt provided an actuarial valuation at 31 December 2013. 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. The funding schedule is currently under review based on the latest triennial valuation as 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:

	2013 %	2012 %
<b>Discount rate</b>		
- UKPN Group	4.4	4.3
- UKPNPS	4.4	4.8
<b>Rate of increase in RPI</b>		
- UKPN Group	3.3	2.8
- UKPNPS	3.4	3.1
<b>Rate of increase in CPI</b>		
- UKPN Group	2.3	2.3
- UKPNPS	2.4	2.6
<b>Rate of increase in salaries</b>		
- UKPN Group	3.8	3.8
- UKPNPS	3.9	4.1
<b>Rate of increase of pensions</b>		
- Excess of GMP (UKPN Group)	3.3	2.9
- Post 88 GMP (UKPN Group)	1.9	1.9
- RPI up to 5% (UKPNPS - service to 31 March 2006)	3.1	2.9
- RPI up to 2.5% (UKPNPS - service from 1 April 2006)	2.1	2.0
- Post 88 GMP (UKPNPS - service from 1 April 2006)	1.9	2.0
<b>Rate of increase in deferment</b>		
- UKPN Group	3.3	2.9
- CPI up to 5% (UKPNPS)	2.4	2.6
- CPI up to 2.5% (UKPNPS)	2.4	2.5

**NOTES TO THE FINANCIAL STATEMENTS continued**

**16. Pension commitments continued**

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

	<b>At 31 December 2013 years</b>	<b>At 31 December 2012 years</b>
<b>UKPN Group</b>		
Life expectancy for current male pensioner aged 60	28	28
Life expectancy for current female pensioner aged 60	30	30
Life expectancy for future male pensioner from age 60 retiring in 2030	30	30
Life expectancy for future female pensioner from age 60 retiring in 2030	32	32
<hr/>		
	<b>At 31 December 2013 years</b>	<b>At 31 December 2012 years</b>
<b>UKPNPS</b>		
Life expectancy for current male pensioner aged 65	22	22
Life expectancy for current female pensioner aged 65	24	24
Life expectancy for future male pensioner from age 65 retiring in 2030	24	24
Life expectancy for future female pensioner from age 65 retiring in 2030	27	27

These assumptions 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 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:

	<b>UKPN Grp 2013 £000</b>	<b>UKPNPS 2013 £000</b>	<b>Total 2013 £000</b>	<b>Total 2012 £000</b>
Fair value of scheme assets	32,817	6,660	39,477	36,894
Present value of defined benefit obligations	(38,535)	(7,855)	(46,390)	(43,852)
<hr/>				
Deficit in scheme	(5,718)	(1,195)	(6,913)	(6,958)
Related deferred tax asset	1,143	239	1,382	1,600
<hr/>				
Liability recognised in the balance sheet	(4,575)	(956)	(5,531)	(5,358)

This amount is presented in pension liabilities.

**NOTES TO THE FINANCIAL STATEMENTS continued**

**16. Pension commitments continued**

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

	UKPN Grp 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
Current service cost	(389)	(378)	(767)	(790)
Changes in respect of terminations	-	-	-	(172)
Interest cost	(1,538)	(401)	(1,939)	(1,562)
Expected return on scheme assets	1,391	402	1,793	1,381
	<b>(536)</b>	<b>(377)</b>	<b>(913)</b>	<b>(1,143)</b>

Of the charge for the year £767,000 (2012: £962,000) has been included in staff costs and an expense of £146,000 (2012: £181,000) has been included in interest payable. The estimated amount of contributions expected to be paid to the schemes during 2014 is £1,416,000.

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

	UKPN Grp 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
At 1 January	(36,340)	(7,512)	(43,852)	(34,085)
Current service cost	(389)	(378)	(767)	(790)
Interest cost	(1,538)	(401)	(1,939)	(1,562)
Changes in respect of terminations	-	-	-	(172)
Actuarial (loss)/gain	(1,854)	723	(1,131)	(8,471)
Benefits paid/(received)	1,586	(287)	1,299	1,228
<b>At 31 December</b>	<b>(38,535)</b>	<b>(7,855)</b>	<b>(46,390)</b>	<b>(43,852)</b>

The actuarial loss includes a net transfer out of scheme liabilities amounting to £1,685,000 (2012: £7,383,000 transfer in) 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 commitments continued**

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

	UKPN Grp 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
At 1 January	30,300	6,594	36,894	27,854
Expected return on scheme assets	1,391	402	1,793	1,381
Actuarial gain/(loss)	1,586	(1,271)	315	7,580
Contributions by employer	490	470	960	643
Deficit payment	636	178	814	664
Benefits (paid)/received	(1,586)	287	(1,299)	(1,228)
<b>At 31 December</b>	<b>32,817</b>	<b>6,660</b>	<b>39,477</b>	<b>36,894</b>

The actuarial gain includes a net transfer out of scheme assets amounting to £1,480,000 (2012: £6,398,000 transfer in) as a result of a review of the allocation of the scheme assets across the Group based on transfers of staff between 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			
	2013 %	2012 %	UKPN Grp 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
Gilts - fixed	3.6	2.7	7,596	-	7,596	7,297
- index linked	3.3	2.4	8,873	-	8,873	6,260
Equities	7.7	7.9	9,707	2,940	12,647	13,416
Property	7.3	6.9	933	597	1,530	1,492
Corporate bonds	4.4	4.1	4,088	2,251	6,339	5,887
Hedge Funds	4.4	4.1	-	-	-	635
Cash	0.9	0.5	1,620	872	2,492	1,907
			<b>32,817</b>	<b>6,660</b>	<b>39,477</b>	<b>36,894</b>

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 of the schemes as at 31 December 2013.

The actual return on scheme assets in the year was a gain of £3,588,000 (2012: gain of £2,563,000).



**NOTES TO THE FINANCIAL STATEMENTS continued**

**16. Pension commitments continued**

The history of experience gains and losses is as follows:

	<b>2013</b>	2012	2011	2010	2009
	<b>£000</b>	£000	£000	£000	£000
Fair value of scheme assets	<b>39,477</b>	36,894	27,854	24,720	57,745
Present value of defined obligations	<b>(46,390)</b>	(43,852)	(34,085)	(28,991)	(77,543)
Deficit in the scheme	<b>(6,913)</b>	(6,958)	(6,231)	(4,271)	(19,798)
Experience adjustments on scheme liabilities:					
Amount (£000)	<b>(610)</b>	(489)	(181)	(1,602)	(526)
Percentage of scheme liabilities (%)	<b>1.3</b>	1.1	0.5	5.5	0.7
Experience adjustments on scheme assets:					
Amount (£000)	<b>1,793</b>	1,182	(251)	2,674	5,061
Percentage of scheme assets (%)	<b>4.5</b>	3.2	0.9	10.8	8.8

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

	<b>UKPN Grp</b>	<b>UKNPS</b>	<b>Total</b>	<b>Total</b>
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January	<b>(3,890)</b>	<b>(597)</b>	<b>(4,487)</b>	(3,676)
Actuarial loss	<b>(268)</b>	<b>(548)</b>	<b>(816)</b>	(891)
Deferred taxation	<b>54</b>	<b>109</b>	<b>163</b>	205
Deferred tax rate change	<b>(181)</b>	<b>(28)</b>	<b>(209)</b>	(125)
<b>At 31 December</b>	<b>(4,285)</b>	<b>(1,064)</b>	<b>(5,349)</b>	(4,487)

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 £5,349,000 (2012: loss of £4,487,000).

**17. 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**

**18. Parent undertaking and controlling party**

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 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	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.