



**UK POWER NETWORKS (OPERATIONS) LIMITED**

**Registered Number 3870728**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 December 2011**



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## 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 2011

### **Principal activity and review of the business**

The Company's principal activity during the year continued to be utility infrastructure management. It will continue in this activity for the foreseeable future.

### **Business Review**

The loss for the year, before taxation, amounted to £6.4m (2010: £9.1m) and after taxation, to £5.0m (2010: £6.8m). No dividends were paid in the year (2010: £nil).

The Company provides a full network maintenance, inspection and renewal programme for the licensed distribution companies owned by the UK Power Networks Holdings Limited group (the "Group"). The costs of these activities are recharged to the distribution companies on a cost reflective basis. Therefore it is inappropriate to consider the results of the Company in isolation. 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 distribution business, which includes the Company, is discussed in the Group's Annual Report which does not form part of this report.

### **Future Developments**

The Directors aim to maintain a balance of good quality customer service, investment in its employees and shareholder return, whilst delivering an efficient service. It is anticipated that 2012 will deliver further improvements. The Company invests in a research and development programme within such areas as sustainability and the environment, network operations and asset management.

### **Directors**

Directors who held office during the year and subsequently were as follows:

Andrew John Hunter  
Neil Douglas McGee  
Basil Scarsella

Only Basil Scarsella had a service contract with the Company. All other directors were employed by or had contracts with immediate or intermediate shareholder companies in the current and 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 and liquidity risk.

### **Credit 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 Holdings Group of Companies. The Company's principal financial assets are 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 Holdings Limited, the immediate parent. Short-term liquidity flexibility is achieved through the use of overdraft facilities.

### **Going concern**

The Company's ability to continue as a going concern is assessed in conjunction with the Group as its viability is dependent upon the ability of other companies within the Group to settle their intercompany balances with the Company.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance and the extension/refinancing of credit facilities in other companies within the Group, show that the Company will be able to operate within its current facilities. The Directors having assessed responses from the parent company UK Power Networks Holdings are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Company continues to adopt the going concern basis in preparing its 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 were 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 2011, the Company had an average of 10 days (2010: 9 days) purchases outstanding in its trade creditors.

### **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 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.

## **DIRECTORS' REPORT continued**

### **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**

During the year, the Company made various charitable contributions totalling £58,976 (2010 £146,737). 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.

### **Auditor**

On 20 October 2003 the Company passed an elective resolution dispensing with the requirement to appoint auditors 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.

Approved by the Board and signed on its behalf by -



**B Scarsella**  
**Director**  
18 April 2012

## **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'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) LIMITED**

We have audited the financial statements of UK Power Networks (Operations) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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'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. 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 2011 and of its loss 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 (Senior Statutory Auditor)**

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, UK  
18 April 2012

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	<i>Note</i>	<b>2011 £m</b>	<b>2010 £m</b>
<b>Turnover</b>	<b>2</b>	<b>956.3</b>	<b>1,025.4</b>
Cost of sales		<b>(647.8)</b>	<b>(689.9)</b>
<b>Gross profit</b>		<b>308.5</b>	<b>335.5</b>
Distribution costs		<b>(214.0)</b>	<b>(280.2)</b>
Administrative expenses		<b>(101.2)</b>	<b>(63.5)</b>
<b>Operating loss</b>	<b>3</b>	<b>(6.7)</b>	<b>(8.2)</b>
Interest receivable and similar income	<b>6</b>	<b>0.4</b>	<b>0.2</b>
Interest payable and similar charges	<b>7</b>	<b>(0.1)</b>	<b>(1.1)</b>
<b>Loss on ordinary activities before taxation</b>		<b>(6.4)</b>	<b>(9.1)</b>
Tax on loss on ordinary activities	<b>8</b>	<b>1.4</b>	<b>2.3</b>
<b>Loss for the financial year</b>	<b>15</b>	<b>(5.0)</b>	<b>(6.8)</b>

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 2011**

	<i>Note</i>	<b>2011 £m</b>	<b>2010 £m</b>
Loss for the financial year		<b>(5.0)</b>	<b>(6.8)</b>
Actuarial gain net of deferred tax on defined pension benefits	<b>18</b>	-	<b>29.0</b>
Deferred tax rate change	<b>18</b>	-	<b>(0.3)</b>
<b>Total recognised (loss)/gain relating to the year</b>		<b>(5.0)</b>	<b>21.9</b>

The deferred tax charge reflected in the actuarial gain net of deferred tax on defined benefit pensions amounted to £nil (2010 £10.7m)




**UK POWER NETWORKS (OPERATIONS) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

**BALANCE SHEET**  
**31 DECEMBER 2011**

	<i>Note</i>	<b>2011 £m</b>	<b>2010 £m</b>
<b>Fixed assets</b>			
Tangible assets	9	-	-
<b>Current assets</b>			
Stocks	10	31.0	37.2
Debtors	11	249.8	147.1
Cash in hand		-	7.2
		<b>280.8</b>	<b>191.5</b>
<b>Creditors: amounts falling due within one year</b>	12	<b>(247.2)</b>	<b>(164.8)</b>
<b>Net current assets</b>		<b>33.6</b>	<b>26.7</b>
<b>Total assets less current liabilities</b>		<b>33.6</b>	<b>26.7</b>
Provisions for liabilities	13	<b>(21.2)</b>	<b>(9.3)</b>
<b>Net assets</b>		<b>12.4</b>	<b>17.4</b>
<b>Capital and reserves</b>			
Called up share capital	14	2.0	2.0
Share premium account	15	28.0	28.0
Profit and loss account	15	<b>(17.6)</b>	<b>(12.6)</b>
<b>Shareholder's funds</b>	15	<b>12.4</b>	<b>17.4</b>

The financial statements of UK Power Networks (Operations) Limited, registered number 3870728, on pages 7 to 23 were approved by the Board of Directors on 18 April 2012 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 in accordance with applicable United Kingdom law and accounting standards.

#### 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.

#### 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.

#### 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 other than freehold land, at rates calculated to write off the cost of acquisition of each asset evenly over its expected useful life, as follows:

Plant and machinery	–	5 years
Office equipment, fixtures and fittings	–	5 years
Computer equipment	–	5 years

Assets in the course of construction for production are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

#### 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 and consumables

- Purchase cost on an average cost basis

##### Work in progress

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

Net realisable value represents the 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

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included in long-term contract balances in stock.

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.

#### 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.

#### Research and development

Expenditure on research is written off to the profit and loss account in the year in which it is incurred.

#### 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

There are two funded defined benefit pension arrangements operated by the UK Power Networks Holdings Limited Group, which are accounted for 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.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 1. Accounting policies continued

#### Pensions continued

The 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.

In 2010 the defined benefit pension liability recognised by the Company was transferred to the licensed distribution companies of the Group in line with attribution portions agreed by the Regulator (note 18).

#### 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 utility infrastructure management, the Company's principal activity.

### 3. Operating loss

	2011 £m	2010 £m
This is stated after charging		
Staff costs (note 5)	263.2	229.8
Other operating lease rentals	11.9	12.2
Research and development	3.8	3.4
Operating lease rentals - land and buildings	4.1	-

#### Auditor remuneration

Fees payable by the Company to Deloitte LLP and their associates for the audit of the Company's annual accounts amounted to £42,250 (2010: £45,000). Fees payable for non-audit services were £46,000 (2010: £nil).

**NOTES TO THE FINANCIAL STATEMENTS continued**

**4. Directors' emoluments**

Directors' emoluments for the year are as follows

	<b>2011 £000</b>	<b>2010 £000</b>
Emoluments	<b>1,337</b>	678
Amounts receivable under long-term incentive plans	<b>324</b>	-
Company contributions to money purchase pension schemes	<b>59</b>	14
	<b>1,720</b>	692

	<b>2011 Number</b>	<b>2010 Number</b>
Members of a money purchase scheme	<b>1</b>	1

	<b>2011 £000</b>	<b>2010 £000</b>
Remuneration of highest paid director		
Aggregate emoluments	<b>1,337</b>	373
Amounts receivable under long-term incentive plans	<b>324</b>	-
Company contributions to money purchase schemes	<b>59</b>	-
	<b>1,720</b>	373

**5 Staff costs**

	<b>2011 £m</b>	<b>2010 £m</b>
Wages and salaries	<b>202.3</b>	184.2
Social security costs	<b>18.6</b>	15.8
Pension costs	<b>30.3</b>	29.8
Severance	<b>12.0</b>	-
	<b>263.2</b>	229.8

The average monthly number of employees was	<b>4,871</b>	4,588
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Recharges relating to staff employed by other companies within the Group are excluded from the disclosure above

NOTES TO THE FINANCIAL STATEMENTS continued

6. Interest receivable and similar income

	2011 £m	2010 £m
Interest receivable on deposits	0.3	0.2
Interest receivable on Group undertakings	0.1	-
	<hr/> 0.4	<hr/> 0.2

7. Interest payable and similar charges

	2011 £m	2010 £m
Net interest cost on pension scheme	-	1.1
Interest payable on Group undertakings	0.1	-
	<hr/> 0.1	<hr/> 1.1

NOTES TO THE FINANCIAL STATEMENTS continued

8. Tax on loss on ordinary activities

(a) Analysis of tax credit in the year

UK Current Tax	2011 £m	2010 £m
UK corporation tax on loss	(0.1)	(2.5)
Adjustment in respect of previous years	0.1	(0.2)
Total current tax credit for the year (note b)	-	(2.7)
UK deferred tax	2011 £m	2010 £m
Origination and reversal of timing differences	(1.4)	0.2
Adjustment in respect of previous years	(0.2)	-
Effect of rate change on opening balance	0.2	0.2
Total deferred tax (credit)/charge for the year	(1.4)	0.4
Total tax credit on loss on ordinary activities	(1.4)	(2.3)

(b) Factors affecting tax credit for the year

The tax assessed for the year is higher (2010 lower) than the standard rate of corporation tax in the UK

The differences are explained below

	2011 £m	2010 £m
Loss on ordinary activities before tax	(6.4)	(9.1)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 28%)	(1.7)	(2.5)
Effect of		
Capital allowances in excess of depreciation	(0.4)	(0.7)
Movement in short term timing differences	1.9	0.7
Expenses not deductible for tax purposes	0.1	-
Adjustment in respect of previous years	0.1	(0.2)
Current tax credit for the year	-	(2.7)

**NOTES TO THE FINANCIAL STATEMENTS continued**

**8. Tax on loss on ordinary activities continued**

A reduction in the mainstream UK corporation tax rate from 28% to 26%, effective 1 April 2011, was enacted in the Finance Act 2011. A further reduction to 25% effective from 1 April 2012 was enacted in July 2011. The re-measurement of the closing deferred tax balance at 25% has reduced the deferred tax credit in the current year by £0.2m. No further adjustments to the deferred tax balance have been made in relation to prospective future changes in the tax rate (as announced in the March 2011 Budget Statement) as these were not substantively enacted in Law at the balance sheet date. Finance Bill 2012 contains the reduction in the corporation tax rate from 25% to 24% effective 1 April 2012 and a further reduction to 23% effective 1 April 2013.

**9. Tangible fixed assets**

	Fixtures & Fittings, Tools & Equipment £m	Total £m
<b>Cost</b>		
At 1 January 2011 and 31 December 2011	81.0	81.0
<b>Depreciation</b>		
At 1 January 2011 and 31 December 2011	81.0	81.0
<b>Net book value</b>		
At 1 January 2011 and 31 December 2011	-	-

There were no assets in the course of construction included within tangible fixed assets as at 31 December 2011 and 31 December 2010.

**10. Stocks**

	2011 £m	2010 £m
Raw materials and consumables	26.6	29.7
Work in progress	4.4	7.5
	<b>31.0</b>	<b>37.2</b>

The replacement cost of stocks held by the Company at 31 December 2011 and 31 December 2010 was not materially different to the amount at which they were stated in the financial statements.



NOTES TO THE FINANCIAL STATEMENTS continued

11. Debtors

	2011 £m	2010 £m
Trade debtors	3.6	12.7
Amounts recoverable on contracts	0.4	0.6
Amounts owed by Group undertakings	200.1	111.7
Deferred tax asset	4.4	3.0
Other debtors	26.0	7.9
Prepayments and accrued income	12.7	8.6
Corporation tax (Group relief receivable)	2.6	2.6
	<b>249.8</b>	<b>147.1</b>

The deferred tax asset recognised in the financial statements is as follows

	2011 £m	2010 £m
Accelerated capital allowances	1.7	2.2
Short-term timing differences	2.7	0.8
	<b>4.4</b>	<b>3.0</b>

The movements in deferred taxation are as follows

	At 1 January 2011 £m	Profit and loss account £m	Statement of total recognised gains and losses £m	At 31 December 2011 £m
Deferred tax asset	3.0	1.4	-	<b>4.4</b>

NOTES TO THE FINANCIAL STATEMENTS continued

12. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Bank overdraft	15.1	-
Payments received on account	32.9	25.8
Trade creditors	22.0	20.6
Amounts owed to Group undertakings	20.0	15.3
Other taxation and social security	8.7	5.6
Other creditors	15.7	9.5
Accruals and deferred income	132.8	88.0
	<b>247.2</b>	<b>164.8</b>

Preference shares with a book value of £200 are included within creditors. The preference shares relate to the following:

Authorised, allotted, called up and fully paid	2011 Number	2010 Number	2011 £	2010 £
H preference shares of 33 ⅓ pence each	300	300	100	100
I preference shares of 33 ⅓ pence each	300	300	100	100
	<b>600</b>	<b>600</b>	<b>200</b>	<b>200</b>

The preference shares carry an entitlement to cumulative preferential dividends of the following amounts:

H preference shares	75% of the profit after tax every financial year*
I preference shares	25% of the profit after tax every financial year*

\*in this calculation, profit after tax is limited to £10m

The Company has the right to redeem the preference shares at any time for the sum of £1 each.

Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the payment in full of the preference share capital together with any arrears of dividends. They have no voting rights.

**NOTES TO THE FINANCIAL STATEMENTS continued**

**13. Provisions for liabilities**

The movements in provisions during the current year are as follows

	At 1 January 2011 £m	Arising during the year £m	Released during the year £m	At 31 December 2011 £m
Insurance	7.5	5.4	-	12.9
Severance Provision	-	6.5	-	6.5
Other	1.8	-	-	1.8
	<b>9.3</b>	<b>11.9</b>	<b>-</b>	<b>21.2</b>

The insurance provision comprises public liability and employer liability claims made against the Company. The timing of the payments is uncertain but it is expected that the majority of this expenditure will be incurred within three years of the balance sheet date.

"Other" includes provision for holiday pay amounting to £0.3m (2010: £0.3m), expected to be incurred over a period of up to 5 years and a provision for legal fees amounting to £1.5m (2010: £1.5m) expected to become payable within 2 years.

**14. Share capital**

Authorised			<b>2011 £m</b>	<b>2010 £m</b>
25,000,000 (2010: 25,000,000) H ordinary shares of £1 each			<b>25.0</b>	25.0
25,000,000 (2010: 25,000,000) I ordinary shares of £1 each			<b>25.0</b>	25.0
			<b>50.0</b>	50.0
Allotted, called up and fully paid				
	<b>2011 Number</b>	<b>2010 Number</b>	<b>2011 £m</b>	<b>2010 £m</b>
H ordinary shares of £1 each	<b>1,000,001</b>	1,000,001	<b>1.0</b>	1.0
I ordinary shares of £1 each	<b>1,000,001</b>	1,000,001	<b>1.0</b>	1.0
	<b>2,000,002</b>	2,000,002	<b>2.0</b>	2.0

The ordinary shares carry an entitlement to equal voting and dividend rights.

The preference shares are presented as a liability (note 12) and accordingly are excluded from called-up share capital in the balance sheet.

**NOTES TO THE FINANCIAL STATEMENTS continued**

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

	Share Capital	Share Premium Account	Profit and Loss Account	Total Shareholder's Funds
	£m	£m	£m	£m
At 1 January 2010	2.0	28.0	(34.5)	(4.5)
Profit for the financial year	-	-	(6.8)	(6.8)
Actuarial gain net of deferred tax on defined pension benefits (note 18)	-	-	29.0	29.0
Deferred tax rate change	-	-	(0.3)	(0.3)
At 31 December 2010	2.0	28.0	(12.6)	17.4
Loss for the financial year	-	-	(5.0)	(5.0)
<b>At 31 December 2011</b>	<b>2.0</b>	<b>28.0</b>	<b>(17.6)</b>	<b>12.4</b>

**16. Financial Commitments**

Amounts contracted for but not provided in the financial statements amounted to £nil (2010: £nil)

**17. Operating lease commitments**

At 31 December 2011, the Company had annual commitments under non cancellable operating leases as set out below

<b>Vehicles</b>	<b>2011 £m</b>	<b>2010 £m</b>
Operating leases which expire		
Within one year	1.2	0.7
In two to five years	4.3	6.5
In more than five years	1.0	0.7
	<b>6.5</b>	<b>7.9</b>
<b>Land and buildings</b>	<b>2011 £m</b>	<b>2010 £m</b>
Operating leases which expire		
Within one year	0.2	-
In two to five years	1.8	-
In over five years	2.1	-
	<b>4.1</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS continued

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. As a result of this exercise the defined benefit pension deficit previously held by the Company, was transferred to the licensed distribution network operators Eastern Power Networks Limited, London Power Networks Limited and South Eastern Power Networks Limited (the "DNOs"). The amount recognised in the balance sheet in respect of the defined benefit schemes as at 31 December 2011 is therefore £nil (2010: £nil).

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

	2011 £m	2010 £m
Current service cost	-	(24.7)
Interest cost	-	(8.1)
Expected return on scheme assets	-	7.0
	-	(25.8)

Effective from 29 October 2010 the staff pension costs as disclosed in note 5 represent the current service cost of the defined benefit pension obligations attributable to the DNOs.

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

Movements in the present value of defined obligations were as follows

	2011 £m	2010 £m
At 1 January	-	(174.7)
Current service cost	-	(24.7)
Interest cost	-	(8.1)
Actuarial gain	-	204.5
Benefits paid	-	3.0
<b>At 31 December</b>	<b>-</b>	<b>-</b>

The prior year actuarial gain included a net transfer out of scheme liabilities amounting to £209.1m as a result of the reallocation of scheme liabilities across the participating companies.

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

	2011 £m	2010 £m
At 1 January	-	137.4
Expected return on scheme assets	-	7.0
Actuarial loss	-	(164.8)
Contributions by employer	-	19.3
Deficit payment	-	4.1
Benefits paid	-	(3.0)
<b>At 31 December</b>	<b>-</b>	<b>-</b>

The prior year actuarial loss included a net transfer out of scheme assets amounting to £169.9m as a result of the reallocation of scheme assets across the participating companies

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

The history of experience gains and losses is as follows

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	-	-	137.4	100.2	97.4
Present value of defined obligations	-	-	(174.7)	(111.5)	(109.5)
Deficit in the scheme	-	-	(37.3)	(11.3)	(12.1)
Experience adjustments on scheme liabilities					
Amount (£m)	-	(4.6)	(1.0)	1.8	(3.2)
Percentage of scheme liabilities (%)	-	-	0.6	1.6	2.9
Experience adjustments on scheme assets					
Amount (£m)	-	5.1	10.5	(22.8)	0.3
Percentage of scheme assets (%)	-	-	7.6	22.8	0.3

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

	UKPN Grp 2011 £m	UKPNPS 2011 £m	Total 2011 £m	Total 2010 £m
At 1 January	5.1	1.3	6.4	(22.3)
Actuarial gain	-	-	-	39.7
Deferred taxation	-	-	-	(10.7)
Deferred tax rate change	-	-	-	(0.3)
At 31 December	5.1	1.3	6.4	6.4

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 gain of £6.4m (2010 £6.4m)

**NOTES TO THE FINANCIAL STATEMENTS continued**

**19. 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 accounts which are publicly available

**20. Parent undertaking and controlling party**

The Company is a wholly owned subsidiary of UK Power Networks Holdings Limited, a company registered in England and Wales

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

UK Power Networks Holdings Limited publishes consolidated financial statements and is the largest and smallest group which consolidate the financial statements of the Company. Copies of the financial statements of UK Power Networks Holdings Limited may be obtained from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX