



UK POWER NETWORKS (OPERATIONS) LIMITED
(Formerly EDF ENERGY NETWORKS LIMITED)

Registered Number 3870728

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2010



CONTENTS

Page.

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

DIRECTORS

Andrew John Hunter
Neil Douglas McGee
Basil Scarsella

COMPANY SECRETARY

Christopher Baker

AUDITOR

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

REGISTERED OFFICE

Newington House,
237 Southwark Bridge Road
London
SE1 6NP

DIRECTORS' REPORT

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

Principal 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.

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

Change of name

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

Business Review

The loss for the year, before taxation, amounted to £9.1m (2009: £1.0m) and after taxation, a loss of £6.8m (2009: £0.7m profit). No dividends were paid in the year (2009: £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 2011 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:

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

*Appointed as alternate director to Laurent Ferrari.

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 trade debtors and amounts owed from Group companies. Credit risk is mitigated by the nature of the debtor balances owed, as the other group companies are able to repay their debts if required. Liquidity risk is mitigated by the financial support given by UK Power Networks 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 2010, the Company had an average of 9 days (2009: 13 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 £146,737 (2009: £88,590) and no political contributions 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

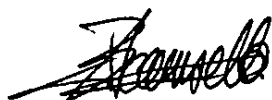
- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware, and
- the Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's 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
26 April 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and of the profit and loss of the Company for the period. In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of UK Power Networks (Operations) Limited (formerly EDF Energy Networks Limited) for the year ended 31 December 2010 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 report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its 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.

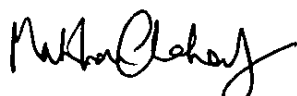
Opinion on other matter prescribed by the Companies Act 2006

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

26 April 2011

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Note</i>	2010 £m	2009 £m
Turnover	2	1,025.4	1,026.3
Cost of sales		(689.9)	(746.5)
Gross profit		335.5	279.8
Distribution costs		(280.2)	(243.3)
Administrative expenses		(63.5)	(36.5)
Operating loss	3	(8.2)	-
Interest receivable and similar income	7	0.2	-
Interest payable and similar charges	8	(1.1)	(1.0)
Loss on ordinary activities before taxation		(9.1)	(1.0)
Tax on loss on ordinary activities	9	2.3	1.7
(Loss)/profit for the financial year	16	(6.8)	0.7

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

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

	<i>Note</i>	2010 £m	2009 £m
(Loss)/profit for the financial year		(6.8)	0.7
Actuarial gain/(loss) net of deferred tax on defined pension benefits	18	29.0	(24.5)
Deferred tax rate change	18	(0.3)	-
Total recognised gain/(loss) relating to the year		21.9	(23.8)

The deferred tax charge (2009 credit) reflected in the actuarial gain (2009 loss) net of deferred tax on defined benefit pensions amounted to £10.7m (2009 £9.5m). The deferred tax rate change of £0.3m represents the reduction in the main stream corporation tax rate from 28% to 27% from 1 April 2011.

UK POWER NETWORKS (OPERATIONS) LIMITED
(FORMERLY EDF ENERGY NETWORKS LIMITED)
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010

BALANCE SHEET
31 DECEMBER 2010

	<i>Note</i>	2010 £m	2009 £m
Fixed assets			
Tangible assets	10	-	-
Current assets			
Stocks	11	37.2	29.9
Debtors	12	147.1	158.0
Cash at bank and in hand		7.2	13.7
		191.5	201.6
Creditors: amounts falling due within one year	13	(164.8)	(170.4)
Net current assets		26.7	31.2
Total assets less current liabilities		26.7	31.2
Provisions for liabilities	14	(9.3)	(8.8)
Net assets excluding pension liability		17.4	22.4
Pension liability	18	-	(26.9)
Net assets/(liabilities)		17.4	(4.5)
Capital and reserves			
Called up share capital	15	2.0	2.0
Share premium account	16	28.0	28.0
Capital reserves	16	-	-
Profit and loss account	16	(12.6)	(34.5)
Shareholder's funds/(deficit)	16	17.4	(4.5)

The financial statements of UK Power Networks (Operations) Limited, registered number 3870728, on pages 7 to 25 were approved by the Board of Directors on 26 April 2011 and were signed on its behalf by



B Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

Basis of preparation

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

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 period 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

The Company has obligations under two funded defined benefit pension arrangements as part of the UK Power Networks Holdings Limited 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.

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.

Share-based payments

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

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

	2010 £m	2009 £m
This is stated after charging		
Staff costs (note 5)	229.8	195.5
Depreciation of owned assets	-	1.2
Other operating lease rentals	12.2	11.8
Research and development	3.4	3.5

Auditor remuneration

Fees payable by the Company to Deloitte LLP and their associates for the audit of the Company's annual accounts amounted to £45,000 (2009 £55,000). Fees payable for non audit services were £nil (2009 £nil).

NOTES TO THE FINANCIAL STATEMENTS continued

4. Directors' emoluments

Directors' emoluments for the year are as follows

	2010 £000	2009 £000
Emoluments	678	418
Company contributions to money purchase pension schemes	14	-
Total	692	418

	2010 Number	2009 Number
Members of a money purchase scheme	1	-

	2010 £000	2009 £000
Emoluments payable to the highest paid director were as follows		
Aggregate emoluments	373	418
Company contributions to money purchase schemes	-	-
Total	373	418

5. Staff costs

	2010 £m	2009 £m
Wages and salaries	184.2	165.5
Social security costs	15.8	14.4
Pension costs	29.8	14.6
Share scheme payments (note 6)	-	1.0
	229.8	195.5
 The average monthly number of employees was	 4,588	 4,208

Recharges relating to staff employed by other companies within the Group are excluded from the disclosure above

NOTES TO THE FINANCIAL STATEMENTS continued

6. Share-based payments

ACT 2007

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

ACT 2007 Impact

	2010	2009
	£000	£000
At 1 January	-	359
Granted during the year	-	1,006
Revaluation	-	(1,685)
Cumulative loss transferred to profit and loss account (note 16)	-	320
Balance carried forward in capital reserves	-	-

The value of the shares 'Granted during the year' represents the charge to the Profit and Loss account pro rata over the 2 year vesting period computed using the share price (base price) on date of announcement of the plan in August 2007, namely €72.50 or £48.99. The 'Revaluation' line is the cost of the shares at current market price, also accrued pro rata over the vesting period. The net 'Balance carried forward in Capital reserves', represents the cumulative difference between the two valuations. Upon completion of the vesting period in August 2009, the adverse balance was transferred to the profit and loss account (note 16). During 2009 the Company paid £3.9m to EDF SA in exchange for the final award of 73,828 shares to the Company's employees.

7. Interest receivable and similar income

	2010	2009
	£m	£m
Interest receivable on deposits	0.2	-

8. Interest payable and similar charges

	2010	2009
	£m	£m
Net interest cost on pension scheme	1.1	1.0

NOTES TO THE FINANCIAL STATEMENTS continued

9. Tax on loss on ordinary activities

(a) Analysis of tax credit in the year

	2010 £m	2009 £m
UK Current Tax		
UK corporation tax on loss	(2.5)	(3.3)
Adjustment in respect of previous years	(0.2)	(0.8)
Total current tax credit for the year (note b)	(2.7)	(4.1)
UK deferred tax		
Origination and reversal of timing differences	0.2	2.9
Adjustment in respect of previous years	-	(0.5)
Effect of rate change on opening balance	0.2	-
Total deferred tax charge for the year	0.4	2.4
Total tax credit on loss on ordinary activities	(2.3)	(1.7)

(b) Factors affecting tax credit for the year

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

The differences are explained below

	2010 £m	2009 £m
Loss on ordinary activities before tax	(9.1)	(1.0)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(2.5)	(0.3)
Effect of		
Capital allowances (in excess of)/less than depreciation	(0.7)	(0.4)
Movement in pension liability	0.7	(2.3)
Other timing differences	-	(0.2)
Expenses not deductible for tax purposes	-	(0.1)
Adjustment in respect of previous years	(0.2)	(0.8)
Current tax credit for the year	(2.7)	(4.1)

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No2) Act 2010 included legislation to reduce the main stream rate of corporation tax from 28% to 27% from 1 April 2011. As a result of the change the deferred tax balances have been remeasured. The impact was to increase the deferred tax charge by £0.2m.

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

NOTES TO THE FINANCIAL STATEMENTS continued

10. Tangible fixed assets

	Fixtures & Fittings, Tools & Equipment £m	Total £m
Cost		
At 1 January 2010 and 31 December 2010	81 0	81 0
Depreciation		
At 1 January 2010 and 31 December 2010	81 0	81 0
Net book value		
At 1 January 2010 and 31 December 2010	-	-

There were no assets in the course of construction included within tangible fixed assets as at 31 December 2010 and 31 December 2009

11 Stocks

	2010 £m	2009 £m
Raw materials and consumables	29.7	19 1
Work in progress	7.5	10 8
	37.2	29 9

The replacement cost of stocks held by the Company at 31 December 2010 and 31 December 2009 was not materially different to the amount at which they are stated in the financial statements

NOTES TO THE FINANCIAL STATEMENTS continued

12. Debtors

	2010 £m	2009 £m
Trade debtors	12.7	15.9
Amounts recoverable on contracts	0.6	1.5
Amounts owed by Group undertakings	111.7	116.6
Deferred tax asset	3.0	4.0
Other debtors	7.9	7.9
Prepayments and accrued income	8.6	12.1
Corporation tax (Group relief receivable)	2.6	-
	147.1	158.0

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

	2010 £m	2009 £m
Accelerated capital allowances	2.2	2.9
Short-term timing differences	0.8	1.1
	3.0	4.0

The movements in deferred taxation are as follows

	At 1 January 2010 £m	Profit and loss account £m	Statement of total recognised gains and losses £m	At 31 December 2010 £m
Deferred tax asset	4.0	(1.0)	-	3.0
Deferred tax shown against pension liability	10.4	0.6	(11.0)	-
Net deferred tax	14.4	(0.4)	(11.0)	3.0

NOTES TO THE FINANCIAL STATEMENTS continued

13 Creditors' amounts falling due within one year

	2010 £m	2009 £m
Payments received on account	25.8	18.5
Trade creditors	20.6	31.5
Corporation tax (Group payments)	-	0.8
Amounts owed to Group undertakings	15.3	32.6
Other taxation and social security	5.6	0.1
Other creditors	9.5	7.5
Accruals and deferred income	88.0	79.4
	164.8	170.4

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

	2010 Number	2009 Number	2010 £	2009 £
H preference shares of 33 ⅓ pence each	300	300	100	100
I preference shares of 33 ⅓ pence each	300	300	100	100
	600	600	200	200

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

14. Provisions for liabilities

The movements in provisions during the current year are as follows

	At 1 January 2010 £m	Arising during the year £m	Released during the year £m	At 31 December 2010 £m
Insurance	7.0	0.5	-	7.5
Other	1.8	-	-	1.8
	8.8	0.5	-	9.3

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 (2009: £0.3m), expected to be incurred over a period of up to 5 years and a provision for legal fees amounting to £1.5m (2009: £1.5m) expected to become payable within 2 years.

15. Share capital

Authorised

	2010 £m	2009 £m
25,000,000 (2009: 25,000,000) H ordinary shares of £1 each	25.0	25.0
25,000,000 (2009: 25,000,000) I ordinary shares of £1 each	25.0	25.0
	50.0	50.0

Allotted, called up and fully paid

	2010 Number	2009 Number	2010 £m	2009 £m
H ordinary shares of £1 each	1,000,001	1,000,001	1.0	1.0
I ordinary shares of £1 each	1,000,001	1,000,001	1.0	1.0
	2,000,002	2,000,002	2.0	2.0

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

The preference shares are presented as a liability (note 13) and accordingly are excluded from called-up share capital in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS continued

16. Reconciliation of shareholder's funds

	Share Capital	Share Premium Account	Capital Reserves	Profit and Loss Account	Total Shareholder's Funds
	£m	£m	£m	£m	£m
At 1 January 2009	2 0	28 0	0 4	(10 4)	20 0
Profit for the financial year	-	-	-	0 7	0 7
Share based payment (note 6)	-	-	(0 7)	-	(0.7)
Transfer to profit and loss account	-	-	0 3	(0 3)	-
Actuarial gain net of deferred tax on defined pension benefits (note 18)	-	-	-	(24 5)	(24.5)
At 31 December 2009	2 0	28 0	-	(34 5)	(4.5)
Loss 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

17. Financial Commitments

Amounts contracted for but not provided in the financial statements amounted to £nil (2009 £nil)

Operating lease commitments

At 31 December 2010, the Company had annual commitments under non cancellable operating leases in respect of motor vehicles as set out below

	2010 £m	2009 £m
Operating leases which expire		
Within one year	0.7	0 8
In two to five years	6.5	5 5
In more than five years	0.7	1 6
	7.9	7 9

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. This resulted in some transfers between legal entities of the Group where the revised allocation differed from the results of the roll forward method used by EDF Energy since 2005.

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

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

	2010	2009
	%	%
Discount rate		
- UKPN Grp	5.5	5.7
- UKPNPS	5.4	5.6
Rate of increase in RPI		
- UKPN Grp	3.5	3.6
- UKPNPS	3.6	3.8
Rate of increase in CPI		
- UKPNPS	2.8	3.0
Rate of increase in salaries		
- UKPN Grp	5.0	5.6
- UKPNPS	5.1	5.3
Rate of increase of pensions		
- RPI (UKPN Grp)	3.5	3.6
- RPI up to 5% (UKPNPS - service to 31 March 2006)	3.4	3.5
- RPI up to 2.5% (UKPNPS - service from 1 April 2006)	2.2	2.3

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

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

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

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

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

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

	UKPN Grp 2010 £m	UKPNPS 2010 £m	Total 2010 £m	Total 2009 £m
Fair value of scheme assets	-	-	-	137 4
Present value of defined benefit obligations	-	-	-	(174 7)
Deficit in scheme	-	-	-	(37 3)
Related deferred tax asset	-	-	-	10 4
Liability recognised in the balance sheet	-	-	-	(26 9)

As a result of the exercise to reallocate scheme assets and liabilities as at 29 October 2010, in accordance with the allocations agreed with the industry regulator Ofgem, the defined benefit deficit previously held by the Company, has been transferred to the licensed distribution network operators Eastern Power Networks Limited, London Power Networks Limited and South Eastern Power Networks Limited (the "DNOs")

NOTES TO THE FINANCIAL STATEMENTS continued

18 Pension commitments continued

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

	UKPN Grp	UKPNPS	Total	Total
	2010	2010	2010	2009
	£m	£m	£m	£m
Current service cost	(17.9)	(6.8)	(24.7)	(14.8)
Interest cost	(6.2)	(1.9)	(8.1)	(6.9)
Expected return on scheme assets	5.5	1.5	7.0	5.9
	(18.6)	(7.2)	(25.8)	(15.8)

Of the charge for the year £24.7m (2009 £14.8m) has been included in staff costs (note 6). The total pension cost of £29.7m disclosed in note 6 for the current period includes an additional £5.1m which represents the current service costs charged to the pension deficit in the DNOs, from 29 October 2010, after the reallocation of scheme assets and liabilities across the Group. An expense of £1.1m (2009 £1.0m) has been included in interest payable. The estimated amount of contributions expected to be paid to the schemes during 2011 is £nil.

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

	UKPN Grp	UKPNPS	Total	Total
	2010	2010	2010	2009
	£m	£m	£m	£m
At 1 January	(136.7)	(38.0)	(174.7)	(111.5)
Current service cost	(17.9)	(6.8)	(24.7)	(14.8)
Interest cost	(6.2)	(1.9)	(8.1)	(6.9)
Actuarial gain	156.3	48.2	204.5	(44.5)
Benefits paid/(received)	4.5	(1.5)	3.0	3.0
At 31 December	-	-	-	(174.7)

The actuarial gain includes a net transfer out of scheme liabilities amounting to £209.1m at 29 October 2010 as a result of a review of the allocation of the scheme liabilities across the participating companies.

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

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

	UKPN Grp 2010 £m	UKPNPS 2010 £m	Total 2010 £m	Total 2009 £m
At 1 January	107.9	29.5	137.4	100.2
Expected return on scheme assets	5.5	1.5	7.0	5.9
Actuarial loss	(125.0)	(39.8)	(164.8)	10.5
Contributions by employer	14.5	4.8	19.3	21.1
Deficit payment	1.6	2.5	4.1	2.7
Benefits (paid)/received	(4.5)	1.5	(3.0)	(3.0)
At 31 December	-	-	-	137.4

The actuarial loss includes a net transfer out of scheme assets amounting to £169.9m at 29 October 2010 as a result of a review of the allocation of the scheme assets across the participating companies

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

	Expected Return		Fair value of assets			
	2010	2009	UKPN Grp 2010 £000	UKPNPS 2010 £000	Total 2010 £000	Total 2009 £000
	%	%				
Gilts - fixed	4.3	4.6	-	-	-	11.5
- index linked	4.2	4.5	-	-	-	12.2
Equities	7.9	8.2	-	-	-	59.1
Property	7.8	8.7	-	-	-	3.3
Corporate bonds	5.4	5.9	-	-	-	42.8
Hedge Funds	5.4	5.9	-	-	-	-
Cash	1.4	0.7	-	-	-	8.5
			-	-	-	137.4

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 2010.

The actual return on scheme assets in the year was a loss of £157.8m (2009 gain £16.4m)

NOTES TO THE FINANCIAL STATEMENTS continued

18 Pension commitments continued

The history of experience gains and losses is as follows

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	-	137.4	100.2	97.4	76.3
Present value of defined obligations	-	(174.7)	(111.5)	(109.5)	(85.2)
Deficit in the scheme	-	(37.3)	(11.3)	(12.1)	(8.9)
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	0.6
Percentage of scheme assets (%)	-	7.6	22.8	0.3	0.8

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

	UKPN Grp 2010 £m	UKPNPS 2010 £m	Total 2010 £m	Total 2009 £m
At 1 January	(17.6)	(4.7)	(22.3)	2.2
Actuarial gain/(loss)	31.3	8.4	39.7	(34.0)
Deferred taxation	(8.4)	(2.3)	(10.7)	9.5
Deferred tax rate change	(0.2)	(0.1)	(0.3)	-
At 31 December	5.1	1.3	6.4	(22.3)

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 (2009 loss £22.3m)

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

NOTES TO THE FINANCIAL STATEMENTS continued

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

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

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