UK Power Networks (Operations) Limited

Registered Number 3870728

Annual Report and Financial Statements

for the period from 31 December 2014 to 31 March 2016

CONTENTS

COMPANY INFORMATION

Directors	Andrew John Hunter Neil Douglas McGee Basil Scarsella Loi Shun Chan Kee Ham 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 (Operations) Limited ("the Company") is utility infrastructure management for the UK Power Networks group ("the Group") which owns and operates electricity distribution networks in London, the South East and the East of England serving over eight million customers.

Change of year end

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

Review of the business

The loss for the period, before taxation, amounted to £15.8m (1 January 2014 to 30 December 2014: loss of £0.9m) and after taxation, to £12.9m (1 January 2014 to 30 December 2014: loss of £1.3m). No dividends were paid in the period (1 January 2014 to 30 December 2014: £nil).

The Company provides a network maintenance, inspection and renewal programme for the Group's three licensed distribution network operators (DNOs): Eastern Power Networks plc (EPN); South Eastern Power Networks plc (SPN); and London Power Networks plc (LPN). The costs of the Company's activities are recharged to the distribution companies on a proportionate basis.

Key performance indicators (KPI's)

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

			31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Financial performance				
Revenue			**1,124.0**	1,019.6
EBITDA	1		**(16.2)**	(1.3)
Non-financial performance				
Customer Minutes Lost per customer (CML)	2	EPN	**43.5**	44.0
		LPN	**26.4**	24.1
		SPN	**46.6**	41.5
Customer Interruptions per 100 customers (CI)	2	EPN	**56.7**	55.6
		LPN	**25.7**	19.3
		SPN	**61.9**	53.5
Lost time incidents	3		**4.0**	11.0

1 EBITDA is profit before interest, tax, depreciation and amortisation.
2 CMLs and CIs exclude the impact of severe weather events.
3 Injuries at work resulting in lost time of one day or more.

STRATEGIC REPORT continued

Key performance indicators (KPI's) continued
Financial performance indicators represent the key financial metrics that reflect the financial health of the business. Revenue increased by £104.4m to £1,124.0m in the period but EBITDA reduced by £14.9m to a loss of £16.2m. The EBITDA loss predominantly relates to provisions for costs which have not yet been recharged to the DNOs.

Non-financial key performance indicators focus on network safety and performance. Customer minutes lost (CMLs) are an indicator of the availability of supply to the customer and customer interruptions (CIs) an indicator of network reliability.

Network performance has significantly improved since the acquisition of the business by the UK Power Networks Group in 2010 and this trend has continued with reductions in both CIs and CMLs compared to the prior period on a like for like basis. Network performance remains ahead of targets set by Ofgem.

The impact of severe weather events (as defined by the regulator) is not included in the standard measures of network performance discussed above. Following the major storms which hit the network in the winter of 2013/2014 and resulted in power interruptions for large numbers of customers, the Company has worked on improving its ability to respond to such severe weather events. Over 900 back office and support staff have been trained and provided with telephony and IT facilities to increase the capacity to respond to high call volumes from customers. There are more scouts trained to walk the network and locate faults to enable faster restoration of power and additional customer information officers to see that customers are better informed.

The Company has experienced another good period in terms of safety performance with a significant reduction in the number of days lost to injury. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. 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 a potential prosecution or a fine and have an adverse impact on the reputation of the Company.

Regulation
The electricity industry is subject to extensive regulatory obligations with which the regulated business must comply. Non-compliances can result in financial penalties and have a negative reputational impact.

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/quality of supply are important regulatory 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 Company's ability to repair, maintain, develop and reinforce the networks. In addition, volatility in commodity prices can have a significant impact on costs.

There are a variety of mechanisms in place to minimise these risks.

The Group has an embedded risk awareness culture to understand and manage significant business risks. The risk management framework sets out policies, procedures and responsibilities designed to assess, mitigate, monitor and report risks. The Board and the Risk Management and Compliance sub committee oversee the risk management function and make annual assessments of changes to significant risks and the effectiveness of the risk management processes.

Financial risk management
The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund financial obligations as they fall due. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risks the Directors consider relevant to this Company are credit risk and liquidity risk. The Company's exposure to credit and liquidity risk is reduced as it is a 100% subsidiary of the UK Power Networks Holdings Group of Companies. Credit risk is mitigated by the nature of the debtor balances owed with these being due from other Group companies of strong financial standing. In addition, liquidity risk is mitigated by the strong financial standing of the parent company UK Power Networks Holdings Limited. The Group develops and implements risk management policies and procedures and promotes a robust control environment at all levels of the organisation.

STRATEGIC REPORT continued

Future developments

The Directors aim to improve on network performance and customer service, whilst maintaining cost efficiencies. The Company invests in research and development activities focussing on improving the technical performance of network assets and working towards achieving national carbon reduction targets.

Going Concern

The Company's ability to continue as a going concern is assessed in conjunction with the Group as it 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 the trading performance of other companies within the Group, show that the Company will be able to operate within its current level of credit facilities. In addition the parent company UK Power Networks Holdings Limited has confirmed that it will provide the necessary support to enable the Company to meet its obligations when they fall due for a period not less than twelve months from the date of approval of these financial statements.

On the basis of their assessment of the Company's financial position and of the enquiries made to the directors of UK Power Networks Holdings Limited, the Company's directors are satisfied that the Company has adequate resources to continue operating for the foreseeable future. Accordingly the Company continues to adopt the going concern basis in preparing its financial statements.

Approved by the Board and signed on its behalf by:

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

DIRECTORS' REPORT

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

An indication of likely future developments in the business and the going concern assessment are included in the Strategic report and form part of this report by cross reference.

Political contributions
No political donations were made in either period.

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

Andrew John Hunter

Neil Douglas McGee

Basil Scarsella

Loi Shun Chan

Kee Ham Chan (Alternate director)

Only Basil Scarsella had a service contract with the Company in the current and prior period.

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

Employment of disabled persons
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 involvement
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.

DIRECTORS' REPORT continued

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.

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

Approved by the Board and signed on its behalf by:

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

We have audited the financial statements of UK Power Networks (Operations) Limited for the period from 31 December 2014 to 31 March 2016, which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its loss for the period from 31 December 2014 to 31 March 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

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

	Note	31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Turnover	2	**1,124.0**	1,019.6
Cost of sales		**(822.0)**	(760.2)
Gross profit		**302.0**	259.4
Distribution costs		**(261.0)**	(211.2)
Administrative expenses		**(57.2)**	(49.5)
Operating loss	3	**(16.2)**	(1.3)
Finance charges (net)			
- Other interest receivable and similar income	6	**1.1**	1.1
- Interest payable and similar charges	6	**(0.7)**	(0.7)
		0.4	0.4
Loss on ordinary activities before taxation		**(15.8)**	(0.9)
Tax on loss on ordinary activities	7	**2.9**	(0.4)
Loss for the financial period	14	**(12.9)**	(1.3)

All results are derived from continuing operations.

The Company has no recognised gains or losses for the period other than the results above, and therefore no statement of total recognised gains or losses has been prepared.

BALANCE SHEET
AS AT 31 MARCH 2016

	Note	31 March 2016 £m	30 December 2014 £m
Fixed assets			
Tangible assets	8	-	-
		-	-
Current assets			
Stocks	9	**33.8**	33.8
Debtors falling due within one year	10	**292.7**	353.3
Cash at bank and in hand		**7.9**	7.0
		334.4	394.1
Creditors: Amounts falling due within one year	11	**(293.0)**	(358.9)
Net current assets		**41.4**	35.2
Total assets less current liabilities		**41.4**	35.2
Provisions for liabilities	12	**(40.8)**	(21.7)
Net assets		**0.6**	13.5
Capital and reserves			
Called up share capital	13	**2.0**	2.0
Share premium account	14	**28.0**	28.0
Profit and loss account	14	**(29.4)**	(16.5)
Shareholders' funds		**0.6**	13.5

The financial statements of UK Power Networks (Operations) Limited, registered number 3870728, were approved by the Board of Directors and authorised for issue on 23 August 2016.
They were signed on its behalf by:

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B Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

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

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

Going concern
The financial statements have been prepared on a going concern basis. The financial statements have been prepared on the going concern basis. The grounds for adopting this basis are discussed in the Strategic report on page 5.

Tangible Fixed Assets
Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Depreciation is provided on tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Depreciation method and rate
Fixtures and equipment	5 years

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

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

Raw materials 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.

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.

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.

The Company has received certain claims against the Company for work performed to date. The Company takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

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

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

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses;
- provision is made for gains on re-valued fixed assets only where there is a commitment to dispose of the re-valued assets and the attributable gain can neither be rolled over nor eliminated by capital losses; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured on an undiscounted basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to continuing activities of utility infrastructure management.

3 Operating loss

Operating loss is stated after charging/(crediting):

	31 December 2014 to 31 March 2016 £ m	1 January 2014 to 30 December 2014 £ m
Operating leases - vehicles	**13.9**	8.0
Operating leases - land and buildings	**5.6**	4.0
Research and development	**10.9**	3.3

	31 December 2014 to 31 March 2016 £000	1 January 2014 to 30 December 2014 £000
Amounts payable to auditor		
Fees payable to Company Auditor for the audit of the Company's annual accounts	**53.0**	47.0
Total audit fees	**53.0**	47.0
Other services pursuant to legislation		
- Assurance services	**90.0**	84.0
- Other services	**22.0**	18.0
Total non-audit fees	**112.0**	102.0
	165.0	149.0

Non-audit fees refer to work done for the benefit of other group companies and form part of the recharges made to those group companies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Particulars of employees

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

	31 December 2014 to 31 March 2016 Number	1 January 2014 to 30 December 2014 Number
Average monthly number of employees	**5,061**	5,042

The aggregate payroll costs were as follows:

	31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Wages and salaries	**316.5**	267.2
Social security costs	**34.6**	28.4
Pension costs	**55.7**	39.8
Severance costs	**5.5**	(3.5)
	412.3	331.9

The disclosure above excludes costs of £8.2m (1 January 2014 to 30 December 2014: £7.5m) relating to a monthly average of 136 (1 January 2014 to 30 December 2014: 220) agency staff who do not hold service contracts with the Company.

The staff costs of the Company are recharged to the electricity distribution companies on a cost reflective basis.

Employees of the Company may participate in a defined contribution retirement benefit scheme introduced by the Group in 2011. Members can opt for a contribution rate of between 3% to 5% of their salary with the Company making double this contribution. This accounts for £5.1m (1 January 2014 to 30 December 2014: £4.0m) of the pension costs presented in the table above.

The remaining pension cost represents the Company's contributions, on behalf of its employees, to the Group's two defined benefit schemes: the UK Power Networks Group of the Electricity Supply Scheme (UKPN Group Scheme) and the UK Power Networks Pension Scheme (UKPNPS). Both defined benefit schemes are closed to new members. The defined benefit obligation, in respect of the Company's employees, is accounted for under FRS 17 within the Group's distribution companies and therefore no further disclosures are required in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Directors' remuneration

The directors' remuneration for the period was as follows:

	31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Remuneration	1.8	1.6
Benefits under long-term incentive schemes	0.3	0.2
Company contributions to money purchase pension schemes	-	0.1

During the period the number of directors who were members of a money purchase scheme were as follows:

	31 December 2014 to 31 March 2016 No.	1 January 2014 to 30 December 2014 No.
Accruing benefits under money purchase pension scheme	1	1

In respect of the highest paid director:

	31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Remuneration	1.8	1.6
Benefits under long-term incentive schemes	0.3	0.2
Company contributions to money purchase pension schemes	-	0.1

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Finance charges (net)

	31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Interest receivable and similar income		
Interest on loans to group undertakings	**0.9**	0.9
Other interest receivable	**0.2**	0.2
	1.1	1.1
Interest payable and similar charges		
Interest on loans from group undertakings	**(0.7)**	(0.7)
	(0.7)	(0.7)
Total Finance Charges (net)	**0.4**	0.4

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation

Tax on loss on ordinary activities

	31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Current tax		
Corporation tax credit	**(1.1)**	(0.3)
Adjustments in respect of previous periods	**(0.1)**	(0.1)
UK Corporation tax	**(1.2)**	(0.4)
Deferred tax		
Origination and reversal of timing differences	**(1.7)**	0.2
Deferred tax adjustment relating to previous periods	**(0.1)**	0.6
Effect of changes in tax rates	**0.1**	-
Total deferred tax	**(1.7)**	0.8
Tax on profit on ordinary activities	**(2.9)**	0.4

Factors affecting current tax credit for the period

The tax credit assessed for the period is lower (1 January 2014 to 30 December 2014: higher) than the standard rate of corporation tax in the UK. The differences are reconciled below.

	31 December 2014 to 31 March 2016 £m	1 January 2014 to 30 December 2014 £m
Loss on ordinary activities before tax	**(15.8)**	(0.9)
Corporation tax at standard rate of 20.2% (1 January 2014 to 30 January 2014: 21.5%)	**(3.2)**	(0.2)
Capital allowances in excess of depreciation	**(0.2)**	(0.2)
Short term timing differences	**2.1**	-
Expenses not deductible for tax purposes	**0.2**	0.1
Adjustment for prior periods	**(0.1)**	(0.1)
Total current tax	**(1.2)**	(0.4)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation (continued)

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

Deferred tax reduced from 20% to 18% following the enactment in 2015 of further rate changes to 19% from 1 April 2017 and 18% from 1 April 2020. The effect of revaluing the opening deferred tax balance at 18% increased the tax charge in the current period by £0.1m.

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

8 Tangible fixed assets

	Fixtures and fittings £m	**Total £m**
Cost		
At 31 December 2014	81.0	**81.0**
At 31 March 2016	81.0	**81.0**
Depreciation		
At 31 December 2014	81.0	**81.0**
At 31 March 2016	81.0	**81.0**
Net book value		
At 31 March 2016	-	-
At 30 December 2014	-	-

9 Stocks

	31 March 2016 £m	30 December 2014 £m
Raw materials	**21.7**	20.2
Work in progress	**12.1**	13.6
	33.8	33.8

The replacement cost of stocks held by the Company at 31 March 2016 and 30 December 2014 was not materially different to the amount at which they were stated in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Debtors

	31 March 2016 £m	30 December 2014 £m
Amounts falling due within one year		
Trade debtors	**17.2**	9.0
Amounts recoverable on long term contracts	**2.0**	2.0
Amounts owed by group undertakings	**228.5**	274.9
Other debtors	**26.5**	55.8
Deferred tax	**2.9**	1.2
Prepayments and accrued income	**13.2**	10.4
Corporation tax debtor	**2.4**	-
	292.7	353.3

Amounts owed by Group undertakings are interest free trade balances apart from £124.0m (30 December 2014: £60.0m) loaned to other Group companies at an interest rate of 0.9% (30 December 2014: 1.20%).

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

	Deferred tax £m
At 31 December 2014	**1.2**
Credited to the profit and loss account	**1.7**
At 31 March 2016	**2.9**

Analysis of deferred tax

	31 March 2016 £m	30 December 2014 £m
Difference between accumulated depreciation and amortisation and capital allowances	**0.5**	0.7
Other timing differences	**2.4**	0.5
	2.9	1.2

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Creditors: Amounts falling due within one year

	31 March 2016 £m	30 December 2014 £m
Payments received on account	**51.9**	61.7
Trade creditors	**35.7**	83.5
Amounts owed to Group undertakings	**28.5**	40.7
Other taxes and social security	**10.1**	8.8
Other creditors	**29.9**	20.6
Accruals and deferred income	**136.9**	143.3
Corporation tax	**-**	0.3
	293.0	358.9

Amounts owed to Group undertakings at the balance sheet date comprise interest free trade balances of £0.5m, £12.0m borrowed from UK Power Networks Holdings Ltd at an interest rate of 3.95% and and interest free loan of £16.0m from UK Power Networks Services (South East) Ltd.

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

Allotted, called up and fully paid

	31 March 2016 Number	30 December 2014 Number	**31 March 2016 £**	30 December 2014 £
H preference shares of £0.333 each	**300**	300	**100**	100
I preference shares of £0.333 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)

12 Provisions

	Other £m
At 31 December 2014	21.7
Charged to the profit and loss account	19.1
At 31 March 2016	40.8

Provisions for public liability and employer liability claims against the Company amount to £24.5m (30 December 2014: £20.9m). 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.

Provisions for severance costs of £5.6m (30 December 2014: £0.6m) and holiday pay of £0.1m (30 December 2014: £0.2m) are expected to become payable within the next two years.

There are additional provisions for legal and constructive obligations amounting to £10.6m which are expected to become payable within the next two years.

13 Share capital

Allotted, called up and fully paid

	31 March 2016 Number	30 December 2014 Number	31 March 2016 £m	30 December 2014 £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 Company has also issued preference shares which are presented as a liability (note 11) and accordingly are excluded from called-up share capital in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 **Reserves**

	Share Capital £m	Share premium account £m	Profit and loss account £m	**Total Share holder's funds £m**
At 1 January 2014	2.0	28.0	(15.2)	**14.8**
Loss for the period	-	-	(1.3)	**(1.3)**
At 31 December 2014	2.0	28.0	(16.5)	**13.5**
Loss for the period	-	-	(12.9)	**(12.9)**
At 31 March 2016	2.0	28.0	(29.4)	**0.6**

15 **Financial Commitments**

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

16 **Operating lease commitments**

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

	31 March 2016 £m	30 December 2014 £m
Land and buildings		
Within one year	**0.1**	0.2
Within two to five years	**2.9**	2.7
Over five years	**1.0**	1.7
	4.0	4.6
Vehicles		
Within one year	**0.4**	0.5
Within two to five years	**8.9**	6.1
Over five years	**2.6**	4.3
	11.9	10.9

17 **Related party transactions**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Control

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.

The UK Power Networks Holdings Limited group is both the smallest and largest group for which consolidated financial statements are prepared which include the results 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.