UK POWER NETWORKS (OPERATIONS) LIMITED

Registered Number 3870728

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2013

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Page:

DIRECTORS

Andrew John Hunter
Neil Douglas McGee
Basil Scarsella
Loi Shun Chan
Kee Ham Chan

COMPANY SECRETARY

Christopher Baker

AUDITOR

Deloitte LLP
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London
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REGISTERED OFFICE

Newington House,
237 Southwark Bridge Road
London
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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.

Review of the business

The profit for the year, before taxation, amounted to £9.1m (2012: loss £6.4m) and after taxation, to £7.3m (2012: loss £4.9m). No dividends were paid in the year (2012: £nil).

The Company provides a full 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 cost reflective 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:

		Year to 31 December 2013 £m	Year to 31 December 2012 £m
Financial performance			
Revenue		**990.0**	970.9
EBITDA [1]		**8.8**	6.8
Non-financial performance			
Customer Minutes Lost per customer (CML) [2]	EPN	**50.3**	48.0
	LPN	**33.0**	32.7
	SPN	**49.1**	43.9
Customer Interruptions per 100 customers (CI) [2]	EPN	**60.1**	56.0
	LPN	**24.1**	26.3
	SPN	**56.8**	52.8
Lost time incidents [3]		**11**	35

1. Profit before interest, tax, depreciation and amortisation
2. CMLs and CIs exclude the impact of severe weather events such as the storms experienced in October and December 2013.
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 £19.1m to £990.0m in the year which is the result of higher volumes of work delivered for the Group. Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by £2.0m to £8.8m in the year. The increase in revenue was offset by an increase in operating costs of £17.1m.

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

Network performance, which significantly improved following the acquisition of the distribution business in 2010, has shown a slight deterioration in a number of areas during 2013 compared to 2012. 2013 has been challenging weather-wise and whilst the CML and CI performance exclude the impact of the severe weather events in October and December 2013, prolonged wet and windy spells at the start and end of the year resulted in increased damage to the network and a higher level of faults compared to the previous year. Performance in 2013, however, remained significantly ahead of the targets set by the industry regulator Ofgem (The Office of Gas and Electricity Markets).

The storm in October resulted in over 1,290,000 customers being without power and the storm in December over 627,000. Whilst on both occasions the vast majority of customers were reconnected within 24 hours, a small proportion of predominantly single premise customers were without electricity for several days. Restoration from the December storm was hampered by the particularly widespread and prolonged nature of the storms which impacted much of the United Kingdom and which severely restricted the Group's ability to access long standing agreements with other UK based DNOs to share staff during "system emergencies". In addition, high rainfall and flooding impacted the ability of the Group's employees and contractors to access land across which cables or overhead lines pass.

The Company has experienced an excellent year in terms of safety performance with a significant reduction in the number of days lost to injury. The Company is particularly pleased to report that none of its employees who worked to restore power during the Autumn and Christmas storms, often in very difficult circumstances, suffered injuries requiring absence from work during the period. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting serious risk. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign has been developed for all operational staff.

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.

STRATEGIC REPORT continued

Principal risks and uncertainties continued

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

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risks the Directors consider relevant to this Company are credit risk and liquidity risk.

The Company's exposure to credit and liquidity risk is reduced as it is a 100% subsidiary of the UK Power Networks Holdings Group of Companies. Credit risk is mitigated by the nature of the debtor balances owed with these being due from other Group companies with 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.

Future Developments

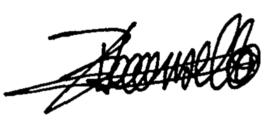
The Directors aim to maintain a balance of good quality customer service, investment in its employees and shareholder return, whilst delivering an efficient service. It is anticipated that 2014 will deliver further improvements. The Company invests in research and development activities focussing on improving the technical performance of the network 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 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 level of facilities. The Directors have assessed responses from the parent company UK Power Networks Holdings and 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:



B. Scarsella
Director
8 May 2014

DIRECTORS' REPORT

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

Directors

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

Andrew John Hunter
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 year.

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

Disabled employees

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

Employee consultation

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

Political contributions

No political contributions were made in either year.

Disclosure of information to Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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

DIRECTORS' REPORT continued

Auditor

On 20 October 2003 the Company passed an elective resolution dispensing with the requirement to appoint 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
8 May 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom 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 year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (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.

James Leigh FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
8 May 2014

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £m	2012 £m
Turnover	2	**990.0**	970.9
Cost of sales		**(763.6)**	(711.7)
Gross profit		**226.4**	259.2
Distribution costs		**(185.8)**	(190.5)
Administrative expenses		**(31.8)**	(75.5)
Operating profit/(loss)	3	**8.8**	(6.8)
Interest receivable and similar income	6	**1.2**	0.9
Interest payable and similar charges	7	**(0.9)**	(0.5)
Profit/(loss) on ordinary activities before taxation		**9.1**	(6.4)
Tax on (profit)/loss on ordinary activities	8	**(1.8)**	1.5
Profit/(loss) for the financial year	15	**7.3**	(4.9)

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

There were no recognised gains or losses in either year other than the profit or loss for that year. Accordingly no statement of total recognised gains and losses has been presented.

BALANCE SHEET
31 DECEMBER 2013

	Note	**2013** **£m**	2012 £m
Fixed assets			
Tangible assets	*9*	**-**	-
Current assets			
Stocks	*10*	**31.5**	31.0
Debtors	*11*	**315.8**	285.2
Cash in hand		**-**	5.2
		347.3	321.4
Creditors: amounts falling due within one year	*12*	**(314.9)**	(292.2)
Net current assets		**32.4**	29.2
Total assets less current liabilities		**32.4**	29.2
Provisions for liabilities	*13*	**(17.6)**	(21.7)
Net assets		**14.8**	7.5
Capital and reserves			
Called up share capital	*14*	**2.0**	2.0
Share premium account	*15*	**28.0**	28.0
Profit and loss account	*15*	**(15.2)**	(22.5)
Shareholder's funds	*15*	**14.8**	7.5

The financial statements of UK Power Networks (Operations) Limited, registered number 3870728, were approved by the Board of Directors and authorised for issue on 8 May 2014.
They were signed on its behalf by:

B Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies are set out below. They have all been applied consistently throughout the current 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 Strategic report on page 4.

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.

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.

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 utility infrastructure management, the Company's principal activity.

3. Operating profit/(loss)

This is stated after charging:	**2013 £m**	2012 £m
Research and development	**3.6**	2.2
Operating lease rentals - land and buildings	**4.0**	4.3
Operating lease rentals - vehicles	**8.1**	11.3

The analysis of Auditor's remuneration is as follows:

	2013 £000	2012 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**46**	44
Total audit fees	**46**	44
Fees payable to the Company's auditors and their associates for other services:		
Assurance services	**106**	105
Corporate finance services	**-**	50
Other services	**33**	17
Total non-audit fees	**139**	172
Total fees	**185**	216

NOTES TO THE FINANCIAL STATEMENTS continued

4. Directors' emoluments

Directors' emoluments for the year are as follows:

	2013 £000	2012 £000
Emoluments	**1,460**	1,446
Amounts receivable under long-term incentive plans	**380**	219
Company contributions to money purchase pension schemes	**50**	51
	1,890	1,716

	2013 Number	2012 Number
Members of a money purchase scheme	**1**	1

Remuneration of highest paid director:	2013 £	2012 £
Emoluments	**1,460,226**	1,446,292
Amounts receivable under long-term incentive plans	**380,000**	219,000
Company contributions to money purchase schemes	**50,000**	51,000

5. Staff costs

	2013 £m	2012 £m
Wages and salaries	**233.9**	210.0
Social security costs	**22.2**	21.9
Pension costs	**31.5**	31.9
Severance	**(3.5)**	4.8
	284.1	268.6

The average monthly number of employees was:	**4,838**	4,577

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 £1.7m (2012: £0.5m) 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 ESPS (UKPN Group) scheme and the UK Power Networks Pension (UKPNPS) scheme. 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

6. Interest receivable and similar income

	2013 £m	2012 £m
Interest receivable on deposits	**1.0**	0.6
Interest receivable on loans from Group undertakings	**0.2**	0.3
	1.2	0.9

7. Interest payable and similar charges

	2013 £m	2012 £m
Interest payable on loans due to Group undertakings	**0.9**	0.5

NOTES TO THE FINANCIAL STATEMENTS continued

8. Tax on loss on ordinary activities

(a) Analysis of tax charge/(credit) in the year:

UK current tax	2013 £m	2012 £m
UK corporation tax on profit/(loss)	**0.6**	(1.8)
Adjustment in respect of previous years	**0.6**	(1.5)
Total current tax charge/(credit) for the year (note b)	**1.2**	(3.3)

UK deferred tax	2013 £m	2013 £m
Origination and reversal of timing differences	**0.9**	0.3
Adjustment in respect of previous years	**(0.6)**	1.2
Effect of rate change on opening balance	**0.3**	0.3
Total deferred tax charge for the year	**0.6**	1.8
Total tax charge/(credit) on loss on ordinary activities	**1.8**	(1.5)

(b) Factors affecting tax charge/(credit) for the year:

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

The differences are explained below

	2013 £m	2012 £m
Profit/(loss) on ordinary activities before tax	**9.1**	(6.4)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	**2.1**	(1.6)
Effect of:		
Capital allowances in excess of depreciation	**(0.2)**	(0.3)
Movement in short term timing differences	**(0.7)**	-
Expenses not deductible for tax purposes	**0.2**	0.1
Adjustment in respect of previous years	**0.6**	(1.5)
Group relief not paid for	**(0.8)**	-
Current tax charge/(credit) for the year	**1.2**	(3.3)

Tax rate changes

The reduction in the tax rate from 24% to 23% effective from 1 April 2013 as announced in the March 2012 Budget and substantively enacted on 3 July 2012 resulted in an average corporation tax rate for 2013 of 23.25%. Further reductions to 21% from 1 April 2014 and to 20% from 1 April 2015 were announced in the March 2013 Budget and substantively enacted on 2 July 2013. Remeasurement of the opening deferred tax balance at 20% increased the deferred tax charge in the current year by £0.3m.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Tangible fixed assets

	Fixtures & Fittings, Tools & Equipment £m	Total £m
Cost		
At 1 January 2013 and 31 December 2013	81.0	81.0
Depreciation		
At 1 January 2013 and 31 December 2013	81.0	81.0
Net book value		
At 1 January 2013 and 31 December 2013	-	-

10. Stocks

	2013 £m	2012 £m
Raw materials and consumables	**23.5**	24.2
Work in progress	**8.0**	6.8
	31.5	31.0

The replacement cost of stocks held by the Company at 31 December 2013 and 31 December 2012 was not materially different to the amount at which they are stated in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS continued

11. Debtors

	2013 £m	2012 £m
Trade debtors	**4.6**	3.0
Amounts recoverable on contracts	**1.9**	0.8
Amounts owed by Group undertakings	**249.7**	226.4
Deferred tax asset	**2.0**	2.6
Other debtors	**40.2**	37.5
Prepayments and accrued income	**17.4**	11.1
Corporation tax (Group relief receivable)	**-**	3.8
	315.8	285.2

Amounts owed by Group undertakings are interest free trade balances apart from £80.0m (2012: £62.0m) loaned to the Group's distribution companies at an interest rate of 1.17% (2012: 1.22%).

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

	2013 £m	2012 £m
Accelerated capital allowances	**0.9**	1.2
Short-term timing differences	**1.1**	1.4
	2.0	2.6

The movements in deferred taxation are as follows:

	At 1 January 2013 £m	Profit and loss account £m	At 31 December 2013 £m
Deferred tax asset	2.6	(0.6)	**2.0**

NOTES TO THE FINANCIAL STATEMENTS continued

12. Creditors: amounts falling due within one year

	2013 £m	2012 £m
Bank overdraft	**14.1**	-
Payments received on account	**43.0**	36.1
Trade creditors	**54.9**	71.4
Amounts owed to Group undertakings	**32.1**	31.8
Other taxation and social security	**8.7**	8.4
Other creditors	**13.3**	16.4
Accruals and deferred income	**147.6**	128.1
Corporation tax (Group relief payable)	**1.2**	-
	314.9	292.2

Amounts owed to Group undertakings at 31 December 2013 comprise interest free trade balances of £0.8m, £15.3m borrowed from UK Power Networks Holdings Ltd at an interest rate of 3.95% and an 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:

Authorised, allotted, called up and fully paid	2013 Number	2012 Number	2013 £	2012 £
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 holder of the preference shares, UK Power Networks Holdings Ltd, has waived the right to the cumulative preferential dividends due to the deficit in the profit and loss reserve at 31 December 2013 (note 15).

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 2013 £m	Arising during the year £m	Released during the year £m	**At 31 December 2013 £m**
Insurance	15.9	0.5	-	**16.4**
Severance provision	5.5	-	(4.5)	**1.0**
Other	0.3	-	(0.1)	**0.2**
	21.7	**0.5**	**(4.6)**	**17.6**

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.

The provision for severance costs represents outstanding commitments at the balance sheet date relating to a restructuring programme which commenced in 2012 and will continue into 2014.

"Other" includes provision for holiday pay amounting to £0.1m (2012: £0.3m), expected to be incurred over a period of up to 5 years.

14. Share capital

Authorised

	2013 £m	2012 £m
25,000,000 (2012: 25,000,000) H ordinary shares of £1 each	**25.0**	25.0
25,000,000 (2012: 25,000,000) I ordinary shares of £1 each	**25.0**	25.0
	50.0	50.0

Allotted, called up and fully paid

	2013 Number	2012 Number	**2013 £m**	2012 £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 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 £m	Share Premium Account £m	Profit and Loss Account £m	**Total Shareholder's Funds £m**
At 1 January 2012	2.0	28.0	(17.6)	**12.4**
Loss for the financial year	-	-	(4.9)	**(4.9)**
At 31 December 2012	2.0	28.0	(22.5)	**7.5**
Profit for the financial year	-	-	7.3	**7.3**
At 31 December 2013	**2.0**	**28.0**	**(15.2)**	**14.8**

16. Financial Commitments

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

17. Operating lease commitments

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

Vehicles	**2013 £m**	2012 £m
Operating leases which expire:		
Within one year	**0.7**	0.7
In two to five years	**5.0**	5.8
In more than five years	**2.3**	1.6
	8.0	8.1

Land and buildings	**2013 £m**	2012 £m
Operating leases which expire:		
Within one year	**0.1**	0.1
In two to five years	**1.6**	0.5
In over five years	**2.3**	2.5
	4.0	3.1

NOTES TO THE FINANCIAL STATEMENTS continued

18. 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.

19. 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.