

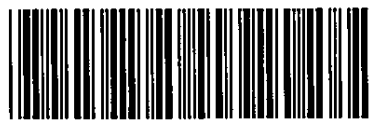
**UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED**

**Registered Number 2228168**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2011**

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### **Directors**

Andrew John Hunter  
Neil Douglas McGee  
Basil Scarsella

### **Company Secretary**

Christopher Baker

### **Auditor**

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

### **Registered Office**

Newington House,  
237 Southwark Bridge Road  
London  
SE1 6NP

## **DIRECTORS' REPORT**

The Directors present their annual report and financial statements for the year ended 31 December 2011

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

The Company's principal activity during the year continued to be the management of various electricity distribution systems. It will continue in this activity for the foreseeable future.

### **Business Review**

The profit for the year, before taxation, amounted to £38,030,000 (2010 £33,171,000) and after taxation, to £30,819,000 (2010 £27,333,000). Dividends of £44,000,000 were paid in the year (2010 £nil).

The UK Power Networks group ("the Group") manages its operations on a business segment basis. 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 business segments including this Company is discussed in the Group's Annual Report which does not form part of this report.

### **Future developments**

The Directors regard the results for the year and the year-end financial position as satisfactory and expect the Company to continue to perform to a satisfactory level in the future.

### **Directors**

Directors who held office during the year and to the date of this report were as follows:

Andrew John Hunter  
Neil Douglas McGee  
Basil Scarsella

None of the Directors had a service contract with the Company in the current or prior year.

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

### **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.

### **Liquidity and credit risk**

The Company's exposure to credit and liquidity risk is reduced as it is a 100% subsidiary of the UK Power Networks Services Holdings Group of companies. The Company's principal financial assets are cash, trade debtors and amounts owed from Group companies. Credit risk is mitigated by the nature of the debtor balances owed, 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 Services Holdings Limited, the immediate parent.

## **DIRECTORS' REPORT Continued**

### **Going Concern**

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company has adequate resources to continue operating for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

### **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 are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- pay in accordance with its contractual and other legal obligations

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception. At 31 December 2011, the Company had an average of 3 days purchases outstanding in its trade creditors (2010: 3 days).

### **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 the 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.

### **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.

## **DIRECTORS' REPORT Continued**

### **Political and charitable contributions**

The Company made no charitable or political contributions during the year (2010 £nil)

### **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 6 July 1999 the Company passed an elective resolution dispensing with the requirement to appoint an auditor annually. In accordance with s487 of the Companies Act 2006, Deloitte LLP are deemed re-appointed until such time as the members or the Directors determine otherwise

Approved by the Board and signed on its behalf by -



B Scarsella  
**Director**  
18 April 2012

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED**

We have audited the financial statements of UK Power Networks Services (Contracting) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of Directors and Auditor**

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

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its 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.

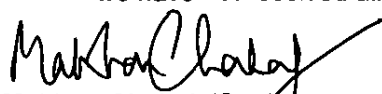
**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the 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, United Kingdom

18 April 2012

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

	<i>Note</i>	<b>2011 £000</b>	2010 £000
<b>Turnover</b>	<b>2</b>	<b>71,689</b>	66,154
<b>Gross profit</b>		<b>71,689</b>	66,154
Distribution expenses		<b>(14,063)</b>	(9,890)
Administrative expenses		<b>(19,512)</b>	(21,532)
<b>Profit on ordinary activities before interest and taxation</b>	<b>3</b>	<b>38,114</b>	34,732
Interest receivable and similar charges	6	89	-
Interest payable and similar charges	7	<b>(173)</b>	(1,561)
<b>Profit on ordinary activities before taxation</b>		<b>38,030</b>	33,171
Tax on profit on ordinary activities	8	<b>(7,211)</b>	(5,838)
<b>Profit for the financial year</b>	<b>17</b>	<b>30,819</b>	27,333

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

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	<i>Note</i>	<b>2011 £000</b>	2010 £000
<b>Profit for the financial year</b>		<b>30,819</b>	27,333
Actuarial loss net of deferred tax on defined benefit pensions	19	<b>(2,271)</b>	(2,048)
Deferred tax rate change	19	<b>(117)</b>	(30)
<b>Total recognised gain relating to the year</b>		<b>28,431</b>	25,255

The deferred tax credit reflected in the actuarial loss net of deferred tax on defined benefit pensions amounted to £757,000 (2010 £757,000) The deferred tax rate change of £117,000 represents the reduction in the main stream corporation tax rate from 27% to 25%

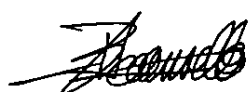


**UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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

	<i>Note</i>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Fixed assets</b>			
Intangible assets	9	-	-
Tangible assets	10	<b>274,864</b>	277,410
<b>Total fixed assets</b>		<b>274,864</b>	277,410
<b>Current assets</b>			
Stocks	11	<b>164</b>	272
Debtors			
- due within one year	12	<b>6,399</b>	780
- due after more than one year	12	<b>31,267</b>	32,863
Cash		<b>4,075</b>	10,307
<b>Total current assets</b>		<b>41,905</b>	44,222
<b>Creditors: amounts falling due within one year</b>	13	<b>(152,647)</b>	(143,054)
<b>Net current liabilities</b>		<b>(110,742)</b>	(98,832)
<b>Total assets less current liabilities</b>		<b>164,122</b>	178,578
Provisions for liabilities and charges	14	<b>(37,054)</b>	(37,963)
<b>Net assets excluding pension liability</b>		<b>127,068</b>	140,615
Pension liability	19	<b>(6,809)</b>	(4,787)
<b>Net assets</b>		<b>120,259</b>	135,828
<b>Called up share capital</b>	15	<b>10,100</b>	10,100
<b>Profit and loss account</b>	17	<b>110,159</b>	125,728
<b>Shareholder's funds</b>	17	<b>120,259</b>	135,828

The financial statements of UK Power Networks Services (Contracting) Limited, registered number 2228168 on pages 7 to 23 were approved by the Board of Directors on 18 April 2012 and were signed on its behalf by



**B Scarsella**  
**Director**

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

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

#### Basis of preparation

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

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 the going concern basis. The grounds for adopting this basis are discussed in the Directors' report.

#### Intangible assets - Goodwill

Goodwill represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### Tangible fixed assets

The cost of individual tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Cost includes staff costs where employees participate directly in the construction of assets. Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

##### Operational assets

Network assets excluding cable	–	Over 30 years
Cable	–	Over 50 years
Leasehold land and buildings	–	Shorter of lease term or 40 years

##### Non-operational assets

Fixtures and equipment	–	Over 5 years
Motor vehicles	–	Over 5 years
Software	–	Over 5 years
IT equipment	–	Over 3 years

Assets in the course of construction are not depreciated.

## 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

#### Work in progress

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

Net realisable value is based on estimated contract value 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

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

In assessing contractual performance, the amounts recorded are dependent upon negotiations with customers, which are often complex and unlikely to be resolved in the short term. Accordingly, management have made their best estimate of the likely future outcomes based upon the information currently available to them

#### Taxation

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

- Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions
- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses,
- provision is made for gains on 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

#### Operating Leases

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

## NOTES TO THE FINANCIAL STATEMENTS Continued

### 1. Accounting policies continued

#### Pensions

The Company has obligations under two funded defined benefit pension arrangements as part of the UK Power Networks group and the Company accounts for these schemes in accordance with FRS 17 'Retirement Benefits', ("FRS 17")

The amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments. 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.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in a separate trustee administered fund. 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.

### 2. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of the management of various electricity distribution systems.

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

	2011	2010
	£000	£000
This is stated after charging		
Depreciation of fixed assets - owned	10,783	11,058
Operating lease rentals		
- Other	383	411
- Land and Buildings	356	359
Loss on disposal of fixed assets	99	61

Fees payable by the Company to Deloitte LLP and their associates for the audit of the Company's annual accounts amounted to £20,000 (2010 £21,000). Fees payable for non-audit services were £nil (2010 £nil).

**NOTES TO THE FINANCIAL STATEMENTS Continued**

**4. Directors' emoluments**

The Directors are not employed directly by the Company and did not receive any remuneration for services to the Company during the year or preceding year

**5. Staff costs**

	<b>2011</b>	2010
	<b>£000</b>	£000
Wages and salaries	<b>6,729</b>	5,703
Social security costs	<b>685</b>	550
Other pension costs	<b>1,081</b>	991
	<b>8,495</b>	7,244

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

	<b>2011</b>	2010
	<b>Number</b>	Number
Indirect	<b>109</b>	82
Direct	<b>83</b>	74
	<b>192</b>	156

**6. Interest receivable and similar charges**

	<b>2011</b>	2010
	<b>£000</b>	£000
Interest receivable on Group loan	<b>89</b>	-

**7. Interest payable and similar charges**

	<b>2011</b>	2010
	<b>£000</b>	£000
Net interest cost on pension scheme (note 19)	<b>173</b>	159
Interest due on bank overdraft	<b>-</b>	1,402
	<b>173</b>	1,561

**NOTES TO THE FINANCIAL STATEMENTS Continued**

**8. Tax on profit on ordinary activities**

**(a) Analysis of tax charge in the year**

	<b>2011</b>	2010
	<b>£000</b>	£000
<b>UK current tax</b>		
UK corporation tax charge on profit for the year	<b>9,145</b>	8,147
Adjustment in respect of previous years	<b>(218)</b>	(2,000)
<b>Total current tax charge (note (b))</b>	<b>8,927</b>	6,147
<b>UK deferred tax</b>		
Origination and reversal of timing differences	<b>893</b>	750
Adjustment in respect of previous years	<b>204</b>	300
Effect of tax rate change on opening balance	<b>(2,813)</b>	(1,359)
<b>Total deferred tax credit</b>	<b>(1,716)</b>	(309)
<b>Total tax charge on profit on ordinary activities</b>	<b>7,211</b>	5,838

**(b) Factors affecting tax charge for the year**

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

	<b>2011</b>	2010
	<b>£000</b>	£000
The differences are explained below		
Profit on ordinary activities before taxation	<b>38,030</b>	33,171
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 28.0%)	<b>10,078</b>	9,288
Effect of		
Disallowed expenses and non-taxable income	<b>13</b>	8
Capital allowances in excess of depreciation	<b>(812)</b>	(1,158)
Movement in short term timing differences	<b>(134)</b>	9
Adjustment in respect of previous years	<b>(218)</b>	(2,000)
<b>Current tax charge for the year</b>	<b>8,927</b>	6,147

A reduction in the mainstream UK corporation tax rate from 28% to 26%, effective 1 April 2011, was enacted in the Finance Act 2011. A further reduction to 25% effective from 1 April 2012 was enacted in July 2011. The re-measurement of the closing deferred tax balance at 25% reduced the deferred tax charge in the current year by £2,813,000. No further adjustments to the deferred tax balance have been made in relation to prospective future changes in the tax rate as these were not substantively enacted in Law at the balance sheet date. Finance Bill 2012 contains the reduction in the corporation tax rate from 25% to 24% effective 1 April 2012 and to 23% effective 1 April 2013.

**NOTES TO THE FINANCIAL STATEMENTS Continued**

**9. Intangible fixed assets**

<b>Goodwill</b>	<b>£000</b>
<b>Cost</b>	
At 1 January and 31 December 2011	<b>1,314</b>
<b>Amortisation</b>	
At 1 January and 31 December 2011	<b>1,314</b>
<b>Net book value</b>	
At 31 December 2011	<b>-</b>
At 31 December 2010	<b>-</b>

The carrying value of goodwill was impaired to nil at the end of 2007 as it was established that no future economic benefits were likely to be derived from this asset

**10. Tangible fixed assets**

	Network assets	Assets in the course of construction	Non- operational land and buildings	Fixtures & equipment	Total
	£000	£000	£000	£000	£000
<b>Cost</b>					
At 1 January 2011	323,684	12,306	247	12,853	349,090
Additions	-	8,336	-	-	8,336
Transfers	1,383	(1,383)	-	-	-
Disposals	(173)	-	-	(74)	(247)
<b>At 31 December 2011</b>	<b>324,894</b>	<b>19,259</b>	<b>247</b>	<b>12,779</b>	<b>357,179</b>
<b>Depreciation</b>					
At 1 January 2011	60,948	-	247	10,485	71,680
Charge for the year	9,269	-	-	1,514	10,783
Disposals	(79)	-	-	(69)	(148)
<b>At 31 December 2011</b>	<b>70,138</b>	<b>-</b>	<b>247</b>	<b>11,930</b>	<b>82,315</b>
<b>Net book value</b>					
At 31 December 2011	<b>254,756</b>	<b>19,259</b>	<b>-</b>	<b>849</b>	<b>274,864</b>
At 31 December 2010	262,736	12,306	-	2,368	277,410

**NOTES TO THE FINANCIAL STATEMENTS Continued**

**11. Stocks**

	<b>2011</b>	2010
	<b>£000</b>	£000
Work in progress	<b>164</b>	272

There is no material difference between the balance sheet value of stock and their replacement cost

**12. Debtors**

	<b>2011</b>	2010
	<b>£000</b>	£000
<b>Debtors: amounts falling due within one year</b>		
Trade debtors	<b>5,952</b>	446
Amounts owed by Group undertakings	<b>275</b>	192
Other debtors	<b>146</b>	116
Prepayments and accrued income	<b>26</b>	26
	<b>6,399</b>	780
<b>Debtors: amounts falling due after more than one year</b>		
Prepayments and accrued income	<b>31,267</b>	32,863
	<b>37,666</b>	33,643

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

	<b>2011</b>	2010
	<b>£000</b>	£000
Trade creditors	<b>123</b>	159
Other creditors	<b>123</b>	234
Amounts owed to Group undertakings	<b>135,045</b>	137,107
Other taxation	<b>2,670</b>	1,275
Corporation tax (Group payments)	<b>10,774</b>	1,848
Accruals and deferred income	<b>3,912</b>	2,431
	<b>152,647</b>	143,054



NOTES TO THE FINANCIAL STATEMENTS Continued

**14 Provisions for liabilities and charges**

The movements in provisions during the current year are as follows

	At 1 January 2011 £000	Arising during the year £'000	Released during the year £000	At 31 December 2011 £000
Deferred tax	37,963	-	(1,857)	36,106
Severance provision	-	944	-	944
Other	-	4	-	4
	<b>37,963</b>	<b>948</b>	<b>(1,857)</b>	<b>37,054</b>

Deferred taxation provided in the financial statements is as follows

	2011 £000	2010 £000
Accelerated capital allowances	36,118	37,963
Other timing differences	(12)	-
Provision for deferred tax	<b>36,106</b>	<b>37,963</b>

The movements in deferred taxation are as follows

	At 1 January 2011 £000	Profit and loss account £000	Statement of total recognised gains and losses £000	At 31 December 2011 £000
Provision for deferred tax	37,963	(1,857)	-	36,106
Deferred tax shown against pension liability	(1,770)	141	(640)	(2,269)
	<b>36,193</b>	<b>(1,716)</b>	<b>(640)</b>	<b>(33,837)</b>

NOTES TO THE FINANCIAL STATEMENTS Continued

15. Share capital

Authorised	2011 Number	2010 Number	2011 £000	2010 £000
Ordinary shares of £1 each	15,000,000	15,000,000	15,000	15,000

Allotted, called up and fully paid	2011 Number	2010 Number	2011 £000	2010 £000
Ordinary shares of £1 each	10,100,000	10,100,000	10,100	10,100

16. Dividends paid

	2011 £000	2010 £000
Ordinary dividends on equity shares - £4 356 (2010 £nil) per ordinary share	44,000	-
	44,000	-

17. Reconciliation of shareholder's funds

	Share Capital £000	Profit and loss account £000	Total share- holder's funds £000
At 1 January 2010	10,100	100,473	110,573
Profit for the year	-	27,333	27,333
Actuarial loss net of deferred tax on defined benefit pensions (note 19)	-	(2,048)	(2,048)
Deferred tax rate change	-	(30)	(30)
At 31 December 2010	10,100	125,728	135,828
Profit for the year	-	30,819	30,819
Actuarial loss net of deferred tax on defined benefit pensions (note 19)	-	(2,271)	(2,271)
Deferred tax rate change	-	(117)	(117)
Dividends paid	-	(44,000)	(44,000)
At 31 December 2011	10,100	110,159	120,259

## NOTES TO THE FINANCIAL STATEMENTS Continued

### 18. Financial commitments

Amounts contracted for but not provided in the financial statements amounted to £17,060,000 (2010 £29,320,000)

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

	Land and buildings 2011 £000	Other 2011 £000	Land and buildings 2010 £000	Other 2010 £000
Operating leases which expire				
Within one year	22	67	-	24
In two to five years	212	117	244	242
In over five years	49	12	59	-
	<b>283</b>	<b>196</b>	<b>303</b>	<b>266</b>

### 19. 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 31 December 2011 was carried out by Aon Hewitt. The most recent triennial valuation of the schemes for funding purposes has been performed as at 31 March 2011. 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.

# NOTES TO THE FINANCIAL STATEMENTS Continued

## 19. Pension commitments continued

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

	2011 %	2010 %
<b>Discount rate</b>		
- UKPN Grp	4.6	5.5
- UKPNPS	4.7	5.4
<b>Rate of increase in RPI</b>		
- UKPN Grp	3.0	3.5
- UKPNPS	3.3	3.6
<b>Rate of increase in CPI</b>		
- UKPNPS	2.4	2.8
<b>Rate of increase in salaries</b>		
- UKPN Grp	4.0	5.0
- UKPNPS	4.3	5.1
<b>Rate of increase of pensions</b>		
- RPI (UKPN Grp)	3.0	3.5
- RPI up to 5% (UKPNPS - service to 31 March 2006)	3.0	3.4
- RPI up to 2.5% (UKPNPS - service from 1 April 2006)	2.0	2.2

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

	At 31 December 2011 years	At 31 December 2010 years
<b>UKPN Grp</b>		
Life expectancy for current male pensioner aged 60	28	28
Life expectancy for current female pensioner aged 60	30	30
Life expectancy for future male pensioner from age 60 retiring in 2030	30	30
Life expectancy for future female pensioner from age 60 retiring in 2030	32	32

	At 31 December 2011 years	At 31 December 2010 years
<b>UKPNPS</b>		
Life expectancy for current male pensioner aged 65	22	22
Life expectancy for current female pensioner aged 65	24	24
Life expectancy for future male pensioner from age 65 retiring in 2030	24	24
Life expectancy for future female pensioner from age 65 retiring in 2030	27	27

These assumptions are governed by FRS 17 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2011, which determined the Company's contribution rate for future years

## NOTES TO THE FINANCIAL STATEMENTS Continued

### 19. Pension commitments continued

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

	UKPN Grp 2011 £000	UKPNPS 2011 £000	Total 2011 £000	Total 2010 £000
Fair value of scheme assets	34,966	5,247	40,213	37,195
Present value of defined benefit obligations	(42,374)	(6,917)	(49,291)	(43,752)
Deficit in scheme	(7,408)	(1,670)	(9,078)	(6,557)
Related deferred tax asset	1,852	417	2,269	1,770
Liability recognised in balance sheet	(5,556)	(1,253)	(6,809)	(4,787)

This amount is presented in pension liabilities

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

	UKPN Grp 2011 £000	UKPNPS 2011 £000	Total 2011 £000	Total 2010 £000
Current service cost	(327)	(664)	(991)	(991)
Changes in respect of terminations	(189)	99	(90)	-
Interest cost	(2,080)	(333)	(2,413)	(1,088)
Expected return on scheme assets	1,962	278	2,240	929
	(634)	(620)	(1,254)	(1,150)

Of the charge for the year, £1,081,000 (2010 £991,000) has been included in staff costs and an expense of £173,000 (2010 £159,000) has been included in interest payable. The estimated amount of contributions expected to be paid to the schemes during 2012 is £1,661,000

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

	UKPN Grp 2011 £000	UKPNPS 2011 £000	Total 2011 £000	Total 2010 £000
At 1 January	(38,475)	(5,277)	(43,752)	(14,574)
Current service cost	(327)	(664)	(991)	(991)
Interest cost	(2,080)	(333)	(2,413)	(1,088)
Changes in respect of terminations	(189)	99	(90)	-
Actuarial loss	(3,088)	(520)	(3,608)	(27,554)
Benefits paid/(received)	1,785	(222)	1,563	455
At 31 December	(42,374)	(6,917)	(49,291)	(43,752)

The actuarial loss includes a net transfer in of scheme liabilities amounting to £1,248,000 (2010 £27,220,000) as a result of a review of the allocation of the scheme liabilities across the participating companies

## NOTES TO THE FINANCIAL STATEMENTS Continued

### 19 Pension commitments continued

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

	UKPN Grp 2011 £000	UKPNPS 2011 £000	Total 2011 £000	Total 2010 £000
At 1 January	33,195	4,000	37,195	10,853
Expected return on scheme assets	1,962	278	2,240	929
Actuarial gain	446	134	580	24,749
Contributions by employer	451	484	935	725
Deficit payment	697	129	826	394
Benefits (paid)/received	(1,785)	222	(1,563)	(455)
<b>At 31 December</b>	<b>34,966</b>	<b>5,247</b>	<b>40,213</b>	<b>37,195</b>

The actuarial gain includes a net transfer in of scheme assets amounting to £968,000 (2010 £23,645,000) 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			Total 2010 £000
	2011 %	2010 %	UKPN Grp 2011 £000	UKPNPS 2011 £000	Total 2011 £000	
Gilts - fixed	2.8	4.3	8,685	-	8,685	4,869
- index	2.7	4.2	8,039	-	8,039	3,674
linked						
Equities	7.9	7.9	12,637	2,147	14,784	14,611
Property	6.9	7.8	1,382	536	1,918	1,757
Corporate bonds	4.7	5.4	1,458	1,848	3,306	9,381
Hedge Funds	4.7	5.4	571	-	571	192
Cash	1.1	1.4	2,194	716	2,910	2,711
			<b>34,966</b>	<b>5,247</b>	<b>40,213</b>	<b>37,195</b>

The Group employs a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for each scheme as at 31 December 2010.

The actual return on scheme assets in the year was a gain of £1,852,000 (2010 £2,033,000)

NOTES TO THE FINANCIAL STATEMENTS Continued

19. Pension commitments continued

History of experience gains and losses are as follows

	2011 £000	2010 £000	2008 £000	2007 £000	2006 £000
Fair value of scheme assets	40,213	37,195	10,853	8,810	10,061
Present value of defined benefit obligations	(49,291)	(43,752)	(14,574)	(9,831)	(11,314)
Deficit in the scheme	(9,078)	(6,557)	(3,721)	(1,021)	(1,253)
Experience adjustments on scheme liabilities					
Amount (£000)	(266)	(334)	(91)	161	(408)
Percentage of scheme liabilities (%)	0.5	0.8	0.6	1.6	3.6
Experience adjustments on scheme assets					
Amount (£000)	(401)	1,104	932	(2,363)	30
Percentage of scheme assets (%)	1.0	3.0	8.6	26.8	0.3

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

	UKPN Grp 2011 £000	UKPNPS 2011 £000	Total 2011 £000	Total 2010 £000
At 1 January	(3,422)	(837)	(4,259)	(2,181)
Actuarial loss	(2,642)	(386)	(3,028)	(2,805)
Deferred taxation	661	96	757	757
Deferred tax rate change	(94)	(23)	(117)	(30)
At 31 December	(5,497)	(1,150)	(6,647)	(4,259)

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is a loss of £6,647,000 (2010 £4,259,000)

20. Related parties

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

**NOTES TO THE FINANCIAL STATEMENTS Continued**

**21. Parent undertaking and controlling party**

UK Power Networks Services Holdings Limited holds a 100% interest in UK Power Networks Services (Contracting) Limited and is considered to be the immediate parent company

UK Power Networks Services Holdings Limited heads the smallest group for which consolidated accounts are prepared which include the results of the Company UK Power Networks Holdings Limited heads the largest group for which consolidated financial statements are prepared which include the Company Copies of both sets of consolidated financial statements are available from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX

UK Power Networks Holdings Limited is owned by a consortium consisting of

Power Assets Holdings Limited	Incorporated in Hong Kong
Li Ka Shing Foundation Limited	Incorporated in Hong Kong
Cheung Kong Infrastructure Holdings Limited	Incorporated in Bermuda

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