UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

Registered Number 2228168

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

CONTENTS

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

Directors

Andrew John Hunter
Basil Scarsella
Loi Shun Chan

Company Secretary

Christopher Baker

Auditor

Deloitte LLP
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London
EC4A 3BZ

Registered Office

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SE1 6NP

DIRECTORS' REPORT

The Directors present their annual report and financial statements for the year ended 31 December 2012

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 £41,302,000 (2011 £38,030,000) and after taxation, to £33,193,000 (2011 £30,819,000) Dividends of £25,000,000 were paid in the year (2011 £44,000,000)

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	(resigned on 10 September 2012)
Basil Scarsella	
Loi Shun Chan	(appointed on 10 September 2012)

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

Credit and liquidity risk

The Company's exposure to credit and liquidity risk is reduced as it is a 100% subsidiary of the UK Power Networks 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, with these being due from entities with strong financial standing 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 2012, the Company had an average of 4 days purchases outstanding in its trade creditors (2011 3 days)

Employees

The Company's policies and procedures relating to Health and Safety at work are kept under constant review to promote 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

Political and charitable contributions

The Company made no charitable or political contributions during the year (2011 £nil)

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

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
19 April 2013

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 SERVICES (CONTRACTING) LIMITED

We have audited the financial statements of UK Power Networks Services (Contracting) Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 20 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

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

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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 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

James Leigh FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 April 2013

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £000	2011 £000
Turnover	2	**71,067**	71,689
Gross profit		**71,067**	71,689
Distribution expenses		**(11,471)**	(14,063)
Administrative expenses		**(18,146)**	(19,512)
Profit on ordinary activities before interest and taxation	3	**41,450**	38,114
Interest receivable and similar charges	6	**107**	89
Interest payable and similar charges	7	**(255)**	(173)
Profit on ordinary activities before taxation		**41,302**	38,030
Tax on profit on ordinary activities	8	**(8,109)**	(7,211)
Profit for the financial year	16	**33,193**	30,819

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 2012

	Note	2012 £000	2011 £000
Profit for the financial year		**33,193**	30,819
Actuarial gain/(loss) on defined benefit pensions	18	**1,085**	(3,028)
Deferred tax attributable to actuarial (gain)/loss	18	**(250)**	757
Deferred tax rate change	18	**(181)**	(117)
Total recognised gain relating to the year		**33,847**	28,431

The deferred tax rate change of £181,000 (2011 £117,000) represents the reduction in the mainstream corporation tax rate from 25% to 23% (2011 27% to 25%)

BALANCE SHEET
AT 31 DECEMBER 2012

	Note	2012 £000	2011 £000
Fixed assets			
Tangible assets	9	**269,741**	274,864
Current assets			
Stocks	10	**209**	164
Debtors			
- amounts falling due within one year	11	**679**	6,399
- amounts falling due after more than one year	11	**26,821**	31,267
Cash		**18,898**	4,075
Total current assets		**46,607**	41,905
Creditors amounts falling due within one year	12	**(147,932)**	(152,647)
Net current liabilities		**(101,325)**	(110,742)
Total assets less current liabilities		**168,416**	164,122
Provisions for liabilities and charges	13	**(33,371)**	(37,054)
Net assets excluding pension liability		**135,045**	127,068
Pension liability	18	**(5,939)**	(6,809)
Net assets		**129,106**	120,259
Capital and reserves			
Called up share capital	14	**10,100**	10,100
Profit and loss account	16	**119,006**	110,159
Shareholder's funds	16	**129,106**	120,259

The financial statements of UK Power Networks Services (Contracting) Limited, registered number 2228168 were approved by the Board of Directors and authorised for issue on 19 April 2013
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 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

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

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 For work in progress this is the 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, and

- 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 Contınued

1. Accountıng polıcies contınued

Pensions

The Company has oblıgatıons under two funded defined benefit pensıon arrangements as part of the UK Power Networks group and the Company accounts for these schemes ın accordance wıth FRS 17 'Retırement Benefits', ("FRS 17")

The amounts charged to the profit and loss account are the current servıce costs and gaıns and losses on settlements and curtaılments Past servıce costs are recognısed ımmedıately ın the profit and loss account ıf the benefits have vested If the benefits have not vested ımmedıately the costs are recognısed over the perıod untıl vestıng occurs The ınterest cost and the expected return on the assets are shown as a net amount of other finance costs or credıts adjacent to ınterest Actuarıal gaıns and losses are recognısed ımmedıately ın the statement of total recognısed gaıns and losses

The defined benefit scheme ıs funded, wıth the assets of the scheme held separately from those of the Group, ın a separate trustee admınıstered fund Pensıon scheme assets are measured at faır value and lıabılıtıes are measured on an actuarıal basıs usıng the projected unıt method and dıscounted at a rate equıvalent to the current rate of return on a hıgh qualıty corporate bond or equıvalent currency and term to the scheme lıabılıtıes The actuarıal valuatıons are obtaıned at least trıennıally and are updated at each balance sheet date The resultıng defıned benefit asset or lıabılıty, net of the related deferred tax, ıs presented separately after other net assets on the face of the balance sheet

2 Turnover

Turnover, whıch ıs stated net of value added tax, arıses entırely ın the Unıted Kıngdom and ıs attrıbutable to the contınuıng actıvıty of the management of varıous electrıcıty dıstrıbutıon systems

3 Profit on ordınary activities before interest and taxatıon

	2012	2011
Thıs ıs stated after chargıng	£000	£000
Deprecıatıon of tangıble fixed assets - owned	10,240	10,783
Operatıng lease rentals		
- Other	319	383
- Land and Buıldıngs	398	356
Loss on dısposal of tangıble fixed assets	-	99

Fees payable by the Company to Deloıtte LLP and theır assocıates for the audıt of the Company's annual accounts amounted to £21,000 (2011 £20,000) Audıtors' remuneratıon was borne ın both years by another group company Fees payable for non-audıt servıces were £nıl (2011 £nıl)

4. Dırectors' emoluments

The Dırectors are not employed dırectly by the Company and dıd not receıve any remuneratıon for servıces to the Company durıng the year or precedıng year

NOTES TO THE FINANCIAL STATEMENTS Continued

5 Staff costs

	2012 £000	2011 £000
Wages and salaries	**5,286**	6,729
Social security costs	**587**	685
Other pension costs	**1,317**	1,081
	7,190	8,495

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

	2012 Number	2011 Number
Indirect	**66**	109
Direct	**69**	83
	135	192

6. Interest receivable and similar charges

	2012 £000	2011 £000
Interest receivable on Group loan	**1**	89
Interest receivable on bank deposits	**106**	-
	107	89

7. Interest payable and similar charges

	2012 £000	2011 £000
Net interest cost on pension scheme (note 18)	**255**	173

NOTES TO THE FINANCIAL STATEMENTS Continued

8. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

UK current tax	2012 £000	2011 £000
UK corporation tax charge on profit for the year	9,861	9,145
Adjustment in respect of previous years	1,211	(218)
Total current tax charge (note (b))	11,072	8,927
UK deferred tax		
Origination and reversal of timing differences	243	893
Adjustment in respect of previous years	(345)	204
Effect of tax rate change on opening balance	(2,861)	(2,813)
Total deferred tax credit	(2,963)	(1,716)
Total tax charge on profit on ordinary activities	8,109	7,211

(b) Factors affecting tax charge for the year

The tax assessed for the year is higher (2011 lower) than the standard rate of corporation tax in the UK

The differences are explained below	2012 £000	2011 £000
Profit on ordinary activities before taxation	41,302	38,030
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	10,119	10,078
Effect of		
Disallowed expenses and non-taxable income	-	13
Capital allowances in excess of depreciation	(190)	(812)
Movement in short term timing differences	(68)	(134)
Adjustment in respect of previous years	1,211	(218)
Current tax charge for the year	11,072	8,927

The Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 The 2012 Autumn Statement announced a further reduction to 21% by 2014 and the 2013 Budget on 20 March 2013 announced a reduction to 20% by 2015

The reduction in the rate from 26% to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012 and resulted in an average corporation tax rate for the year of 24 5% The reduction to 23% (effective from 1 April 2013) was enacted on 3 July 2012 The remeasurement of the opening deferred tax balance at 23% increased the deferred tax credit in the current year by £2,861,000 Further reductions had not been substantively enacted in Law at the balance sheet date and therefore are not relevant to these financial statements

NOTES TO THE FINANCIAL STATEMENTS Continued

9 Tangible fixed assets

	Network assets £000	Assets in the course of construction £000	Non-operational land and buildings £000	Fixtures & equipment £000	Total £000
Cost					
At 1 January 2012	324,894	19,259	247	12,779	**357,179**
Additions	-	5,117	-	-	**5,117**
Transfers	6,985	(6,985)	-	-	**-**
At 31 December 2012	**331,879**	**17,391**	**247**	**12,779**	**362,296**
Depreciation					
At 1 January 2011	70,138	-	247	11,930	**82,315**
Charge for the year	9,397	-	-	843	**10,240**
At 31 December 2012	**79,535**	**-**	**247**	**12,773**	**92,555**
Net book value					
At 31 December 2012	**252,344**	**17,391**	**-**	**6**	**269,741**
At 31 December 2011	254,756	19,259	-	849	274,864

NOTES TO THE FINANCIAL STATEMENTS Continued

10. Stocks

	2012 £000	2011 £000
Work in progress	**209**	164

11. Debtors

	2012 £000	2011 £000
Debtors: amounts falling due within one year		
Trade debtors	**196**	5,952
Amounts owed by Group undertakings	**137**	275
Other debtors	**304**	146
Prepayments and accrued income	**42**	26
	679	6,399
Debtors: amounts falling due after more than one year		
Prepayments and accrued income	**26,821**	31,267
	27,500	37,666

12 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**130**	123
Other creditors	**209**	123
Amounts owed to Group undertakings	**134,823**	135,045
Other taxation	**1,796**	2,670
Corporation tax	**4,320**	10,774
Accruals and deferred income	**6,654**	3,912
	147,932	152,647

Amounts owed to Group undertakings include an interest free loan from UK Power Networks Services (South East) Limited of £134 0m (2011 £134 0m) which is repayable on demand

NOTES TO THE FINANCIAL STATEMENTS Continued

13 Provisions for liabilities and charges

The movements in provisions during the current year are as follows

	At 1 January 2012 £000	Released during the year £000	Utilised during the year £000	**At 31 December 2012 £000**
Deferred tax	36,106	(3,027)	-	**33,079**
Severance provision	944	-	(656)	**288**
Other	4	-	-	**4**
	37,054	**(3,027)**	**(656)**	**33,371**

Deferred taxation provided in the financial statements is as follows

	2012 £000	2011 £000
Accelerated capital allowances	**33,189**	36,118
Other timing differences	**(110)**	(12)
Provision for deferred tax	**33,079**	36,106

The movements in deferred taxation are as follows

	At 1 January 2012 £000	Profit and loss account £000	Statement of total recognised gains and losses £000	**At 31 December 2012 £000**
Provision for deferred tax	36,106	(3,027)	-	**33,079**
Deferred tax shown against pension liability	(2,269)	64	431	**(1,774)**
	33,837	**(2,963)**	**431**	**31,305**

NOTES TO THE FINANCIAL STATEMENTS Continued

14. Share capital

Authorised	2012 Number	2011 Number	2012 £000	2011 £000
Ordinary shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000

Allotted, called up and fully paid	2012 Number	2011 Number	2012 £000	2011 £000
Ordinary shares of £1 each	**10,100,000**	10,100,000	**10,100**	10,100

15. Dividends paid

	2012 £000	2011 £000
Ordinary dividends on equity shares - £2 475 (2011 £4 356) per ordinary share	**25,000**	44,000

16 Reconciliation of shareholder's funds

	Share Capital £000	Profit and loss account £000	Total share-holder's funds £000
At 1 January 2011	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 18)	-	(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**
Profit for the year	-	33,193	**33,193**
Actuarial gain net of deferred tax on defined benefit pensions (note 18)	-	835	**835**
Deferred tax rate change	-	(181)	**(181)**
Dividends paid	-	(25,000)	**(25,000)**
At 31 December 2012	**10,100**	**119,006**	**129,106**

NOTES TO THE FINANCIAL STATEMENTS Continued

17. Financial commitments

Amounts contracted for but not provided in the financial statements amounted to £19,080,000 (2011 £17,060,000)

At 31 December 2012 the Company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2012 £000	**Other 2012 £000**	Land and buildings 2011 £000	Other 2011 £000
Operating leases which expire				
Within one year	**22**	**29**	22	67
In two to five years	**212**	**173**	212	117
In over five years	**49**	**15**	49	12
	283	**217**	283	196

18. Pension commitments

The Group operates two funded defined benefit pension schemes

- The UK Power Networks Group of the ESPS (the UKPN Group)
- The UK Power Networks Pension Scheme (UKPNPS)

The 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 employee data and the attribution portions agreed with the industry regulator Ofgem

The actuarial valuation at 31 December 2012 was carried out by Aon Hewitt The most recent triennial valuation of the schemes for funding purposes has been performed as at 31 March 2010 Under the funding schedule agreed with the scheme trustees, the Group aims to eliminate the current deficit over the next 15 years The Group will monitor funding levels annually and the funding schedule will be reviewed between the Group and the trustees every three years based on actuarial valuations The next triennial actuarial valuation is due to be completed at 31 March 2013 The Group considers that the contribution rates agreed with the trustees are sufficient to eliminate the current deficit over the agreed period

NOTES TO THE FINANCIAL STATEMENTS Contınued

18 Pension commitments contınued

The prıncıpal financıal assumptıons used to calculate scheme lıabılıtıes under FRS 17 were

	2012 %	2011 %
Dıscount rate		
- UKPN Group	**4 3**	4 6
- UKPNPS	**4.8**	4 7
Rate of ıncrease in RPI		
- UKPN Group	**2.8**	3 0
- UKPNPS	**3.1**	3 3
Rate of ıncrease in CPI		
- UKPN Group	**2 3**	2 1
- UKPNPS	**2 6**	2 4
Rate of ıncrease in salaries		
- UKPN Group	**3 8**	4 0
- UKPNPS	**4 1**	4 3
Rate of ıncrease of pensıons		
- Excess of GMP (UKPN Group)	**2 9**	3 0
- Post 88 GMP (UKPN Group)	**1 9**	1 8
- RPI up to 5% (UKPNPS - servıce to 31 March 2006)	**2.9**	3 0
- RPI up to 2 5% (UKPNPS - servıce from 1 Aprıl 2006)	**2.0**	2 0
- Post 88 GMP (UKPNPS – servıces from 1 Aprıl 2006)	**2.0**	1 9
Rate of increase in deferment		
- UKPN Group	**2.9**	3 0
- CPI up to 5% (UKPNPS)	**2.6**	2 4
- CPI up to 2 5 % (UKPNPS)	**2 5**	2 4

The table below shows detaıls of assumptıons around mortalıty rates used to calculate the FRS 17 pensıon lıabılıtıes

UKPN Group	**At 31 December 2012 years**	At 31 December 2011 years
Lıfe expectancy for current male pensıoner aged 60	**28**	28
Lıfe expectancy for current female pensıoner aged 60	**30**	30
Lıfe expectancy for future male pensıoner from age 60 retırıng ın 2030	**30**	30
Lıfe expectancy for future female pensıoner from age 60 retırıng ın 2030	**32**	32

UKPNPS	**At 31 December 2012 years**	At 31 December 2011 years
Lıfe expectancy for current male pensıoner aged 65	**22**	22
Lıfe expectancy for current female pensıoner aged 65	**24**	24
Lıfe expectancy for future male pensıoner from age 65 retırıng ın 2030	**24**	24
Lıfe expectancy for future female pensıoner from age 65 retırıng ın 2030	**27**	27

These assumptıons are governed by FRS 17 and do not reflect the assumptıons used by the ındependent actuary ın the trıennıal valuatıon as at 31 March 2010, whıch determıned the Company's contrıbutıon rate for future years

NOTES TO THE FINANCIAL STATEMENTS

18. 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 2012 £000	UKPNPS 2012 £000	Total 2012 £000	Total 2011 £000
Fair value of scheme assets	35,551	4,495	40,046	40,213
Present value of defined benefit obligations	(42,638)	(5,121)	(47,759)	(49,291)
Deficit in scheme	(7,087)	(626)	(7,713)	(9,078)
Related deferred tax asset	1,630	144	1,774	2,269
Liability recognised in balance sheet	(5,457)	(482)	(5,939)	(6,809)

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 2012 £000	UKPNPS 2012 £000	Total 2012 £000	Total 2011 £000
Current service cost	(306)	(504)	(810)	(991)
Changes in respect of terminations	(507)	-	(507)	(90)
Interest cost	(1,908)	(358)	(2,266)	(2,413)
Expected return on scheme assets	1,653	358	2,011	2,240
	(1,068)	(504)	(1,572)	(1,254)

Of the charge for the year, £1,317,000 (2011 £1,081,000) has been included in staff costs and an expense of £255,000 (2011 £173,000) has been included in interest payable The estimated amount of contributions expected to be paid to the schemes during 2012 is £1,459,000

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

	UKPN Grp 2012 £000	UKPNPS 2012 £000	Total 2012 £000	Total 2011 £000
At 1 January	(42,374)	(6,917)	(49,291)	(43,752)
Current service cost	(306)	(504)	(810)	(991)
Interest cost	(1,908)	(358)	(2,266)	(2,413)
Changes in respect of terminations	(507)	-	(507)	(90)
Actuarial gain/(loss)	474	2,956	3,430	(3,608)
Benefits paid/(received)	1,983	(298)	1,685	1,563
At 31 December	(42,638)	(5,121)	(47,759)	(49,291)

The actuarial gain (2011 loss) includes a net transfer out of scheme liabilities amounting to £4,877,000 (2011 £1,248,000 transfer in) as a result of a review of the allocation of the scheme liabilities across the Group based on staff transfers between participating companies

NOTES TO THE FINANCIAL STATEMENTS

18. Pension commitments continued

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

	UKPN Grp 2012 £000	**UKPNPS 2012 £000**	**Total 2012 £000**	Total 2011 £000
At 1 January	**34,966**	**5,247**	**40,213**	37,195
Expected return on scheme assets	**1,653**	**358**	**2,011**	2,240
Actuarial (loss)/gain	**(405)**	**(1,940)**	**(2,345)**	580
Contributions by employer	**537**	**347**	**884**	935
Deficit payment	**783**	**185**	**968**	826
Benefits (paid)/received	**(1,983)**	**298**	**(1,685)**	(1,563)
At 31 December	35,551	4,495	40,046	40,213

The actuarial loss (2011 gain) includes a net transfer out of scheme assets amounting to £4,053,000 (2011 £968,000 transfer in) as a result of a review of the allocation of the scheme assets across the Group based on staff transfers between 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			
	2012	2011	**UKPN Grp**	**UKPNPS**	**Total**	Total
			2012	**2012**	**2012**	2011
	%	%	**£000**	**£000**	**£000**	£000
Gilts - fixed	**2 7**	2 8	**8,562**	**-**	**8,562**	8,685
- index linked	**2 4**	2 7	**7,345**	**-**	**7,345**	8,039
Equities	**7 9**	7 9	**12,242**	**2,032**	**14,274**	14,784
Property	**6.9**	6 9	**1,145**	**352**	**1,497**	1,918
Corporate bonds	**4.1**	4 7	**3,880**	**1,759**	**5,639**	3,306
Hedge Funds	**4.1**	4 7	**745**	**-**	**745**	571
Cash	**0.5**	1 1	**1,632**	**352**	**1,984**	2,910
			35,551	**4,495**	**40,046**	40,213

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 2012

The actual return on scheme assets in the year was a gain of £3,719,000 (2011 £1,852,000)

NOTES TO THE FINANCIAL STATEMENTS Continued

18 Pension commitments continued

History of experience gains and losses are as follows

	2012 £000	2011 £000	2010 £000	2008 £000	2007 £000
Fair value of scheme assets	**40,046**	40,213	37,195	10,853	8,810
Present value of defined benefit obligations	**(47,759)**	(49,291)	(43,752)	(14,574)	(9,831)
Deficit in the scheme	**(7,713)**	(9,078)	(6,557)	(3,721)	(1,021)
Experience adjustments on scheme liabilities					
Amount (£000)	**(691)**	(266)	(334)	(91)	161
Percentage of scheme liabilities (%)	**1 5**	0 5	0 8	0 6	1 6
Experience adjustments on scheme assets					
Amount (£000)	**1,708**	(401)	1,104	932	(2,363)
Percentage of scheme assets (%)	**4.3**	1 0	3 0	8 6	26 8

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

	UKPN Grp 2012 £000	**UKPNPS 2012 £000**	**Total 2012 £000**	Total 2011 £000
At 1 January	**(5,497)**	**(1,150)**	**(6,647)**	(4,259)
Actuarial gain/(loss)	**69**	**1,016**	**1,085**	(3,028)
Deferred taxation	**(16)**	**(234)**	**(250)**	757
Deferred tax rate change	**(148)**	**(33)**	**(181)**	(117)
At 31 December	**(5,592)**	**(401)**	**(5,993)**	(6,647)

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 £5,993,000 (2011 £6,647,000)

19. 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

20 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