UK
Power
Networks
Services

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

Registered Number 2228168

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2013

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Page:

Directors

Andrew John Hunter
Basil Scarsella
Loi Shun Chan

Company Secretary

Christopher Baker

Auditor

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STRATEGIC REPORT

The principal activity of UK Power Networks Services (Contracting) Limited (the "Company") is to manage high voltage electrical and multi-utility networks for owners of major infrastructure.

Review of the business

The profit for the year, before taxation, amounted to £47,850,000 (2012: £41,302,000) and after taxation, to £42,301,000 (2012: £33,193,000). Dividends of £20,000,000 (2012: £25,000,000) were paid in the year.

The Company is part of the UK Power Networks Services group ("the Group") which manages its operations on a business segment basis. 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.

Key performance indicators

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 £000	Year to 31 December 2012 £000
Financial performance		
Tangible fixed assets	**264,824**	269,741
Operating costs	**(28,206)**	(29,617)
Non-financial performance		
Lost Time Incidents (note 1)	**1**	nil

Note 1 Injuries at work resulting in lost time of one day or more

Financial performance indicators, represent the key financial metrics that reflect the financial health of the business. The tangible fixed asset value represents the Company's investment (after depreciation) in the electrical infrastructure managed on behalf of its major airport and rail customers under long term contracts. Operating costs have reduced by £1,411,000 in the year reflecting savings from reorganisation and effective cost control.

The key non-financial performance indicator relates to safety. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting serious risk. A lost time incident is recorded if an employee or contractor suffers an injury at work which results in lost time of one day or more. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign has been developed for all operational staff.

STRATEGIC REPORT continued

Principal risks and uncertainties

As well as the opportunities the Company has to grow and develop its business, certain risks and uncertainties are faced in achieving its objectives. The Company's principal risks and uncertainties are set out below.

Health and Safety
There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public, or a third party. Any such incident could lead to potential prosecution, a fine and have an adverse affect on the reputation of the Company.

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 and quality of supply are important customer requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company.

Supply chain
Any interruption to the supply of critical materials or services could have a significant impact on the Company's ability to manage the private electricity networks and impact progress on electrical contracting projects. In addition, volatility in commodity prices can have a significant impact on costs.

There are a variety of mechanisms in place to manage these risks. The UK Power Networks Group has an embedded risk awareness culture to understand and manage significant business risks in order to increase certainty of achieving strategic goals. 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 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.

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.

STRATEGIC REPORT continued

Going Concern

In considering the going concern basis in preparing the Annual Report and financial statements, the Directors have regard to the following:

- the Company's existing long-term contracts are profitable and provide a steady and predictable stream of revenues and cash flows; and
- the Company has considerable cash reserves and no external debt.

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.

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 to the date of this report were as follows:

Andrew John Hunter
Basil Scarsella
Loi Shun Chan

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.

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 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
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 SERVICES (CONTRACTING) LIMITED

We have audited the financial statements of UK Power Networks Services (Contracting) Limited for the year ended 31 December 2013 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 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 SERVICES (CONTRACTING) 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, United Kingdom
8 May 2014

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Turnover	2	**75,829**	71,067
Gross profit		**75,829**	71,067
Distribution expenses		**(12,111)**	(11,471)
Administrative expenses		**(16,095)**	(18,146)
Profit on ordinary activities before interest and taxation	3	**47,623**	41,450
Interest receivable and similar charges	6	**403**	107
Interest payable and similar charges	7	**(176)**	(255)
Profit on ordinary activities before taxation		**47,850**	41,302
Tax on profit on ordinary activities	8	**(5,549)**	(8,109)
Profit for the financial year	16	**42,301**	33,193

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 2013

	Note	2013 £000	2012 £000
Profit for the financial year		**42,301**	33,193
Actuarial (loss)/gain on defined benefit pensions	18	**(757)**	1,085
Deferred tax attributable to actuarial loss/(gain)	18	**151**	(250)
Deferred tax rate change relating to historical actuarial losses	18	**(231)**	(181)
Total recognised gain relating to the year		**41,464**	33,847

The deferred tax rate change of £231,000 (2012: £181,000) represents the reduction in the mainstream corporation tax rate from 23% to 20% (2012: 25% to 23%).

BALANCE SHEET
AT 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Fixed assets			
Tangible assets	9	**264,824**	269,741
Current assets			
Stocks	10	**456**	209
Debtors			
- amounts falling due within one year	11	**13,904**	679
- amounts falling due after more than one year	11	**23,057**	26,821
Cash		**35,020**	18,898
Total current assets		**72,437**	46,607
Creditors: amounts falling due within one year	12	**(152,273)**	(147,932)
Net current liabilities		**(79,836)**	(101,325)
Total assets less current liabilities		**184,988**	168,416
Provisions for liabilities and charges	13	**(28,356)**	(33,371)
Net assets excluding pension liability		**156,632**	135,045
Pension liability	18	**(6,062)**	(5,939)
Net assets		**150,570**	129,106
Capital and reserves			
Called up share capital	14	**10,100**	10,100
Profit and loss account	16	**140,470**	119,006
Shareholder's funds	16	**150,570**	129,106

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 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 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 Services Holdings Limited, whose consolidated accounts include a cash flow statement and are publicly available.

Going concern

As discussed in the Strategic Report the Directors have at the time of approving the financial statements a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

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. 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 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

This is stated after charging	**2013 £000**	2012 £000
Depreciation of tangible fixed assets - owned	**9,639**	10,240
Impairment of tangible fixed assets (note 9)	**1,490**	-
Operating lease rentals		
- Other	**217**	319
- Land and Buildings	**283**	398
Loss on disposal of tangible fixed assets	**90**	-

Fees payable by the Company to Deloitte LLP and their associates for the audit of the Company's annual accounts amounted to £21,700 (2012: £21,000). Auditor's remuneration was borne in both years by another group company. Fees payable for non-audit services were £nil (2012: £nil).

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.

NOTES TO THE FINANCIAL STATEMENTS continued

5. Staff costs

	2013 £000	2012 £000
Wages and salaries	6,123	5,286
Social security costs	508	587
Other pension costs	659	1,317
	7,290	7,190

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

	2013 Number	2012 Number
Indirect	59	66
Direct	58	69
	117	135

6. Interest receivable and similar charges

	2013 £000	2012 £000
Interest receivable on loans to Group undertakings	329	1
Interest receivable on bank deposits	74	106
	403	107

7. Interest payable and similar charges

	2013 £000	2012 £000
Net interest cost on pension scheme (note 18)	172	255
Other interest payable	4	-
	176	255

NOTES TO THE FINANCIAL STATEMENTS continued

8. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2013	2012
UK current tax	**£000**	£000
UK corporation tax charge on profit for the year	**10,591**	9,861
Adjustment in respect of previous years	**(492)**	1,211
Total current tax charge (note (b))	**10,099**	11,072
UK deferred tax		
Origination and reversal of timing differences	**(34)**	243
Adjustment in respect of previous years	**(261)**	(345)
Effect of tax rate change on opening balance	**(4,255)**	(2,861)
Total deferred tax credit	**(4,550)**	(2,963)
Total tax charge on profit on ordinary activities	**5,549**	8,109

(b) Factors affecting tax charge for the year:

The tax assessed for the year is lower (2012: higher) than the standard rate of corporation tax in the UK.

	2013	2012
The differences are explained below:	**£000**	£000
Profit on ordinary activities before taxation	**47,850**	41,302
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	**11,125**	10,119
Effect of:		
Disallowed expenses and non-taxable income	**(543)**	-
Capital allowances less than/(in excess) of depreciation	**278**	(190)
Movement in short term timing differences	**(269)**	(68)
Adjustment in respect of previous years	**(492)**	1,211
Current tax charge for the year	**10,099**	11,072

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% reduced the deferred tax charge in the current year by £4,255,000.

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 2013	331,879	17,391	247	12,779	**362,296**
Additions	-	6,302	-	-	**6,302**
Transfers	9,646	(9,646)	-	-	**-**
Disposals	(190)	-	-	(20)	**(210)**
At 31 December 2013	**341,335**	**14,047**	**247**	**12,759**	**368,388**
Depreciation					
At 1 January 2013	79,535	-	247	12,773	**92,555**
Charge for the year	9,638	-	-	1	**9,639**
Impairment losse	1,490	-	-	-	**1,490**
Disposals	(101)	-	-	(19)	**(120)**
At 31 December 2013	**90,562**	**-**	**247**	**12,755**	**103,564**
Net book value					
At 31 December 2013	**250,773**	**14,047**	**-**	**4**	**264,824**
At 31 December 2012	252,344	17,391	-	6	269,741

The impairment loss was incurred on a project to install electric vehicle charging posts in London Underground car parks for Transport for London (TfL). The assets have been impaired due to uncertainty surrounding the amount of income expected to be realised from the use of these facilities.

NOTES TO THE FINANCIAL STATEMENTS continued

10. Stocks

	2013 £000	2012 £000
Work in progress	**456**	209

11. Debtors

	2013 £000	2012 £000
Debtors: amounts falling due within one year		
Trade debtors	**3,474**	196
Amounts owed by Group undertakings	**10,149**	137
Other debtors	**185**	304
Prepayments and accrued income	**96**	42
	13,904	679
Debtors: amounts falling due after more than one year		
Prepayments and accrued income	**23,057**	26,821
	36,961	27,500

Amounts owed by Group undertakings at 31 December 2013 include £10,000,000 loaned to UK Power Networks Services Holdings Ltd bearing interest at 1.17% per annum.

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

	2013 £000	2012 £000
Trade creditors	**73**	130
Other creditors	**230**	209
Amounts owed to Group undertakings	**136,155**	134,823
Other taxation	**2,092**	1,796
Corporation tax	**4,830**	4,320
Accruals and deferred income	**8,893**	6,654
	152,273	147,932

Amounts owed to Group undertakings include an interest free loan from UK Power Networks Services (South East) Limited of £135.0m (2012: £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 2013 £000	Released during the year £000	Utilised during the year £000	Arising during the year £000	**At 31 December 2013 £000**
Deferred tax	33,079	(4,728)	-	-	**28,351**
Severance provision	288	-	(288)	-	**-**
Other	4	-	-	1	**5**
	33,371	**(4,728)**	**(288)**	**1**	**28,356**

Deferred taxation provided in the financial statements is as follows:

	2013 £000	2012 £000
Accelerated capital allowances	**28,627**	33,189
Other timing differences	**(276)**	(110)
Provision for deferred tax	**28,351**	33,079

The movements in deferred taxation are as follows:

	At 1 January 2013 £000	Profit and loss account £000	Statement of total recognised gains and losses £000	**At 31 December 2013 £000**
Provision for deferred tax	33,079	(4,728)	-	**28,351**
Deferred tax shown against pension liability	(1,774)	178	80	**(1,516)**
	31,305	**(4,550)**	**80**	**26,835**

NOTES TO THE FINANCIAL STATEMENTS continued

14. Share capital

Authorised	**2013 Number**	2012 Number	**2013 £000**	2012 £000
Ordinary shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000

Allotted, called up and fully paid	**2013 Number**	2013 Number	**2013 £000**	2013 £000
Ordinary shares of £1 each	**10,100,000**	10,100,000	**10,100**	10,100

15. Dividends paid

	2013 £000	2012 £000
Ordinary dividends on equity shares - £1.980 (2012: £2.475) per ordinary share	**20,000**	25,000

16. Reconciliation of shareholder's funds

	Share Capital £000	Profit and loss account £000	**Total share-holder's funds £000**
At 1 January 2012	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**
Profit for the year	-	42,301	**42,301**
Actuarial loss net of deferred tax on defined benefit pensions (note 18)	-	(606)	**(606)**
Deferred tax rate change	-	(231)	**(231)**
Dividends paid	-	(20,000)	**(20,000)**
At 31 December 2013	**10,100**	**140,470**	**150,570**

NOTES TO THE FINANCIAL STATEMENTS continued

17. Financial commitments

Amounts contracted for but not provided in the financial statements amounted to £16,477,000 (2012: £19,080,000).

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

	Land and buildings 2013 £000	**Other 2013 £000**	Land and buildings 2012 £000	Other 2012 £000
Operating leases which expire:				
Within one year	**22**	**31**	22	29
In two to five years	**177**	**159**	212	173
In over five years	**49**	**20**	49	15
	248	**210**	283	217

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.

Aon Hewitt provided an actuarial valuation at 31 December 2013. The Group monitors funding levels annually and the funding schedule is reviewed between the Group and the trustees every three years based on actuarial valuations. The funding schedule is currently under review based on the latest triennial valuation as 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

18. Pension commitments continued

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

	2013 %	2012 %
Discount rate		
- UKPN Group	**4.4**	4.3
- UKPNPS	**4.4**	4.8
Rate of increase in RPI		
- UKPN Group	**3.3**	2.8
- UKPNPS	**3.4**	3.1
Rate of increase in CPI		
- UKPN Group	**2.3**	2.3
- UKPNPS	**2.4**	2.6
Rate of increase in salaries		
- UKPN Group	**3.8**	3.8
- UKPNPS	**3.9**	4.1
Rate of increase of pensions		
- Excess of GMP (UKPN Group)	**3.3**	2.9
- Post 88 GMP (UKPN Group)	**1.9**	1.9
- RPI up to 5% (UKPNPS - service to 31 March 2006)	**3.1**	2.9
- RPI up to 2.5% (UKPNPS - service from 1 April 2006)	**2.1**	2.0
- Post 88 GMP (UKPNPS – services from 1 April 2006)	**1.9**	2.0
Rate of increase in deferment		
- UKPN Group	**3.3**	2.9
- CPI up to 5% (UKPNPS)	**2.4**	2.6
- CPI up to 2.5 % (UKPNPS)	**2.4**	2.5

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

UKPN Group	**At 31 December 2013 years**	At 31 December 2012 years
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

UKPNPS	**At 31 December 2013 years**	At 31 December 2012 years
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 valuations which determine the Company's contribution rate for future years.

NOTES TO THE FINANCIAL STATEMENTS continued

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 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
Fair value of scheme assets	37,515	5,801	43,316	40,046
Present value of defined benefit obligations	(44,053)	(6,841)	(50,894)	(47,759)
Deficit in scheme	(6,538)	(1,040)	(7,578)	(7,713)
Related deferred tax asset	1,308	208	1,516	1,774
Liability recognised in balance sheet	(5,230)	(832)	(6,062)	(5,939)

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 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
Current service cost	(240)	(363)	(603)	(810)
Changes in respect of terminations	-	-	-	(507)
Interest cost	(1,805)	(273)	(2,078)	(2,266)
Expected return on scheme assets	1,632	274	1,906	2,011
	(413)	(362)	(775)	(1,572)

Of the charge for the year, £603,000 (2012: £1,317,000) has been included in staff costs and an expense of £172,000 (2012: £255,000) has been included in interest payable. The estimated amount of contributions expected to be paid to the schemes during 2014 is £1,338,000.

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

	UKPN Grp 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
At 1 January	(42,638)	(5,121)	(47,759)	(49,291)
Current service cost	(240)	(363)	(603)	(810)
Interest cost	(1,805)	(273)	(2,078)	(2,266)
Changes in respect of terminations	-	-	-	(507)
Actuarial (loss)/gain	(1,231)	(889)	(2,120)	3,430
Benefits paid/(received)	1,861	(195)	1,666	1,685
At 31 December	(44,053)	(6,841)	(50,894)	(47,759)

The actuarial loss (2012: gain) includes a net transfer out of scheme liabilities amounting to £650,000 (2012: £4,877,000 transfer out) 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 continued

18. Pension commitments continued

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

	UKPN Grp 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
At 1 January	35,551	4,495	40,046	40,213
Expected return on scheme assets	1,632	274	1,906	2,011
Actuarial gain/(loss)	1,051	312	1,363	(2,345)
Contributions by employer	396	404	800	884
Deficit payment	746	121	867	968
Benefits (paid)/received	(1,861)	195	(1,666)	(1,685)
At 31 December	37,515	5,801	43,316	40,046

The actuarial gain (2012: loss) includes a net transfer out of scheme assets amounting to £653,000 (2012: £4,053,000 transfer out) 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			
	2013 %	2012 %	UKPN Grp 2013 £000	UKPNPS 2013 £000	Total 2013 £000	Total 2012 £000
Gilts - fixed	3.6	2.7	8,684	-	8,684	8,562
- index linked	3.3	2.4	10,143	-	10,143	7,345
Equities	7.7	7.9	11,097	2,559	13,656	14,274
Property	7.3	6.9	1,066	520	1,586	1,497
Corporate bonds	4.4	4.1	4,672	1,961	6,633	5,639
Hedge Funds	4.4	4.1	-	-	-	745
Cash	0.9	0.5	1,853	761	2,614	1,984
			37,515	5,801	43,316	40,046

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 2013.

The actual return on scheme assets in the year was a gain of £3,922,000 (2012: £3,719,000).

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

History of experience gains and losses are as follows:

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Fair value of scheme assets	**43,316**	40,046	40,213	37,195	10,853
Present value of defined benefit obligations	**(50,894)**	(47,759)	(49,291)	(43,752)	(14,574)
Deficit in the scheme	**(7,578)**	(7,713)	(9,078)	(6,557)	(3,721)
Experience adjustments on scheme liabilities:					
Amount (£000)	**(716)**	(691)	(266)	(334)	(91)
Percentage of scheme liabilities (%)	**1.4**	1.5	0.5	0.8	0.6
Experience adjustments on scheme assets:					
Amount (£000)	**2,014**	(1,708)	(401)	1,104	932
Percentage of scheme assets (%)	**4.6**	4.3	1.0	3.0	8.6

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

	UKPN Grp 2013 £000	**UKPNPS 2013 £000**	**Total 2013 £000**	Total 2012 £000
At 1 January	**(5,592)**	**(401)**	**(5,993)**	(6,647)
Actuarial gain/(loss)	**(180)**	**(577)**	**(757)**	1,085
Deferred taxation	**36**	**115**	**151**	(250)
Deferred tax rate change	**(213)**	**(18)**	**(231)**	(181)
At 31 December	**(5,949)**	**(881)**	**(6,830)**	(5,993)

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 £6,830,000 (2012: £5,993,000).

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 continued

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.