



**UK POWER NETWORKS (OPERATIONS) LIMITED**

**Registered Number 3870728**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 December 2012**



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## **DIRECTORS**

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

## **COMPANY SECRETARY**

Christopher Baker

## **AUDITOR**

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

## **REGISTERED OFFICE**

Newington House,  
237 Southwark Bridge Road  
London  
SE1 6NP

## DIRECTORS' REPORT

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

### Principal activity and review of the business

The Company's principal activity during the year continued to be utility infrastructure management. It will continue in this activity for the foreseeable future.

### Business Review

The loss for the year, before taxation, amounted to £6.4m (2011: £6.4m) and after taxation, to £4.9m (2011: £5.0m). No dividends were paid in the year (2011: £nil).

The Company provides a full network maintenance, inspection and renewal programme for the licensed distribution companies owned by the UK Power Networks Holdings Limited group (the "Group"). The costs of these activities are recharged to the distribution companies on a cost reflective basis. Therefore it is inappropriate to consider the results of the Company in isolation. 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 distribution business, which includes the Company, is discussed in the Group's Annual Report which does not form part of this report.

### Future Developments

The Directors aim to maintain a balance of good quality customer service, investment in its employees and shareholder return, whilst delivering an efficient service. It is anticipated that 2013 will deliver further improvements. The Company invests in a research and development programme within such areas as sustainability and the environment, network operations and asset management.

### Directors

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

Andrew John Hunter	
Neil Douglas McGee	
Basil Scarsella	
Loi Shun Chan	(appointed on 10 September 2012)
Kee Ham Chan (alternate director)	(appointed on 10 September 2012)

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

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

## **DIRECTORS' REPORT continued**

### **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 Holdings Group of Companies. Credit risk is mitigated by the nature of the debtor balances owed with these being due from other Group companies with strong financial standing. In addition, liquidity risk is mitigated by the strong financial standing of the parent company UK Power Networks Holdings Limited.

### **Going concern**

The Company's ability to continue as a going concern is assessed in conjunction with the Group as its viability is dependent upon the ability of other companies within the Group to settle their intercompany balances with the Company.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance and the extension/refinancing of credit facilities in other companies within the Group, show that the Company will be able to operate within its current facilities. The Directors having assessed responses from the parent company UK Power Networks Holdings are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Company continues to adopt the going concern basis in preparing its 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 were 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 29 days (2011: 10 days) purchases outstanding in its trade creditors.

### **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 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.

## DIRECTORS' REPORT continued

### 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

During the year, the Company made various charitable contributions totalling £47,342 (2011 £58,976). 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.

### Auditor

On 20 October 2003 the Company passed an elective resolution dispensing with the requirement to appoint auditors annually. In accordance with s487 of the Companies Act 2006, Deloitte LLP are deemed re-appointed until such time as the members or the Directors determine.

Approved by the Board and signed on its behalf by



B Scarsella  
Director  
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 (OPERATIONS) LIMITED**

We have audited the financial statements of UK Power Networks (Operations) Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of Directors and Auditor**

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

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

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

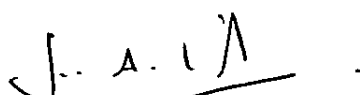
**Opinion on other matter prescribed by the Companies Act 2006**

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, UK  
19 April 2013

**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

	<i>Note</i>	<b>2012 £m</b>	2011 £m
<b>Turnover</b>	<b>2</b>	<b>970.9</b>	956.3
Cost of sales		<b>(711.7)</b>	(647.8)
<b>Gross profit</b>		<b>259.2</b>	308.5
Distribution costs		<b>(190.5)</b>	(214.0)
Administrative expenses		<b>(75.5)</b>	(101.2)
<b>Operating loss</b>	<b>3</b>	<b>(6.8)</b>	(6.7)
Interest receivable and similar income	<b>6</b>	<b>0.9</b>	0.4
Interest payable and similar charges	<b>7</b>	<b>(0.5)</b>	(0.1)
<b>Loss on ordinary activities before taxation</b>		<b>(6.4)</b>	(6.4)
Tax on loss on ordinary activities	<b>8</b>	<b>1.5</b>	1.4
<b>Loss for the financial year</b>	<b>15</b>	<b>(4.9)</b>	(5.0)

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

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



**UK POWER NETWORKS (OPERATIONS) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

**BALANCE SHEET**  
**31 DECEMBER 2012**

	<i>Note</i>	<b>2012 £m</b>	2011 £m
<b>Fixed assets</b>			
Tangible assets	9	-	-
<b>Current assets</b>			
Stocks	10	31 0	31 0
Debtors	11	285 2	249 8
Cash in hand		5 2	-
		<b>321 4</b>	280 8
<b>Creditors' amounts falling due within one year</b>	12	<b>(292 2)</b>	(247 2)
<b>Net current assets</b>		<b>29.2</b>	33 6
<b>Total assets less current liabilities</b>		<b>29.2</b>	33 6
Provisions for liabilities	13	(21 7)	(21 2)
<b>Net assets</b>		<b>7 5</b>	12 4
<b>Capital and reserves</b>			
Called up share capital	14	2 0	2 0
Share premium account	15	28 0	28 0
Profit and loss account	15	(22 5)	(17 6)
<b>Shareholder's funds</b>	15	<b>7 5</b>	12 4

The financial statements of UK Power Networks (Operations) Limited, registered number 3870728, 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 in accordance with applicable United Kingdom law and accounting standards.

#### Going concern

The financial statements have been prepared on the going concern basis. The grounds for adopting this basis are discussed in the Directors' report.

#### Cash flow statement

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

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost of acquisition of each asset evenly over its expected useful life, as follows:

Plant and machinery	–	5 years
Office equipment, fixtures and fittings	–	5 years
Computer equipment	–	5 years

Assets in the course of construction for production are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

#### Stocks

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

##### Raw materials and consumables

- Purchase cost on an average cost basis

##### Work in progress

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

Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal.

Provisions are made for obsolete, slow moving or defective items where appropriate.

## NOTES TO THE FINANCIAL STATEMENTS continued

### 1. Accounting policies continued

#### Long-term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included in long-term contract balances in stock.

Profit is recognised on long-term contracts if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

#### Taxation

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

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

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

Deferred tax is measured on an undiscounted basis.

#### Research and development

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

#### Operating Leases

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

#### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS continued

**2. Turnover**

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to utility infrastructure management, the Company's principal activity

**3 Operating loss**

	2012 £m	2011 £m
This is stated after charging		
Staff costs (note 5)	268.6	263.2
Research and development	2.2	3.8
Operating lease rentals - land and buildings	4.3	4.1
Operating lease rentals - vehicles	11.3	11.9

The analysis of Auditor's remuneration is as follows

	2012 £000	2011 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	44	42
<b>Total audit fees</b>	<b>44</b>	<b>42</b>
Fees payable to the Company's auditors and their associates for other services		
Assurance services	105	107
Corporate finance services	50	25
Other services	17	-
<b>Total non-audit fees</b>	<b>172</b>	<b>132</b>
	<b>216</b>	<b>174</b>

NOTES TO THE FINANCIAL STATEMENTS continued

4. Directors' emoluments

Directors' emoluments for the year are as follows

	2012 £000	2011 £000
Emoluments	1,446	1,337
Amounts receivable under long-term incentive plans	219	324
Company contributions to money purchase pension schemes	51	59
	<b>1,716</b>	<b>1,720</b>

	2012 Number	2011 Number
Members of a money purchase scheme	1	1

	2012 £000	2011 £000
Remuneration of highest paid director		
Emoluments	1,446	1,337
Amounts receivable under long-term incentive plans	219	324
Company contributions to money purchase schemes	51	59
	<b>1,716</b>	<b>1,720</b>

5. Staff costs

	2012 £m	2011 £m
Wages and salaries	210.0	202.3
Social security costs	21.9	18.6
Pension costs	31.9	30.3
Severance	4.8	12.0
	<b>268.6</b>	<b>263.2</b>

The average monthly number of employees was	<b>4,577</b>	<b>4,871</b>
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Recharges relating to staff employed by other companies within the Group are excluded from the disclosure above

NOTES TO THE FINANCIAL STATEMENTS continued

**6 Interest receivable and similar income**

	2012 £m	2011 £m
Interest receivable on deposits	0.6	0.3
Interest receivable on loans from Group undertakings	0.3	0.1
	<b>0.9</b>	<b>0.4</b>

**7. Interest payable and similar charges**

	2012 £m	2011 £m
Interest payable on loans due to Group undertakings	0.5	0.1

NOTES TO THE FINANCIAL STATEMENTS continued

8 Tax on loss on ordinary activities

(a) Analysis of tax credit in the year

	2012 £m	2011 £m
<b>UK Current Tax</b>		
UK corporation tax on loss	(1 8)	(0 1)
Adjustment in respect of previous years	(1 5)	0 1
<b>Total current tax credit for the year (note b)</b>	<b>(3.3)</b>	<b>-</b>
<b>UK deferred tax</b>		
Origination and reversal of timing differences	0.3	(1 4)
Adjustment in respect of previous years	1.2	(0 2)
Effect of rate change on opening balance	0.3	0 2
<b>Total deferred tax charge/(credit) for the year</b>	<b>1.8</b>	<b>(1 4)</b>
<b>Total tax credit on loss on ordinary activities</b>	<b>(1.5)</b>	<b>(1 4)</b>

(b) Factors affecting tax credit for the year

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

The differences are explained below

	2012 £m	2011 £m
Loss on ordinary activities before tax	(6 4)	(6 4)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 26.5%)	(1 6)	(1 7)
Effect of		
Capital allowances in excess of depreciation	(0 3)	(0 4)
Movement in short term timing differences	-	1 9
Expenses not deductible for tax purposes	0.1	0 1
Adjustment in respect of previous years	(1 5)	0 1
<b>Current tax credit for the year</b>	<b>(3 3)</b>	<b>-</b>

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 charge in the current year by £0.3m. 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

	Fixtures & Fittings, Tools & Equipment £m	Total £m
<b>Cost</b>		
At 1 January 2012 and 31 December 2012	81 0	81 0
<b>Depreciation</b>		
At 1 January 2012 and 31 December 2012	81 0	81 0
<b>Net book value</b>		
At 1 January 2012 and 31 December 2012	-	-

10. Stocks

	2012 £m	2011 £m
Raw materials and consumables	24.2	26 6
Work in progress	6.8	4 4
	<b>31.0</b>	<b>31 0</b>

The replacement cost of stocks held by the Company at 31 December 2012 and 31 December 2011 was not materially different to the amount at which they were stated in the financial statements



**NOTES TO THE FINANCIAL STATEMENTS continued**

**11. Debtors**

	<b>2012</b>	2011
	<b>£m</b>	£m
Trade debtors	<b>3.0</b>	3.6
Amounts recoverable on contracts	<b>0.8</b>	0.4
Amounts owed by Group undertakings	<b>226.4</b>	200.1
Deferred tax asset	<b>2.6</b>	4.4
Other debtors	<b>37.5</b>	26.0
Prepayments and accrued income	<b>11.1</b>	12.7
Corporation tax (Group relief receivable)	<b>3.8</b>	2.6
	<b>285.2</b>	249.8

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

	<b>2012</b>	2011
	<b>£m</b>	£m
Accelerated capital allowances	<b>1.2</b>	1.7
Short-term timing differences	<b>1.4</b>	2.7
	<b>2.6</b>	4.4

The movements in deferred taxation are as follows

	At 1 January 2012 £m	Profit and loss account £m	At 31 December 2012 £m
Deferred tax asset	4.4	(1.8)	2.6

**NOTES TO THE FINANCIAL STATEMENTS continued**

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

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Bank overdraft	-	15.1
Payments received on account	<b>36.1</b>	32.9
Trade creditors	<b>71.4</b>	22.0
Amounts owed to Group undertakings	<b>31.8</b>	20.0
Other taxation and social security	<b>8.4</b>	8.7
Other creditors	<b>16.4</b>	15.7
Accruals and deferred income	<b>128.1</b>	132.8
	<b>292.2</b>	247.2

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

Authorised, allotted, called up and fully paid

	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>Number</b>	<b>Number</b>	<b>£</b>	<b>£</b>
H preference shares of 33 ⅓ pence each	<b>300</b>	300	<b>100</b>	100
I preference shares of 33 ⅓ pence each	<b>300</b>	300	<b>100</b>	100
	<b>600</b>	600	<b>200</b>	200

The preference shares carry an entitlement to cumulative preferential dividends of the following amounts:

H preference shares	75% of the profit after tax every financial year*
I preference shares	25% of the profit after tax every financial year*

\*In this calculation, profit after tax is limited to £10m

The Company has the right to redeem the preference shares at any time for the sum of £1 each.

Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the payment in full of the preference share capital together with any arrears of dividends. They have no voting rights.

**NOTES TO THE FINANCIAL STATEMENTS continued**

**13. Provisions for liabilities**

The movements in provisions during the current year are as follows

	At 1 January 2012 £m	Arising during the year £m	Released during the year £m	At 31 December 2012 £m
Insurance	12.9	3.0	-	15.9
Severance provision	6.5	-	(1.0)	5.5
Other	1.8	-	(1.5)	0.3
	<b>21.2</b>	<b>3.0</b>	<b>(2.5)</b>	<b>21.7</b>

The insurance provision comprises public liability and employer liability claims made against the Company. The timing of the payments is uncertain but it is expected that the majority of this expenditure will be incurred within three years of the balance sheet date.

The provision for severance costs represents outstanding commitments at the balance sheet date relating to a restructuring programme which commenced in 2011 and is due to complete in 2013.

"Other" includes provision for holiday pay amounting to £0.3m (2011: £0.3m), expected to be incurred over a period of up to 5 years.

**14. Share capital**

Authorised

	2012 £m	2011 £m
25,000,000 (2011: 25,000,000) H ordinary shares of £1 each	25.0	25.0
25,000,000 (2011: 25,000,000) I ordinary shares of £1 each	25.0	25.0
	<b>50.0</b>	<b>50.0</b>

Allotted, called up and fully paid

	2012 Number	2011 Number	2012 £m	2011 £m
H ordinary shares of £1 each	1,000,001	1,000,001	1.0	1.0
I ordinary shares of £1 each	1,000,001	1,000,001	1.0	1.0
	<b>2,000,002</b>	<b>2,000,002</b>	<b>2.0</b>	<b>2.0</b>

The ordinary shares carry an entitlement to equal voting and dividend rights.

The preference shares are presented as a liability (note 12) and accordingly are excluded from called-up share capital in the balance sheet.

**NOTES TO THE FINANCIAL STATEMENTS continued**

**15. Reconciliation of shareholder's funds**

	Share Capital £m	Share Premium Account £m	Profit and Loss Account £m	Total Shareholder's Funds £m
At 1 January 2011	2.0	28.0	(12.6)	17.4
Loss for the financial year	-	-	(5.0)	(5.0)
At 31 December 2011	2.0	28.0	(17.6)	12.4
Loss for the financial year	-	-	(4.9)	(4.9)
<b>At 31 December 2012</b>	<b>2.0</b>	<b>28.0</b>	<b>(22.5)</b>	<b>7.5</b>

**16 Financial Commitments**

Amounts contracted for but not provided in the financial statements amounted to £nil (2011: £nil)

**17. Operating lease commitments**

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

<b>Vehicles</b>	<b>2012 £m</b>	<b>2011 £m</b>
Operating leases which expire		
Within one year	0.7	1.2
In two to five years	5.8	4.3
In more than five years	1.6	1.0
	<b>8.1</b>	<b>6.5</b>
<b>Land and buildings</b>	<b>2012 £m</b>	<b>2011 £m</b>
Operating leases which expire		
Within one year	0.1	0.2
In two to five years	0.5	1.8
In over five years	2.5	2.1
	<b>3.1</b>	<b>4.1</b>

**NOTES TO THE FINANCIAL STATEMENTS continued**

**18. Related party transactions**

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

**19 Parent undertaking and controlling party**

The Company is a wholly owned subsidiary of UK Power Networks Holdings Limited, a company registered in England and Wales

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

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

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

UK Power Networks Holdings Limited publishes consolidated financial statements and is the largest and smallest group which consolidate the financial statements of the Company. Copies of the financial statements of UK Power Networks Holdings Limited may be obtained from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX