

Registration number: 3870728

UK Power Networks (Operations) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2017

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UK POWER NETWORKS (OPERATIONS) LIMITED

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UK POWER NETWORKS (OPERATIONS) LIMITED

COMPANY INFORMATION

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

Company Secretary Christopher Baker

Registered office Newington House
 237 Southwark Bridge Road
 London
 SE1 6NP
 United Kingdom

Auditors Deloitte LLP
 Statutory Auditor
 2 New Street Square
 London
 EC4A 3BZ
 United Kingdom

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their Strategic Report for the year ended 31 March 2017.

Principal activity

The principal activity of UK Power Networks (Operations) Limited (the "Company") is utility infrastructure management for the UK Power Networks group ("the Group") which owns and operates electricity distribution networks in London, the South East and the East of England serving over eight million customers.

The Company provides a network maintenance, inspection and renewal programme for the Group's three licensed distribution network operators (DNOs): Eastern Power Networks plc (EPN); London Power Networks plc (LPN); and South Eastern Power Networks plc (SPN). The costs of the Company's activities are recharged to the distribution companies on a proportionate basis.

Review of the business

The reported period is the year from 1 April 2016 to 31 March 2017 compared to a prior period from 31 December 2014 to 31 March 2016. The extended prior period is the result of a change in the accounting reference date from 30 December to 31 March.

This is the first year that the Company has presented its Financial Statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (the FRC). The transition date to FRS 102 is the start of the prior period 31 December 2014. The application of FRS 102 has not resulted in any material changes to the accounting policies, the financial results or financial position of the Company.

The results for the year amounted to a profit before taxation of £23.6m (31 December 2014 to 31 March 2016: loss before taxation £15.8m) and a profit after taxation of £18.9m (31 December 2014 to 31 March 2016: loss after taxation of £12.9m).

No dividends were paid during the year (31 December 2014 to 31 March 2016: £Nil).

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

Key performance indicators (KPI's)

The key performance indicators used by the Board of Directors in their monitoring of the Company focus on the areas of safety, operational efficiency and customer service. These include:

	Year ended 31 March 2017	31 December 2014 to 31 March 2016
Financial performance		
Turnover (£m)	955.8	1,124.0
EBITDA (Profit before interest, tax and depreciation) (£m)	23.1	(16.2)
Non-financial performance		
Lost Time Incidents (LTIs)		
LTIs - Injuries at work resulting in lost time of one day or more	5.0	4.0
Customer Minutes Lost (CMLs)		
CMLs per customer - EPN	39.2	43.5
CMLs per customer - LPN	19.8	26.4
CMLs per customer - SPN	35.1	46.6
Customer Interruptions (CIs)		
CIs per 100 customers - EPN	49.5	56.7
CIs per 100 customers - LPN	17.2	25.7
CIs per 100 customers - SPN	47.8	61.9

Financial performance

Financial performance indicators represent the key financial metrics that reflect the financial health of the business. Turnover was £955.8m for the year ended 31 March 2017 compared to £1,124.0m in the prior period from 31 December 2014 to 31 March 2016. The reduction in turnover primarily reflects the shorter accounting period.

EBITDA excludes the effect of interest, taxation, depreciation and amortisation from earnings and is therefore a relevant measure for monitoring business operational performance. The Company has no depreciation or amortisation. Therefore EBITDA is equivalent to the operating profit of £23.1m (31 December 2014 to 31 March 2016: £16.2m loss) presented in the profit and loss statement.

The improvement in EBITDA from a loss of £16.2m in the prior period to a profit of £23.1m in the year ended 31 March 2017 is primarily due to the impact of provisions. During the prior period provisions of £19.1m were raised for public liability and employer claims, the majority of which have been released in the current year.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

Key performance indicators continued

Non-financial performance

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

Network performance has significantly improved since the acquisition of the business in 2010 and this trend has continued with the Company achieving its best ever performance in the year ended 31 March 2016. This was maintained in the current year with both LPN and SPN showing further improvement. However CMLs and CIs in EPN were higher compared to the exceptional performance in the prior year. All three DNOs remain ahead of the related targets set by Ofgem.

The impact of exceptional weather events (as defined by the Regulator) is not included in the standard measures of network performance discussed above. With major storms causing power interruptions for large numbers of customers in recent years, the Company has worked on improving its ability to respond to severe weather events. Additional back office and support staff have been trained and provided with telephony and IT facilities to increase the capacity to respond to high call volumes from customers. There are more scouts trained to walk the network and locate faults to enable faster restoration of power and additional customer information officers to see that customers are better informed.

The Company has performed well during the year in terms of safety, continuing with a low level of the number of days lost to injury. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign for all operational staff is ongoing.

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. Such an incident could lead to a potential prosecution or a fine and have an adverse impact on the reputation of the Company.

Regulation

The electricity industry is subject to extensive regulatory obligations with which the regulated business must comply. Non-compliances can result in financial penalties and have a negative reputational impact.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

Principal risks and uncertainties continued

Network assets

There are significant risks associated with network assets where failure could result in a loss of supply of electricity to customers. Customer service and continuity/quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties. A significant incident could cause adverse publicity and impact negatively on the reputation of the Company.

Supply chain

An interruption to the supply of critical materials or services could have a significant impact on the Company's ability to repair, maintain, develop and reinforce the networks. In addition, volatility in commodity prices can have a significant impact on costs.

There are a variety of mechanisms in place to minimise these risks. The Group has an embedded risk awareness culture to understand and manage significant business risks. The risk management framework sets out policies, procedures and responsibilities designed to assess, mitigate, monitor and report risks. The Group's Board and Risk Management and Compliance subcommittee oversee the risk management function and make annual assessments of changes to significant risks and the effectiveness of the risk management processes.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The Group observes formal risk management policies and procedures and promotes a robust control environment at all levels of the organisation, to manage financial risk.

The key financial risk is that the proceeds from financial assets are not sufficient to fund financial obligations 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 most relevant financial risks are credit and liquidity risk.

The Company's exposure to credit and liquidity risk is reduced as it is a wholly owned 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 of strong financial standing. In addition, the liquidity risk is mitigated by the strong financial standing of the parent company UK Power Holdings Limited.

Future developments

The Directors aim to improve on network performance and customer service, whilst maintaining cost efficiencies. The Company invests in research and development activities, focussing on improving the technical performance of network assets and working towards achieving national carbon reduction targets.

UK POWER NETWORKS (OPERATIONS) LIMITED


STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

Going concern

The Company's ability to continue as a going concern is assessed in conjunction with that of the Group as it is dependent upon the ability of other companies within the Group to settle their trading debts with the Company. The Company's forecasts and projections, taking into account reasonably possible changes in the trading performance of other Group companies, demonstrate that the Company will be able to operate within its current level of credit facilities.

The Directors are satisfied that the Company has adequate resources to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 10 August 2017 and signed on its behalf by:



B Scarsella
Director

Newington House
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

UK POWER NETWORKS (OPERATIONS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 March 2017.

Details of future developments and going concern are included in the Strategic Report and form part of this report by cross reference.

Political contributions

The Company made no political donations in the current year or prior period.

Directors of the Company

The directors who held office during the year were as follows:

Andrew John Hunter

Neil Douglas McGee

Basil Scarsella

Loi Shun Chan

Kee Ham Chan

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

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

Employment of disabled persons

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 involvement

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 the current and future interests of employees.

Disclosure of information to Auditor

Each of the persons who is a director of the Company 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

Reappointment of Auditor

During the year the parent UK Power Networks Holdings Limited undertook a formal tender process for the external audit of its subsidiaries. The decision was made to reappoint Deloitte LLP and this was reviewed and ratified by the Audit Committee Chair. In respect of the Company, Deloitte LLP is deemed reappointed under section 487(2) of the Companies Act.

Approved by the Board on 10 August 2017 and signed on its behalf by:



B Scarsella
Director

UK POWER NETWORKS (OPERATIONS) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors acknowledge their responsibilities 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 affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

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 March 2017, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 (set out on page 9), 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 (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB'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 the 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 March 2017 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) LIMITED

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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.

Marianne Milnes

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Marianne Milnes (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

London
United Kingdom

10 August 2017

UK POWER NETWORKS (OPERATIONS) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017

	Note	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Turnover	4	955.8	1,124.0
Cost of sales		<u>(670.5)</u>	<u>(822.0)</u>
Gross profit		285.3	302.0
Other operating expenses		<u>(262.2)</u>	<u>(318.2)</u>
Operating profit/(loss)	5	23.1	(16.2)
Interest receivable and similar income	6	0.9	1.1
Interest payable and similar charges	7	<u>(0.4)</u>	<u>(0.7)</u>
Profit/(loss) before tax		23.6	(15.8)
Taxation	10	<u>(4.7)</u>	<u>2.9</u>
Profit/(loss) for the year		<u>18.9</u>	<u>(12.9)</u>

The above results were derived from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Profit/(loss) for the year	<u>18.9</u>	<u>(12.9)</u>
Total comprehensive income for the year	<u>18.9</u>	<u>(12.9)</u>

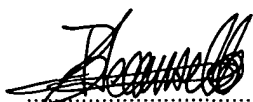
The notes on pages 15 to 29 form an integral part of these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

BALANCE SHEET AS AT 31 MARCH 2017

	Note	31 March 2017 £ m	31 March 2016 £ m
Fixed assets			
Tangible assets	11	-	-
Current assets			
Stocks	12	30.6	33.8
Debtors falling due within one year	13	328.9	292.7
Cash at bank and in hand		-	7.9
		<u>359.5</u>	<u>334.4</u>
Creditors: Amounts falling due within one year	14	<u>(313.2)</u>	<u>(293.0)</u>
Net current assets		<u>46.3</u>	<u>41.4</u>
Total assets less current liabilities		<u>46.3</u>	<u>41.4</u>
Provisions for liabilities	15	<u>(26.8)</u>	<u>(40.8)</u>
Net assets		<u>19.5</u>	<u>0.6</u>
Capital and reserves			
Called up share capital	16	2.0	2.0
Share premium account	16	28.0	28.0
Profit and loss account	16	<u>(10.5)</u>	<u>(29.4)</u>
Total shareholders' funds		<u>19.5</u>	<u>0.6</u>

The Financial Statements of UK Power Networks (Operations) Limited (registered number 3870728) were approved by the Board of Directors and authorised for issue on 10 August 2017. They were signed on its behalf by:



B Scarsella
Director

The notes on pages 15 to 29 form an integral part of these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Share capital £ m	Share premium account £ m	Profit and loss account £ m	Total £ m
At 31 December 2014	2.0	28.0	(16.5)	13.5
Loss for the period	-	-	(12.9)	(12.9)
Total comprehensive income	-	-	(12.9)	(12.9)
At 31 March 2016	2.0	28.0	(29.4)	0.6

	Share capital £ m	Share premium account £ m	Profit and loss account £ m	Total £ m
At 1 April 2016	2.0	28.0	(29.4)	0.6
Profit for the year	-	-	18.9	18.9
Total comprehensive income	-	-	18.9	18.9
At 31 March 2017	2.0	28.0	(10.5)	19.5

The notes on pages 15 to 29 form an integral part of these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1 General information

UK Power Networks (Operations) Limited (the "Company") is incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales.

The principal activities of the Company and the nature of the Company's operations are set out in the Strategic Report on pages 2 to 6.

The address of its registered office is:

Newington House
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

2 Accounting policies

The principal accounting policies adopted by the Company are set out below. This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (the FRC). The last financial statements under previous UK GAAP were for the period from 31 December 2014 to 31 March 2016 and the date of transition to FRS 102 was therefore 31 December 2014. The application of FRS 102 has not resulted in any material changes to the accounting policies, the financial results or financial position of the Company. The accounting policies have all been applied consistently throughout the current and preceding period.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102. The Company has applied the amendments to FRS 102 issued by the FRC in July 2015 and the amendments to company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 effective for accounting periods beginning on or after 1 January 2016.

The functional currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company has taken advantage of certain exemptions in its financial statements on the basis that it meets the definition of a "qualifying entity" under FRS 102 being:

"a member of a group where the parent of that Group (UK Power Networks Holdings Limited) prepares publicly available consolidated financial statements which are intended to give a true and fair view and the member (the Company) is included in the consolidation."

The Company has therefore chosen not to present a cash flow statement and not to disclose related party transactions with other wholly owned members of the Group.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2 Accounting policies (continued)

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. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Tangible assets

Tangible assets are stated at historical cost, net of depreciation and provision for impairment. The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation. 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

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

Asset class	Depreciation rate
Furniture, fixtures and equipment	5 years

Hire purchase and leasing

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.

Research and development

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

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 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2 Accounting policies (continued)

Contract revenue recognition

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net 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 as long-term contract balances in stock.

Provisions

Provisions are recognised when the Company has an obligation at the reporting date as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of its amount. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Employee benefits

The Company contributes to a defined contribution pension scheme on behalf of employees. The amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Contributions are also made to two defined benefit pension schemes, the obligation for which is accounted for under FRS 102 within the Group's distribution companies. The contributions payable are charged to the profit and loss account of the Company and then recharged to the distribution companies. Full disclosures relating to the defined benefit pension obligation are made within the financial statements of the distribution companies.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax.

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. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is provided 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.

Deferred tax is measured on an undiscounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and that are expected to apply to the reversal of the timing difference.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following represents the critical judgement area that may have a significant effect on the amounts recognised in the financial statements.

Critical judgements in applying the Company's accounting policies

Provisions

The Company carries provisions for liabilities amounting to £26.8m (31 March 2016: £40.8m) relating to legal and constructive obligations. These may include uncertainties relating to insurance claims, litigation or regulatory risks and reflect management's judgement of the likely outcome of existing claims and litigation, when it is considered that this can be reasonably reliably estimated.

Key sources of estimation uncertainty

In the Directors' opinion there are no key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

4 Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activities of network maintenance, inspection, and renewal for the electricity distribution networks of the Group.

5 Operating profit

Operating profit/(loss) is arrived at after charging:

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Research and development costs	7.8	10.9
Operating lease expense - property	4.0	5.6
Operating lease expense - vehicles	<u>11.9</u>	<u>13.9</u>

	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
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Analysis of Auditor's remuneration

Audit fees

Audit of financial statements	<u>47.0</u>	<u>53.0</u>
Total audit fees	<u>47.0</u>	<u>53.0</u>

Non-audit fees

Other assurance services	198.0	90.0
Other services	<u>5.0</u>	<u>22.0</u>
Total non-audit fees	<u>203.0</u>	<u>112.0</u>
	<u>250.0</u>	<u>165.0</u>

Non-audit fees relate to work done for the benefit of other Group companies and form part of the recharges to those Group companies.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

6 Other interest receivable and similar income

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Interest receivable on loans to Group undertakings	0.7	0.9
Other interest receivable	0.2	0.2
	<u>0.9</u>	<u>1.1</u>

7 Interest payable and similar charges

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Interest payable on loans from Group undertakings	0.4	0.7
	<u>0.4</u>	<u>0.7</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Wages and salaries	255.8	316.5
Social security costs	32.8	34.6
Pension costs	39.2	55.7
Redundancy costs	1.1	5.5
	<u>328.9</u>	<u>412.3</u>

The average number of persons employed by the Company during the year was as follows:

	Year ended 31 March 2017 Number	31 December 2014 to 31 March 2016 Number
Average monthly number of employees	<u>4,852</u>	<u>5,061</u>

The disclosure above excludes costs of £8.9m (31 December 2014 to 31 March 2016: £8.2m) relating to a monthly average of 188 (31 December 2014 to 31 March 2016: 136) agency staff who do not hold service contracts with the Company.

The staff costs of the Company are recharged to the electricity distribution companies on a proportionate basis.

The Company's employees may participate in a defined contribution retirement benefit scheme introduced by the Group in 2011. Members can opt for a contribution rate of between 3% to 5% of their salary with the Company making double this contribution. This accounts for £4.9m (31 December 2014 to 31 March 2016: £5.1m) of the pension costs presented in the table above.

The remaining pension cost represents the Company's contributions, on behalf of its employees, to the Group's two defined benefit schemes: the UK Power Networks Group of the Electricity Supply Scheme (UKPN Group Scheme) and the UK Power Networks Pension Scheme (UKPNPS). Both defined benefit schemes are closed to new members. The defined benefit obligation, in respect of the Company's employees, is accounted for under FRS 102 within the Group's distribution companies and therefore no further disclosures are required in these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Emoluments	1.7	1.8
Amounts receivable under long-term incentive plans	0.4	0.3
Company contributions to money purchase pension schemes	-	-
	<u>2.1</u>	<u>2.1</u>

During the year the number of directors who were members of a money purchase scheme were as follows:

	Year ended 31 March 2017 Number	31 December 2014 to 31 March 2016 Number
Accruing benefits under money purchase pension scheme	<u>1</u>	<u>1</u>

In respect of the highest paid director:

	Year ended 31 March 2017 £ m	31 December 2014 to 21 March 2016 £ m
Emoluments	1.7	1.8
Amounts receivable under long-term incentive schemes	0.4	0.3
Company contributions to money purchase pension schemes	<u>-</u>	<u>-</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

10 Taxation

Tax charged/(credited) to the profit and loss account

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Current taxation		
UK corporation tax	4.0	(1.1)
Adjustments in respect of prior periods	(0.4)	(0.1)
Total current taxation	3.6	(1.2)
Deferred taxation		
Origination and reversal of timing differences	0.7	(1.7)
Effect of decrease in tax rate on opening liability	0.2	0.1
Adjustments in respect of prior periods	0.2	(0.1)
Total deferred taxation	1.1	(1.7)
Total tax charge/(credit)	4.7	(2.9)

The average current tax rate applied in the year was 20% (31 December 2014 to 31 March 2016: 20.2%). The most recent rate change affecting the current tax rate was the reduction from 21% to 20% effective from 1 April 2015. Further reductions to 19% from 1 April 2017 and 17% from 1 April 2020 have been substantively enacted. Deferred tax was measured at 17% in the current year and 18% in the prior period.

The total tax assessed for the year was lower (31 December 2014 to 31 March 2016: higher) than the standard rate of 20% (31 December 2014 to 31 March 2016: 20.2%) applied to profit before tax. The differences are reconciled below:

	Year ended 31 March 2017 £ m	31 December 2014 to 31 March 2016 £ m
Profit/(loss) before tax	23.6	(15.8)
Corporation tax at standard rate	4.7	(3.2)
Expenses not deductible for tax purposes	0.2	0.2
Deferred tax expense relating to changes in tax rates	-	0.3
Adjustments to deferred tax in respect of prior periods	0.2	(0.1)
Adjustments to current tax in respect of prior periods	(0.4)	(0.1)
Total tax charge/(credit)	4.7	(2.9)

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11 Tangible assets

	Furniture, fixtures and equipment £ m	Total £ m
Cost		
At 1 April 2016	<u>81.0</u>	<u>81.0</u>
At 31 March 2017	<u>81.0</u>	<u>81.0</u>
Depreciation		
At 1 April 2016	<u>81.0</u>	<u>81.0</u>
At 31 March 2017	<u>81.0</u>	<u>81.0</u>
Carrying amount		
At 31 March 2017	<u>-</u>	<u>-</u>
At 31 March 2016	<u>-</u>	<u>-</u>

12 Stocks

	31 March 2017 £ m	31 March 2016 £ m
Raw materials and consumables	23.9	21.7
Work in progress	<u>6.7</u>	<u>12.1</u>
	<u>30.6</u>	<u>33.8</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

13 Debtors

	31 March 2017 £ m	31 March 2016 £ m
Amounts falling due within one year:		
Trade debtors	9.1	17.2
Amounts recoverable on long term contracts	1.4	2.0
Amounts owed by Group undertakings	263.1	228.5
Other debtors	40.4	26.5
Deferred tax asset	1.8	2.9
Prepayments and accrued income	13.1	13.2
Corporation tax (Group relief receivable)	-	2.4
	<u>328.9</u>	<u>292.7</u>

Amounts owed by Group undertakings are interest free trade balances and £168.0m loaned to UK Power Networks Holdings Limited at an interest rate of 0.55%.

Deferred tax

The movement in the deferred tax asset in the year is as follows:

	Deferred tax £ m
At 1 April 2016	2.9
Charged to profit and loss account	(1.1)
At 31 March 2017	<u>1.8</u>

Analysis of deferred tax

	31 March 2017 £ m	31 March 2016 £ m
Differences between accumulated depreciation and amortisation and capital allowances	0.4	0.5
Other timing differences	1.4	2.4
Deferred tax asset	<u>1.8</u>	<u>2.9</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

14 Creditors

	31 March 2017 £ m	31 March 2016 £ m
Amounts falling due within one year:		
Bank overdraft	1.0	-
Payments received on account	51.1	51.9
Trade creditors	36.2	35.7
Amounts owed to Group undertakings	31.6	28.5
Social security and other taxes	12.1	10.1
Other payables	19.5	29.9
Accruals and deferred income	151.8	136.9
Corporation tax	9.9	-
	<u>313.2</u>	<u>293.0</u>

Amounts owed to Group undertakings comprise interest free balances of £3.4m, £12.2m borrowed from UK Power Networks Holdings Ltd at an interest rate of 3.95% and an interest free loan of £16.0m from UK Power Networks Services (South East) Ltd, all of which are repayable on demand.

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

	31 March 2017 £	31 March 2016 £
300 H preference shares of £0.333 each	100	100
300 I preference shares of £0.333 each	100	100
	<u>200</u>	<u>200</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

14 Creditors (continued)

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

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

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

*in this calculation, profit after tax is limited to £10m.

The holder of the preference shares, UK Power Networks Holdings Limited, has waived the right to cumulative preferential dividends arising from profit in the year ended 31 March 2017.

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.

15 Provisions for liabilities

	Other provisions £ m
At 1 April 2016	40.8
Charged/(credited) to profit and loss account	<u>(14.0)</u>
At 31 March 2017	<u>26.8</u>

Provision for public liability and employer liability claims against the Company amount to £22.4m (31 March 2016: £24.5m). 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.

Provisions for severance costs of £1.8m (31 March 2016: £5.6m) and holiday pay of £0.1m (31 March 2016: £0.1m) are expected to become payable within the next two years.

There are additional provisions for legal and constructive obligations amounting to £2.5m which are expected to become payable within the next two years.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

16 Called up share capital and reserves

	31 March 2017 £ m	31 March 2016 £ m
Allotted, called up and fully paid		
2,000,002 ordinary shares at £1 each	<u>2.0</u>	<u>2.0</u>

Reserves

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses net of dividends paid.

17 Obligations under leases and hire purchase contracts

Operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	31 March 2017 £ m	31 March 2016 £ m
Land and buildings		
- within one year	4.5	4.0
- between one and five years	8.6	8.5
- after five years	<u>13.8</u>	<u>13.7</u>
	<u>26.9</u>	<u>26.2</u>
Vehicles		
- within one year	13.2	11.9
- between one and five years	32.9	32.8
- after five years	<u>5.3</u>	<u>4.3</u>
	<u>51.4</u>	<u>49.0</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

18 Related party transactions

The Company has taken an exemption under FRS 102 (section 33 2.2) not to disclose transactions with other wholly owned members of the Group. The Company qualifies for this exemption on the basis that it is a wholly owned subsidiary of a parent which prepares publicly available consolidated financial statements intended to give a true and fair view of the financial position and results of the group, and the Company is included within the consolidation. No other related party transactions were entered into during the year or prior period.

19 Parent and ultimate parent undertaking

The Company's immediate parent is UK Power Networks Holdings Limited, incorporated in England and Wales, and registered at the following address:

Newington House
237 Southwark Bridge Road
London
SE1 6NP

UK Power Networks Holdings Limited is the parent of both the smallest and largest Group in which the Company's financial statements are consolidated. 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.

UK Power Networks Holdings Limited is owned by a consortium comprising:

- Power Assets Holdings Limited, incorporated in Hong Kong
- Li Ka Shing Foundation Limited, incorporated in Hong Kong
- CK Infrastructure Holdings Limited, incorporated in Bermuda

In the Directors' opinion UK Power Networks Holdings Limited has no single controlling party as it is jointly controlled by the consortium.

20 Subsequent events

The Board approved a special resolution on 24 April 2017 to effect a capital reduction of the Company by cancelling the share premium account of £28.0m and cancelling the preference share capital comprising 300 H preference shares and 300 I Preference shares of £0.3333 each. The total value of this capital reduction, amounting to £28,000,200 was credited to the profit and loss reserve.