

UK Power Networks Services (Contracting) Limited

Registered Number 2228168

Annual Report and Financial Statements

for the period from 1 January 2014 to 30 December 2014

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UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
30 DECEMBER 2014

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COMPANY INFORMATION

Directors Andrew John Hunter
Basil Scarsella
Loi Shun 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

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.

Change of year end

The company has changed its accounting reference period end and as a result these financial statements cover the period 1 January 2014 to 30 December 2014. The comparative period covers the period 1 January 2013 to 31 December 2013. Comparisons against prior year performance have not been adjusted as it is considered that the financial impact of shortening the accounting period by one day is not material.

Review of the business

The profit for the period, before taxation, amounted to £47,874,000 (2013: £47,850,000) and after taxation, to £38,132,000 (2013: £42,301,000). Dividends of £12,500,000 (2013: £20,000,000) were paid in the period.

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 (KPI's)

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:

	1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
Financial performance		
Tangible fixed assets	258,079	264,824
Operating costs	(29,005)	(28,206)
Non financial performance		
Lost time incidents (note 1)	-	1

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

STRATEGIC REPORT continued

Key performance indicators continued

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 increased by £799,000 reflecting higher work volumes in the period.

The key non-financial performance indicator relates to safety. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. 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.

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 a potential prosecution or a fine and have an adverse impact 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 higher 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.

STRATEGIC 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. 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

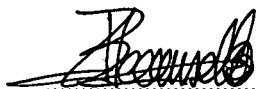
The Directors regard the results for the period and the period-end financial position as satisfactory and expect the Company to continue to perform to a satisfactory level in the future.

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
19 May 2015
Newington House
237 Southwark Bridge Road
London
SE1 6NP

DIRECTORS' REPORT

The Directors present their annual report and financial statements for the period ended 30 December 2014.

Directors

The directors who held office during the period and subsequently 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 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.

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

The Company made no political contributions in either period.

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.

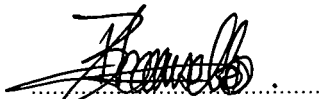
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

DIRECTORS' REPORT continued

Reappointment of auditors

The auditors Deloitte LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'B Scarsella', written over a dotted line.

B Scarsella

Director

19 May 2015

Newington House

237 Southwark Bridge Road

London

SE1 6NP

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 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 UK 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 period from 1 January 2014 to 30 December 2014, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Recognised Gains and Losses 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 (set out on page 7), 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 30 December 2014 and of its profit for the period 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

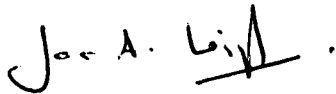
In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

**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 Auditors
2 New Street Square
London
EC4A 3BZ
19 May 2015

**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 DECEMBER 2014**

		1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
Turnover	2	76,045	75,829
Distribution costs		(10,554)	(12,111)
Administrative expenses		(18,451)	(16,095)
Operating profit	3	<u>47,040</u>	<u>47,623</u>
Finance charges (net)			
Other interest receivable and similar income	6	918	403
Interest payable and similar charges	6	(84)	(176)
		<u>834</u>	<u>227</u>
Profit on ordinary activities before taxation		47,874	47,850
Tax on profit on ordinary activities	7	(9,742)	(5,549)
Profit for the financial period	15	<u><u>38,132</u></u>	<u><u>42,301</u></u>

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

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 DECEMBER 2014**

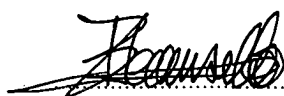
		1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
	Note		
Profit for the financial period		38,132	42,301
Actuarial gain/(loss) on pension schemes	17	3,396	(757)
Deferred tax relating to actuarial (gain)/loss on pension schemes	17	(679)	151
Deferred tax rate change relating to historical actuarial losses	17	-	(231)
Total recognised gains and losses relating to the period		<u>40,849</u>	<u>41,464</u>

The deferred tax rate change in the prior year represents the reduction in main stream corporation tax from 23% to 20%.

**BALANCE SHEET
AT 30 DECEMBER 2014**

		30 December 2014 £000	31 December 2013 £000
	Note		
Fixed assets			
Tangible assets	8	258,079	264,824
Current assets			
Stocks	9	1,636	456
Debtors falling due within one year	10	41,805	13,904
Debtors falling due after more than one year	10	18,240	23,057
Cash at bank and in hand		39,746	35,020
		<u>101,427</u>	<u>72,437</u>
Creditors: Amounts falling due within one year	11	(149,719)	(152,273)
Net current liabilities		<u>(48,292)</u>	<u>(79,836)</u>
Total assets less current liabilities		209,787	184,988
Provisions for liabilities	12	(28,398)	(28,356)
Net assets excluding pension liability		181,389	156,632
Net pension liability	17	(2,470)	(6,062)
Net assets including pension liability		<u>178,919</u>	<u>150,570</u>
Capital and reserves			
Called up share capital	13	10,100	10,100
Profit and loss account	15	168,819	140,470
Shareholders' funds		<u>178,919</u>	<u>150,570</u>

The financial statements of UK Power Networks Services (Contracting) Limited, registered number 2228168, were approved by the Board of Directors and authorised for issue on 19 May 2015.
They were signed on its behalf by:


B Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

Basis of preparation

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

Exemption from preparing a 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.

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 in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

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 tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Depreciation method and rate
Fixtures and equipment	5 years
Vehicles	5 to 10 years
Network assets	30 to 50 years

Assets in the course of construction 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

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.

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.

Hire purchase and leasing

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 Operating profit

Operating profit is stated after charging/(crediting):

	1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
Operating leases - Other	210	217
Operating leases - Land and Buildings	248	283
Depreciation of owned assets (note 8)	9,854	11,129
Loss on sale of tangible fixed assets	288	90
Staff Costs (note 4)	<u>6,820</u>	<u>6,269</u>

Amounts payable to Deloitte LLP were £22,200 (2013: £21,700) in respect of audit services and £nil (2013: £nil) in respect of non audit services. Auditor's remuneration was borne in both periods by another Group company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Particulars of employees

The aggregate payroll costs were as follows:

	1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
Wages and salaries	5,465	5,102
Social security costs	651	508
Other pension schemes	704	659
	<u>6,820</u>	<u>6,269</u>

The average number of persons employed by the company during the period, analysed by category was as follows:

	1 January 2014 to 30 December 2014 Number	Year ended 31 December 2013 Number
Indirect	52	44
Direct	55	53
	<u>107</u>	<u>97</u>

The disclosure above excludes costs of £1,020,000 (2013: £1,021,000) relating to a monthly average of 20 (2013: 20) agency staff who do not hold service contracts with the Company.

5 Directors' remuneration

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Finance charges (net)

	1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
Interest receivable and similar income		
Interest on loans from Group undertakings	865	329
Other interest receivable	53	74
	<u>918</u>	<u>403</u>
Interest payable and similar charges		
Net interest cost on pension scheme	(84)	(172)
Other interest payable	-	(4)
	<u>(84)</u>	<u>(176)</u>
	-	-
	<u>(84)</u>	<u>(176)</u>
Total Finance Charges (net)	<u>834</u>	<u>227</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation

Tax on profit on ordinary activities

	1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
Current tax		
Corporation tax charge	9,693	10,591
Adjustments in respect of previous years	(211)	(492)
UK Corporation tax	<u>9,482</u>	<u>10,099</u>
Deferred tax		
Origination and reversal of timing differences	74	(34)
Deferred tax adjustment relating to previous years	186	(261)
Effect of changes in tax rates	-	(4,255)
Total deferred tax	<u>260</u>	<u>(4,550)</u>
Tax on profit on ordinary activities	<u><u>9,742</u></u>	<u><u>5,549</u></u>

Factors affecting current tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are reconciled below.

	1 January 2014 to 30 December 2014 £000	Year ended 31 December 2013 £000
Profit on ordinary activities before tax	<u>47,874</u>	<u>47,850</u>
Corporation tax at standard rate of 21.5% (2013: 23.25%)	10,293	11,125
Capital allowances less than depreciation	155	278
Short term timing differences	(236)	(269)
Non-taxable income less expenses not deductible for tax purposes	(519)	(543)
Adjustments in respect of previous years	(211)	(492)
Total current tax	<u><u>9,482</u></u>	<u><u>10,099</u></u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation (continued)

Tax rate changes

A tax rate change from 23% to 21% effective from 1 April 2014 and a further reduction to 20% from 1 April 2015 were substantively enacted in 2013. The average rate of corporation tax applied in 2014 was 21.5% (2013: 23.25%) and deferred tax was measured at 20% (2013: 20%).

8 Tangible fixed assets

	Network £000	Fixtures and fittings £000	Non network land and buildings £000	Total £000
Cost				
At 1 January 2014	355,382	12,759	247	368,388
Additions	3,456	-	-	3,456
Disposals	(827)	(15)	-	(842)
At 30 December 2014	358,011	12,744	247	371,002
Depreciation				
At 1 January 2014	90,562	12,755	247	103,564
Charge for the period	9,853	1	-	9,854
Eliminated on disposals	(480)	(15)	-	(495)
At 30 December 2014	99,935	12,741	247	112,923
Net book value				
At 30 December 2014	258,076	3	-	258,079
At 31 December 2013	264,820	4	-	264,824

Included within Network assets at 30 December 2014 are assets in the course of construction of £7,372,000 (2013: £14,047,000). Approximately £10,131,000 of the prior year assets under construction were completed during 2014 (2013: £9,646,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Stocks

	30 December 2014 £000	31 December 2013 £000
Work in progress	<u>1,636</u>	<u>456</u>

The replacement cost of stock held by the Company at 30 December 2014 and 31 December 2013 was not materially different to the amount at which they were stated in the financial statements.

10 Debtors

	30 December 2014 £000	31 December 2013 £000
Amounts falling due within one year		
Trade debtors	1,186	3,474
Amounts owed by group undertakings	40,562	10,149
Other debtors	14	185
Prepayments and accrued income	43	96
	<u>41,805</u>	<u>13,904</u>
Amounts falling due after one year		
Prepayments and accrued income	18,240	23,057
	<u>60,045</u>	<u>36,961</u>

Amounts owed by Group undertakings falling due within one year include £24,210,000 loaned to UK Power Networks Services Holdings Ltd and £16,000,000 loaned to UK Power Networks (Transport) Limited, at interest rates of 1.2% per annum.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Creditors: Amounts falling due within one year

	30 December 2014 £000	31 December 2013 £000
Trade creditors	635	73
Amounts owed to Group undertakings	136,430	136,155
Corporation tax	3,974	4,830
Other taxes and social security	728	2,092
Other creditors	337	230
Accruals and deferred income	7,615	8,893
	<u>149,719</u>	<u>152,273</u>

Amounts owed to Group undertakings include an interest free loan from UK Power Networks Services (South East) Limited of £135.0m (2013: £135.0m) which is repayable on demand.

12 Provisions

	Deferred tax £000	Other £000	Total £000
At 1 January 2014	28,351	5	28,356
Charged to the profit and loss account	42	-	42
At 30 December 2014	<u>28,393</u>	<u>5</u>	<u>28,398</u>

Analysis of deferred tax

	30 December 2014 £000	31 December 2013 £000
Difference between accumulated depreciation and amortisation and capital allowances	(28,483)	(28,627)
Other timing differences	90	276
	<u>(28,393)</u>	<u>(28,351)</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Share capital

Allotted, called up and fully paid

	30 December 2014		31 December 2013	
	Number	£000	Number	£000
Ordinary Shares of £1 each	10,100,000	10,100	10,100,000	10,100

14 Dividends paid

	30 December 2014 £000	31 December 2013 £000
Ordinary dividends on equity shares - £1.238 (2013: £1.980) per ordinary share	12,500	20,000

15 Reserves

	Share Capital £000	Profit and loss account £000	Total Share holder's funds £000
At 1 January 2013	10,100	119,006	129,106
Profit for the year	-	42,301	42,301
Dividends	-	(20,000)	(20,000)
Actuarial loss on pension schemes	-	(757)	(757)
Deferred tax relating to actuarial gain/(loss) on pension schemes	-	151	151
Deferred tax rate change relating to historical actuarial losses	-	(231)	(231)
At 1 January 2014	10,100	140,470	150,570
Profit for the period	-	38,132	38,132
Dividends	-	(12,500)	(12,500)
Actuarial gain on pension schemes	-	3,396	3,396
Deferred tax relating to actuarial gain on pension schemes	-	(679)	(679)
At 30 December 2014	10,100	168,819	178,919

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Financial Commitments

Amounts contracted for but not provided for in the financial statements amounted to £16,646,000 (2013: £16,477,000).

At 30 December 2014 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 30 December 2014 £000	Other 30 December 2014 £000	Land and Buildings 31 December 2013 £000	Other 31 December 2013 £000
Operating leases which expire:				
Within one year	28	31	22	31
In two to five years	177	109	177	159
In over five years	49	43	49	20
	254	183	248	210

17 Pension schemes

Defined benefit pension schemes

The Group operates two funded defined benefit pension schemes:

- The UK Power Networks Group of the ESPS (the UKPN Group scheme); and
- The UK Power Networks Pension Scheme (UKPNPS).

Both schemes are closed to new entrants.

Defined contribution pension scheme

A defined contribution retirement benefit scheme, the UK Power Networks Personal Pension Plan, was launched in 2011 for new employees. Joiners can opt for a contribution rate of between 3% to 5% of their salary with the employer making double this contribution. For the period ended 30 December 2014 the Company's employer contributions to this scheme amounted to £108,000 (31 December 2013: £54,000).

Allocation and valuation of defined benefit scheme assets and liabilities

Scheme assets and liabilities are assigned to participating entities of the Group using an allocation methodology based on employment records and attribution portions agreed with the industry regulator Ofgem. Aon Hewitt provided an actuarial valuation of scheme assets and liabilities at the balance sheet date. The Group monitors funding levels annually and the funding schedule is reviewed between the Group and the scheme trustees every three years based on actuarial valuations. A new funding schedule was agreed with the trustees in June 2014 based on the latest triennial valuation at 31 March 2013. The Group considers that the new contribution rates are sufficient to eliminate the current deficit over the next eleven years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Pension schemes (continued)

The principal financial assumptions (% per annum) used to calculate scheme liabilities under FRS 17 were:

	2014 %	2013 %
Discount rate		
- UKPN Group	3.6	4.4
- UKPNPS	3.7	4.4
Expected return on scheme assets		
- UKPN Group	4.2	4.8
- UKPNPS	5.3	5.7
Rate of increase in RPI		
- UKPN Group	3.0	3.3
- UKPNPS	3.0	3.4
Rate of increase in CPI		
- UKPN Group	2.0	2.3
- UKPNPS	2.0	2.4
Rate of increase in salaries		
- UKPN Group	3.5	3.8
- UKPNPS	3.5	3.9
Rate of pension increases in payment		
- Pensions in excess of GMP (UKPN Group)	3.0	3.3
- Post 88 GMP (UKPN Group)	1.8	1.9
- RPI up to 5% per annum (UKPNPS)	2.8	3.1
- RPI up to 2.5% per annum (UKPNPS)	2.0	2.1
- Post 88 GMP (UKPNPS)	1.7	1.9
Rate of pension increases in deferment		
- UKPN Group	3.0	3.3
- CPI up to 5% per annum (UKPNPS)	2.0	2.4
- CPI up to 2.5% per annum (UKPNPS)	2.0	2.4

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Pension schemes (continued)

The table below shows the mortality rate assumptions used to calculate the FRS 17 pension liabilities.

	At 30 December 2014 Years	At 31 December 2013 Years
UKPN Group		
Life expectancy for current male pensioner aged 60	27	28
Life expectancy for current female pensioner aged 60	29	30
Life expectancy for future male pensioner from age 60 retiring in 2034	30	30
Life expectancy for future female pensioner from age 60 retiring in 2034	32	32
UKPNPS		
Life expectancy for current male pensioner aged 65	23	22
Life expectancy for current female pensioner aged 65	25	24
Life expectancy for future male pensioner from age 65 retiring in 2034	24	24
Life expectancy for future female pensioner from age 65 retiring in 2034	27	27

The assumptions set out in the preceding tables 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 rates for future years.

The amount recognised in the balance sheet in respect of the Company's obligation to the defined benefit schemes is as follows:

	UKPN Grp 30 Dec 2014 £000	UKPNPS 30 Dec 2014 £m	Total 30 Dec 2014 £m	Total 31 Dec 2013 £m
Fair value of scheme assets	17,961	7,162	25,123	43,316
Present value of defined benefit obligations	(19,965)	(8,246)	(28,211)	(50,894)
Deficit in scheme	(2,004)	(1,084)	(3,088)	(7,578)
Related deferred tax asset	401	217	618	1,516
Liability recognised in the balance sheet	(1,603)	(867)	(2,470)	(6,062)

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Pension schemes (continued)

The analysis of the amounts (charged)/credited to the profit and loss account in respect of the defined benefit schemes is as follows:

	UKPN Grp 30 Dec 2014 £000	UKPNPS 30 Dec 2014 £000	Total 30 Dec 2014 £000	Total 31 Dec 2013 £000
Current service cost	(237)	(405)	(642)	(603)
Interest cost	(1,909)	(342)	(2,251)	(2,078)
Expected return on scheme assets	1,782	385	2,167	1,906
Net effect of settlements	-	46	46	-
	(364)	(316)	(680)	(775)

Of the charge for the period, £596,000 (2013: £603,000) has been included in staff costs and an expense of £84,000 (2013: £172,000) has been included in interest payable. The estimated amount of contributions expected to be paid to the scheme in 2015 is £1,180,000.

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

	UKPN Grp 2014 £000	UKPNPS 2014 £000	Total 2014 £000	Total 2013 £000
At 1 January	(44,053)	(6,841)	(50,894)	(47,759)
Current service cost	(237)	(405)	(642)	(603)
Interest cost	(1,909)	(342)	(2,251)	(2,078)
Actuarial loss/(gain)	24,382	(104)	24,278	(2,120)
Benefits paid/(received)	1,852	(85)	1,767	1,666
Settlements	-	(469)	(469)	-
At 30 December/31 December	(19,965)	(8,246)	(28,211)	(50,894)

The actuarial loss includes a net transfer out of scheme liabilities amounting to £27,617,000 (2013: £650,000 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)

17 Pension schemes (continued)

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

	UKPN Grp 2014 £000	UKPNPS 2014 £000	Total 2014 £000	Total 2013 £000
At 1 January	37,515	5,801	43,316	40,046
Expected return on scheme assets	1,782	385	2,167	1,906
Actuarial (loss)/gain	(20,520)	(362)	(20,882)	1,363
Contributions by employer	305	638	943	800
Deficit payments	731	100	831	867
Benefits (paid)/received	(1,852)	85	(1,767)	(1,666)
Settlement	-	515	515	-
At 30 December/ 31 December	17,961	7,162	25,123	43,316

The actuarial loss (2013: gain) includes a net transfer out of scheme assets amounting to £24,703,000 (2013: £653,000 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:

	UKPN Grp 30 Dec 2014 £000	Fair value of assets UKPNPS 30 Dec 2014 £000	Total 30 Dec 2014 £000	Total 31 Dec 2013 £000
Gilts - fixed	-	-	-	8,684
Gilts - index linked	-	-	-	10,143
Liability-driven investments	7,209	-	7,209	-
Equities	5,868	3,058	8,926	13,656
Property	310	426	736	1,586
Corporate bonds	4,502	2,826	7,328	6,633
Hedge Funds	-	736	736	-
Cash	72	116	188	2,614
	17,961	7,162	25,123	43,316

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 overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for each scheme as at 30 December 2014.

The actual return on scheme assets in the period was a gain of £5,988,000 (2013: £3,922,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Pension schemes (continued)

The history of experience gains and losses is as follows:

	2014 30 Dec £000	2013 31 Dec £000	2012 31 Dec £000	2011 31 Dec £000	2010 31 Dec £000
Fair value of scheme assets	25,123	43,316	40,046	40,213	37,195
Present value of defined benefit obligations	(28,211)	(50,894)	(47,759)	(49,291)	(43,752)
Deficit in the scheme	(3,088)	(7,578)	(7,713)	(9,078)	(6,557)
Experience adjustments on scheme liabilities:					
Amount (£m)	182	(716)	(691)	(266)	(334)
Percentage of scheme liabilities (%)	0.6	1.4	1.5	0.5	0.8
Experience adjustments on scheme assets:					
Amount (£m)	3,807	2,014	(1,708)	(401)	1,104
Percentage of scheme assets (%)	15.2	4.6	4.3	1.0	3.0

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 as follows:

	UKPN Grp 2014 £000	UKPNPS 2014 £000	Total 2014 £000	Total 2013 £000
At 1 January	(5,949)	(881)	(6,830)	(5,993)
Actuarial gain/(loss)	3,862	(466)	3,396	(757)
Deferred taxation	(772)	93	(679)	151
Deferred tax rate change	-	-	-	(231)
At 30 December/ 31 December	(2,859)	(1,254)	(4,113)	(6,830)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Control

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 results of 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.