LONDON POWER NETWORKS PLC
(DISTRIBUTION BUSINESS)

Regulatory Accounts

for the year ended 31 March 2013
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### Directors
- Andrew John Hunter
- Neil Douglas McGee
- Hok Shan Chong
- Hing Lam Kam
- Basil Scarsella
- Charles Chao Chung Tsai
- Sui See Yuen
- Mei Fan Ngan
- Duncan Nicholas Macrae
- Loi Shun Chan
- Kee Ham Chan
- Chi Tin Wan

### Company Secretary
- Christopher Baker

### Auditor
- Deloitte LLP
  - 2 New Street Square
  - London
  - EC4A 3BZ

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- Newington House,
  - 237 Southwark Bridge Road
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OPERATING AND FINANCIAL REVIEW

This Operating and Financial Review sets out the main trends and factors underlying the development and performance of London Power Networks plc (‘the Company’) during the year ended 31 March 2013, as well as those matters which are likely to affect its future development and performance.

The Directors, in preparing the Operating and Financial Review, have sought to comply with the Accounting Standard Board’s 2006 Reporting statement ‘Operating and Financial Review’, so far as it is applicable to the circumstances of the Company.

The business, its objectives and strategy
The Company distributes electricity to approximately 2.2 million customers in the London area via a network of underground cables and overhead lines, taking power from the National Grid at high voltage and transforming it down before delivery to customer premises.

The Company employs no staff (2012: nil). Staff are employed by UK Power Networks (Operations) Limited, which operates the Network on the Company’s behalf.

The UK Power Networks Business incorporates three electricity distribution businesses, Eastern Power Networks plc, South Eastern Power Networks plc, London Power Networks plc, a management business, UK Power Networks (Operations) Limited, and a transport provider business, UK Power Networks (Transport) Limited, as well as managing via subsidiary and joint venture companies of UK Power Networks Services Holdings Limited, a number of private networks and infrastructures.

The Company is regulated by the Office of Gas and Electricity Markets (‘Ofgem’).

The Company’s principal objective is to deliver electricity safely, reliably and efficiently across the distribution network and to provide a high standard of service to its customers, whilst delivering value to its shareholders.

The Company’s overall financial objective is to focus on operational efficiency and the efficient delivery of capital plans and therefore financial objectives are set to ensure that regulatory targets are achieved or outperformed.

The Company’s financing objective is to ensure an efficient capital structure that mitigates interest rate risk and maximises cash flows.

Stakeholders
The Company has a range of external stakeholders including electricity customers, suppliers and contractors, the industry regulator Ofgem, local governments and communities. The Company adopts an open constructive approach in terms of the way it operates, the services it provides and the impact that its activities have on each of its stakeholders.

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

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

Regulation
The electricity industry is subject to extensive regulatory obligations which the Company must comply with. Non-compliances can result in financial penalties and have a negative reputational impact. The prices that can be charged for the use of the Group’s networks are determined in accordance with the Regulator approved price controls. The outcome of each price control review base-lines the revenues that will be obtained over a pre-determined period (historically five years but increasing to eight years in the future). In addition targeted incentive schemes have been introduced by the Regulator whereby the Company’s revenue may be adjusted by reference to performance against agreed targets.

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 and quality of supply are core regulatory requirements and poor performance in these areas can result in financial penalties. Any such incident causes adverse publicity and impacts 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 repair, maintain, develop and reinforce the network. 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 in order to increase certainty of achieving strategic goals. This leads to a high level of risk management assurance for the Executive Management Team and 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.

External and regulatory environment
The UK Power Networks Business operates within a framework governed by legislation and regulation. This includes:

• the regulatory licence conditions adopted by each licensed entity; and
• the price control allowance agreed with the Regulator applicable every five years historically or from 1 April 2015 every 8 years.

The business is subject to environmental legislation and company law that is not specific to the electricity industry. It is also subject to health and safety regulations which are enforced by the Health and Safety Executive (HSE) in the UK. The programs and procedures adopted by the Business are detailed below.
Health, Safety and Environment

Programmes under the Health, Safety and Environment activities of the Business give rise to projects and initiatives designed to improve health and safety or reduce environmental impacts. Some of the more important programmes are:

- reducing pollution through replacement of oil-filled cables, provision of oil bunds at large substations and the reduction in use of herbicides;
- the Safety Culture Development Programme – developing further the Company’s initiative to make safety a value;
- harmonisation of our approach to the management of Health, Safety and the Environment across all of the distribution business;
- public safety and education in electricity – schemes to educate school children, business and the public on dangers of a live network;
- a risk assessment review – carrying out a review of the risks we face in all our activities;
- an occupational health programme – Fit for Work and Health Surveillance;
- a risk based audit programme, supporting our certified combined Safety, Health, Environmental, Quality and Training (“SHEQT”) management system; and
- a commitment to amenity under-grounding.

In addition to these specific measures a significant element of the capital investment programme contributes to these areas.

The health and safety of employees of UK Power Networks (Operations) Limited, customers and the public at large is a primary consideration in each and every investment decision taken. Also important is consideration for the environment which includes the protection of the climate, natural resources, natural habitats, wildlife and the amenity value of living and working environments.

Network development and operation

The electrical network is managed by condition monitoring and risk assessment that, together with local development plans, enables the Company to determine the appropriate areas in which to invest so that the network delivers a reliable and safe supply cost effectively. The Company is involved in new connections extending the network to provide supply to new commercial, industrial and domestic premises; diversions where, for example, it is necessary to move cables to allow for new developments; reinforcement of the network to increase the capacity of certain areas of the network to meet increased load demand; and asset replacement to replace equipment which is at the end of its serviceable life.

The Company is focused on being a responsible neighbour with a care for the environment. Equipment is monitored to ensure that it is operating as intended without detriment to the surrounding area.

Significant relationships

The Company operates a number of key contracts with strategic vendors. These contracts include, but are not limited to, civil works, overhead line works, tree trimming works and cable laying. The contracts are let in accordance with EU Procurement Legislation and are managed by commercial teams who conduct regular meetings with the vendors. A Principles Group Meeting of strategic vendors is also held regularly to discuss risks, opportunities and changes to ensure clear communication between UK Power Networks and its key vendor community.
Performance review

Resources
The Company’s principal resources are its network assets and its access to the skilled workforce of UK Power Networks (Operations) Limited, which operates the network on the Company’s behalf. The Business’s principal policies with regard to training its employees are detailed on page 7.

Key performance indicators
The Company measures the achievement of its objectives through the use of quantitative assessments and (where quantitative means are less relevant) through the use of qualitative assessments. The principal key financial performance indicators (‘KPIs’) are set out below:

<table>
<thead>
<tr>
<th>Financial key performance indicators</th>
<th>Year end March 2013</th>
<th>Year end March 2012</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>446.1</td>
<td>394.2</td>
<td>13%</td>
</tr>
<tr>
<td>Earnings before interest, tax, depreciation, amortisation (EBITDA)</td>
<td>305.9</td>
<td>264.6</td>
<td>16%</td>
</tr>
<tr>
<td>Capital expenditure net of customer contributions</td>
<td>173.1</td>
<td>141.6</td>
<td>22%</td>
</tr>
<tr>
<td>Net debt</td>
<td>1,001.9</td>
<td>1,012.2</td>
<td>-1%</td>
</tr>
<tr>
<td>Regulatory asset value (RAV)</td>
<td>1,422.8</td>
<td>1,367.5</td>
<td>4%</td>
</tr>
<tr>
<td>Ratio of net debt to RAV</td>
<td>70%</td>
<td>74%</td>
<td></td>
</tr>
</tbody>
</table>

Non financial key performance indicators

| Customer Minutes Lost per customer (CML)                          | 33.8                | 31.2                | 8%       |
| Customer interruptions per 100 customers (CI)                    | 25.0                | 27.6                | -9%      |

1 EBITDA is a non-statutory measure, and is calculated by adding back amortisation and depreciation to operating profit.
2 Net debt is defined as Borrowings (excluding derivatives) net of cash and cash equivalents.
3 “RAV” is defined as Ofgem Regulatory Asset Value plus allowable additions less regulatory depreciation. The 31 March 2013 RAV presented is provisional based on our regulatory submission at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The prior year comparatives have been restated to reflect the latest agreed position.

Financial review
The Company sets out below its financial review for the year ended 31 March 2013. The comparative figures presented are for the year ended 31 March 2012, as reported in the audited financial statements, unless otherwise stated.

Turnover for the year ended 31 March 2013 was £446.1m (2012: £394.2m). The majority of turnover was earned from charges made for the distribution of electricity.

Profit for the year before taxation amounted to £203.4m (2012: £158.2m) and profit for the year after taxation amounted to £191.2m (2012: £147.7m).

A dividend of £40.0m (2012: £90.0m) was paid in the year.
Comparison to price control

The Company is subject to a price control which sets total regulated revenue for each year over a predetermined period. The current distribution price control review ("DPCR5") covers the five years ending 31 March 2015. Subsequent price controls will extend to eight year intervals.

The price control allows a rate of return on a notional valuation of the network referred to as the Regulatory Asset Value ("RAV"). The original RAV was based on a valuation of the Company derived from share prices following the flotation of the Company of which the Distribution business was a part. This valuation has been increased through capital expenditure, re-valued to current prices using RPI and reduced by a depreciation charge on the opening valuation and subsequent expenditure.

Tariffs are set to recover allowed revenues with any under or over recovery carried forward to a later regulatory period. As tariffs are set up to five months in advance and generally apply for the year, the Company will under or over recover revenue if assumptions made differ from actual experience. At 31 March 2013 the Company has under recovered revenue by £1.6m (2012: £4.3m). Allowed revenue is the major component of total revenue generated by the Company but additional revenue is earned from unregulated customers taking supply at extra high voltage and for certain rechargeable work. Whilst the Company through UK Power Networks (Operations) Limited has the expertise to earn revenue in other areas, its ability to do so is restricted by regulation.

Performance against price control

For the purposes of comparison to the price control allowance the capital and operational expenditure differ to that reported in these Regulatory Accounts. This is due to a number of differences between accounting under UK GAAP and the regulatory reporting guidelines set out by Ofgem.

Regulatory capital expenditure was £140.7m (2012: £108.4m) against a price control allowance of £171.1m (2012: £170.9m). During the year the Company invested in a range of improvements to its electricity distribution network, including provision of additional network capacity to meet growing demand and the renewal of significant elements of the Central London infrastructure.

Regulatory operating costs excluding regulatory depreciation totalled £61.6m (2012: £60.9m) compared to a price control allowance of £65.6m (2012: £64.6m).

The price control includes regulatory depreciation that assumes a 20 year cost recovery period for post-vesting assets. However actual asset lives, on average, exceed 40 years and this is reflected by the lower depreciation charge presented in these financial statements.
Treasury policy, objectives and capital structure

The Company is financed by a combination of equity and retained profits, long term bonds, bank lending facilities and group borrowings. The Company's funding and liquidity are managed within a framework of policies and guidelines authorised by the Board of Directors.

The Company has net debt of £1,001.9m (2012: £1,012.2m) which represents approximately 70% (2012: 74%) of the Regulatory Asset Value of the Company. At 31 March 2013 the net debt includes £1,057.9m (2012: £1,051.3m) in bonds offset by cash balances of £16.0m (2012: £0.3m) and money market investments of £40.0m (2012: £38.8m).

The weighted average cost of borrowing in the period was 6.9% (2012: 7.1%). Interest is payable on the bonds on either an annual or semi annual basis. Interest receipts and payments are also generated by interest rate swap contracts which settle on an annual or semi-annual basis.

The Company receives interest on positive cash balances and pays interest on overdrafts. Interest earned on cash deposits is predominantly through money market investments. The UK Power Networks Holdings Limited Treasury department invests under strict procedures, which limit the amount and duration of investments, and only allows money to be deposited with reputable banks and building societies.

Liquidity and cash flows

Liquidity is maintained through a mixture of long term borrowings and short term liquid funds in order that there are sufficient funds available for the Company’s current and planned operations. Committed facilities are in place in order to provide funding for future capital expenditure as well as providing sufficient available liquid funds to meet the seasonal working capital requirements of the Company.

The Company generates cash primarily from use of system charges which are payable within 4 days of the demand for payment. Payments are received in advance from customers requiring connection to the network, and suppliers and contractors are paid in accordance with negotiated terms. Other principal cash outflows include interest, taxation and dividends. The Company plans its working capital requirements to take account of expected cash inflows and outflows.

The Company transacts with banks for the provision of interest rate hedging transactions. The Company has during the year maintained an investment grade credit rating of at least BBB+ or equivalent. At the year end the Company had £28.2m (2012: £18.2m) receivable and £61.1m (2012: £39.7m) payable relating to derivative financial instruments with bank counterparties.

Dividend policy

The Company’s policy is to distribute to its shareholder any available surplus funds, after taking into account the cash requirements needed to continue to invest in the business and the Company’s level of gearing, and subject to the availability of distributable profits. During the current year the Company paid a dividend of £40.0m (2012: £90.0m).
Factors likely to affect future development and performance

The following trends and factors are expected to influence the future financial position and performance of the Company.

Main features of DPCR5
The Company’s licence for DPCR5 allows for £1,752m in revenue, including allowances for certain pass-through costs and Excluded Services, over the five years ending 31 March 2015 (in 2007/08 prices). Allowed revenue is intended to cover regulatory depreciation, pass-through costs and incentives, tax, pensions, generally the cost of operating and maintaining the network and a return on regulatory capital investments.

Allowed return under DPCR5
The DPCR5 Final Proposals include a reduction in the allowed return from the level allowed in DPCR4. However, the Company has the opportunity to outperform the allowed return through the delivery of efficiencies in the DNO’s cost base beyond the assumed regulatory cost allowances and through incentive mechanisms. In addition, Ofgem has sought to de-risk the DNOs by introducing new measures to deal with uncertainty and limit downside risk.

Capital Expenditure
As part of the DPCR5 process, Ofgem reviewed and assessed the Company’s direct capital expenditure forecasts for Network Investment over the DPCR5 period. This resulted in an allowance of £493m for the five year period.

Incentives and penalties applicable to the Regulated Networks:
There are a series of incentive and penalty schemes to encourage specific action and behaviour by the DNOs, as follows:

- Information Quality Incentive (IQI):
  This incentive encourages the DNOs to submit good quality forecasts by providing lower returns to companies that over-forecast their expenditure requirements. In DPCR4 the incentive mechanism only applied to regulatory capex, whereas DPCR5 extends the measurement of the Retention Rate to apply to network operating and indirect costs (excluding business support costs);

- Interruptions Incentive Scheme (IIS) or Quality of Service (QoS):
  This provides incentives (or penalties) based on customer interruptions (CI) and customer minutes lost (CML) below (or above) a specific target set for each DNO;

- Customer satisfaction:
  This scheme was introduced under DPCR5 to capture and measure customer experience across a broad range of network services; and

- Low Carbon Networks fund:
  A scheme introduced under DPCR5 that funds trials for technology/commercial operating arrangements to facilitate a low carbon economy. The mechanism requires DNOs to fund at least 10% of the costs, with up to 90% being recoverable through the incentive. An industry-wide fund of £500m has been made available.

Training
The Company’s need for training resources formed an integral part of its DPCR5 submission and was a point of discussion with Ofgem, as it was with other DNOs. The Regulated Networks run regular and comprehensive training programmes for new intakes of apprentices and craft trainees, for technically skilled employees (professional qualifications, health and safety) and for management.

Due to the large number of staff working on the Regulated Networks, management training is important to ensure safety, quality of work and efficiency and is sourced either internally through the HR function or through third-party suppliers.
Factors likely to affect future development and performance continued

Environment
The Company's environmental procedures are focused on the protection of the climate, natural resources, natural habitats, wildlife, and the amenity value of living and working environments. Investment plans include the reduction of pollution through replacement of fluid filled cables, the control and mitigation of losses from equipment of oil and the greenhouse gas Sulphur Hexafluoride, a reduction in the use of herbicides, and a commitment to amenity under-grounding.

The Group recognises the importance of its environmental responsibilities and undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements. The Group is committed to the protection of the environment in the region it serves. The Group's environmental management systems are certified under ISO14001. This helps the Directors to address future environmental issues and legislation and assists in the development of environmentally beneficial projects.

Long-term opportunities
The key long-term issues considered beyond 2015 relate to the areas listed below:

- Regulatory
  Potentially increased regulatory focus on environmental targets, the development of low carbon initiatives and security of supply leads to increased investment and performance incentives in these areas;

- Technology
  Development of smart distribution grids; and

- Integration
  Continued integration of activities to fewer locations to capture synergies.
DIRECTORS' REPORT

The Directors present their annual report and the audited Regulatory Accounts for the year ended 31 March 2013.

The Regulatory Accounts are not the Statutory Financial Statements of the Company, which are drawn up to 31 December annually and are available to the public from Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX.

Principal activity and review of business

The principal activity of the Company during the year continued to be the distribution of electricity to domestic, commercial and industrial customers through network ownership, management, operation, maintenance and renewal. It will continue in this activity for the foreseeable future.

Results and dividends

The profit for the year before taxation amounted to £203.4m (2012: £158.2m) and after taxation to £191.2m (2012: £147.7m). A dividend of £40.0m (2012: £90.0m) was paid in the year.

The review of the business for the year, including a statement of the Key Performance Indicators, together with a description of the principal risks and uncertainties facing the Company, are set out within the Operating and Financial Review on pages 1 to 8.

Future developments

The Directors aim to optimise shareholder returns through the safe and efficient investment in the Network, while ensuring the business delivers high levels of customer service and within the boundaries of the price control allowances set by the Regulator, the Office of Gas and Electricity Markets ("Ofgem"). The current price control allowances were set under the fifth electricity distribution price control review ("DPCR5") and are effective from 1 April 2010 to 31 March 2015. The Directors believe the Company will continue to operate as a profitable, sustainable business under the DPCR5 price control allowances.

Directors

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

Andrew John Hunter
Neil Douglas McGee
Hok Shan Chong
Edmond Tak Chuen Ip (resigned on 15 October 2012)
Hing Lam Kam
Basil Scarsella
Charles Chao Chung Tsai (Alternate director)
Kai Sum Tso (resigned on 8 February 2013)
Sui See Yuen
Mei Fan Ngan (Alternate director)
Duncan Nicholas Macrae
Loi Shun Chan (appointed on 10 September 2012)
Kee Ham Chan (Alternate director) (appointed on 10 September 2012)
Chi Tin Wan (appointed on 8 February 2013)

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

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.
Financial risk management
The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from financial liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the Company’s business and the assets and liabilities contained within the Company’s balance sheet the only financial risks the Directors consider relevant to this Company are credit risk, liquidity risk, interest rate risk and price risk.

Credit and liquidity risk
The Company finances its operation by a mixture of cash generated from operations, group borrowings and long-term loans. The Company has external borrowings denominated in sterling at fixed rates of interest.

Liquidity risk is managed by spreading debt maturities over a wide range of dates thereby ensuring that the Company is not subject to excessive financing risk in any one year. Derivative instruments are used to manage the risks identified.

The credit risk on liquid funds and financial instruments is limited because the counterparties are reputable banks and building societies. The Company is required by the distribution licence to maintain an investment grade rating and has secured a rating of BBB+ (or the equivalent) from Standard and Poor’s and Moody’s, and a rating of A- from Fitch. The Company is able to raise finance in external financial markets supported by cash flows generated by the Regulatory Asset Value which determines the levels of allowed revenue that may be recovered.

Interest rate risk
The Company’s exposure to interest rate fluctuations on its borrowings is managed by maintaining an appropriate mix of fixed, index linked and floating rate debt. Interest rate swaps are used to convert a portion of fixed rate debt to floating rate in the long term but maintain a fixed rate for the duration of the five year regulatory price control period. When appropriate, swap instruments are employed to lock in UK Gilt rates in anticipation of future financing to reduce exposure to the variability of future interest cash flows. In addition index linked swaps are used to create Retail Price Index (“RPI”) exposure within interest costs which naturally offsets the RPI exposure of the Company’s regulated income.

The use of financial derivatives is governed by the Group’s policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Price risk
The prices the Company is allowed to charge for its services are for the most part subject to regulatory controls. The profitability of the Company’s operations is thus largely dependent upon the successful management of costs incurred to deliver the services and maintain and expand the network in compliance with its operating licence. The Directors believe that the Company is in a position to operate profitably within these constraints.

Financial instruments
The Company holds or issues financial instruments for two main purposes:

- to finance its operations; and
- to manage the interest rate risks arising from its sources of finance.

The Company finances its operation by a mixture of retained profits, long-term loans and group borrowings. The Company has borrowings denominated in sterling at fixed rates of interest. The main risk arising from the Company’s financial instruments is interest rate risk. The Company’s policy for managing this risk is as above and is defined in statements authorised by the Board of Directors and reviewed on an annual basis. Authority for managing risk consistent with this corporate policy may be delegated by the Board to, amongst others, the Treasury department of the parent company, UK Power Networks Holdings Limited.
DIRECTORS’ REPORT continued

Going concern
The Company’s financial position, cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future performance and the principal risk and uncertainties are set out within the Operating and Financial review on pages 1 to 8.

As at 31 March 2013 the Company had long term borrowings of £1,057.9m (2012: £1,051.3m). The Company has access to a revolving credit facility of £145.0m (2012: £145.0m) which was undrawn at the balance sheet date.

The business has the ability to access external debt markets supported by cash generated by operations as a result of financial returns earned against the regulatory asset base.

The Company trades with high quality customers with strong financial standing and together with the regulatory contract this means that the Company’s cash flows are reasonably assured.

The Company’s forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Company will be able to operate within the level of its current facilities. As a result 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 its financial statements. This conclusion is based on the availability of facilities set out above, the relatively stable and regulated nature of the business, the forecast long-term plan and the anticipated ability of the Group to be able to raise additional long-term debt in the future.

Creditors payment policy
The Company’s current policy concerning the payment of its trade creditors and other suppliers is to:

• agree the terms of payment with those creditors/suppliers when agreeing the terms of each transaction;
• ensure that those creditors/suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
• pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception. At 31 March 2013, the Company had an average of 3 days (2012: nil days) purchases outstanding in its trade creditors.

Political and charitable contributions
The Company made no charitable or political contributions in either year.

Disclosure of information to Auditors
Each of the persons who is a director at the date of approval of this annual report confirms that:

• so far as the Director is aware, there is no relevant audit information of which the Company’s Auditor is unaware; and
• the Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company’s Auditor is aware of that information.

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

Auditor
In accordance with s489(4)(a) of the Companies Act 2006, a resolution was passed at the Annual General Meeting to reappoint Deloitte LLP as Auditor to the Company.

By order of the Board

[Signature]

B Scarsella
Director
30 July 2013
STATEMENT OF DIRECTORS’ RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Regulatory Accounts in accordance with applicable law and regulations. Standard Licence Condition 44 of the Distribution Licence requires the Directors to prepare Regulatory Accounts, for each regulatory year, which present fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to the Company and the revenues, costs and cash flows of, or reasonably attributable to, the Company for that period. In preparing the Regulatory Accounts, the Directors are required to:

• select suitable accounting policies and then apply them consistently;

• make judgements and estimates that are reasonable and prudent;

• state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

• prepare the Regulatory Accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company’s transactions and which 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 and Standard Licence Condition 44 as applicable. They are also responsible for the system of internal control, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge that:

• the Regulatory Accounts, prepared in accordance with the Company’s accounting policies and Standard Licence Condition 44, give a true and fair view of the assets and liabilities, financial position and profit of London Power Networks plc as at 31 March 2013; and

• the Directors’ report includes a true and fair view of the development and performance of the business and the financial position of London Power Networks plc, together with a description of its principal risks and uncertainties.

Signed on behalf of the Board of Directors of London Power Networks plc on 30 July 2013.

B Scarsella
Director
UK Corporate Governance Code

The Company is not listed on the London Stock Exchange and so is not obliged by law to comply with Stock Exchange listing rules, nor to make the same disclosures as listed companies. However, the Company does seek to operate to high standards of Corporate Governance, and has voluntarily adopted the principles underlying the guidance set out in the UK Financial Reporting Council's Corporate Governance Code, issued in May 2010 ("the Code").

In this respect, the Directors have complied with the Code to the extent considered applicable throughout the accounting period and up to the date of this report. The relevant disclosures are included below in this Report on Corporate Governance, in the Statement of Directors' Responsibilities, and in the Directors' Report. All relevant information has been provided 'as if the required disclosures applied to the licensee as a Quoted Company', in accordance with paragraph 44 of the Standard License Conditions.

In accordance with the 'comply or explain' approach recommended by the Code, the principal areas of the Code which are not considered applicable are explained as follows.

- The Company is a wholly owned subsidiary of UK Power Networks Holdings Limited and forms part of the UK Power Networks Holdings group (the "Group"). The Group is owned by a consortium of three Companies incorporated outside the UK: Cheung Kong Infrastructure Holdings Limited; Power Assets Holdings Limited; and Li Ka-Shing Foundation. The Board of each company within the Group is determined by the consortium shareholder companies, each of which nominates Directors in proportion to their shareholdings. As such there is no requirement for a formal Nominations Committee to select candidates.

- The shareholder appointed Directors do not hold an executive role in the Group, and therefore maintain an acceptable level of independence from the executive management of the Group. As such the appointment of an independent Chairman and non-executive Directors is not deemed necessary.

- The Board which is responsible for all aspects of governance of the Group has established an Audit Committee, a Remuneration Committee, a Treasury Committee and a Risk Management and Compliance Committee. Duplicate Board committees at Company level have not been established as the terms of reference confirm that the scope of the above committees extends across the UK Power Networks Group.

- The principle of ensuring regular and satisfactory dialogue with shareholders is ensured through their representation on the Board and regular Board meetings. As the Company is not a public company, the requirements for an Annual General Meeting are not applicable.

The Directors of each wholly owned subsidiary are all members of the Board of the parent company UK Power Networks Holdings Limited ("the Board") which oversees the management of the entire group. The following discussion refers to the corporate governance policies applied on a group wide basis by the Board. This Company which has an identical board of directors to the parent (with the exception of one alternate director) is included within these policies. The Board and Board committees consider and act on matters pertaining to this Company and other subsidiaries, on an individual basis, as appropriate.
The Board of Directors

The Board of the Directors is the principal decision making forum for the Company and the UK Power Networks Group. It has overall responsibility for leading and controlling the Group as well as the financial and operational performance of the Company.

The composition of the Board reflects the Shareholders’ interests in the consortium. Directors are nominated to the Board in accordance with the terms of the Shareholders’ Agreement. The Board is responsible to the shareholders for the performance of the Company in both the short and the longer term and seeks to balance competing objectives in the best interests of the Company with the objective of enhancing shareholder value. The positions of the Chairman of the Board and Chief Executive Officer (‘CEO’) are held by separate individuals with a view to maintaining effective segregation of duties between management of the Board and the day to day management of UK Power Networks.

The Directors have been briefed on the duties that have been conferred on them under the Companies Act 2006. The Powers of the Directors have been set out in the Company’s Articles of Association. To ensure good corporate governance the Board has adopted a formal corporate governance statement and has clearly defined terms of reference disclosing matters reserved for the Board.

The Directors make active contributions to the affairs of the Board and the Board acts in the best interests of the Company and the Group.

Furthermore the Board has established formal committees with specific responsibilities to assist in the execution of its duties and to allow detailed consideration of complex issues. Below the Board executive responsibility rests with Basil Scarsella, Chief Executive Officer (‘CEO’) and the Executive Management Team. The CEO and Executive Management Team operate within the Delegations of Authority, governance structure and terms of reference defined in the Corporate Governance Framework reviewed on an annual basis by the Board.

Board meetings are held at regular intervals with members attending both in their capacity as Directors of the parent company UK Power Networks Holdings Limited and in their capacity as Directors of individual subsidiary companies (including this company). Reports and papers presented at the meetings are considered, noted and approved as they relate to this Company as well as the UK Power Networks group as a whole. A total of six meetings of the Board were held during the reported period. At least three representatives of Cheung Kong Infrastructure Holdings Limited, three representatives of Power Assets Holdings Limited and one representative of Li Ka-Shing Foundation were present at each meeting.

Corporate Governance Policies

The Corporate Governance Framework Policy, in place throughout the reporting period, outlines the governance structure within the Group. The core components of the framework include:

- the constitution of the Board and the Board Committees as well as the individual Boards of the subsidiary companies;
- the roles and responsibilities of the Executive Management Team; and
- delegated responsibilities for key areas including risk management and internal control.

The Corporate Governance Framework Policy is supported by the Risk, Control and Compliance Policy and underlying procedures. The Risk, Control and Compliance Policy, in place throughout the reporting period, defines the framework in which the Group:

- proactively identifies risks to its strategy, objectives, business developments and processes and implements internal controls to mitigate these;
- explores the efficacy of those controls in mitigating the risks through internal audit and other monitoring mechanisms;
- reactively monitors incidents, errors and breaches to identify control failures and determine areas for improvement; and
- develops contingency arrangements for business continuity and emergency incidents.
INTERNAL CONTROL

The Board (through the Audit Committee) is responsible for the Company’s system of internal control and for reviewing its effectiveness. The Company’s system of internal control and risk management process help to safeguard the Company’s assets. However, the Board recognises that such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The key elements of the Group’s system of internal control include:

Goverance and control environment

The Board is collectively responsible for the oversight of the management of the Group. The Board comprises the Chief Executive Officer of the Group and twelve shareholder nominated Directors including three alternate Directors. The Board has determined those decisions that require approval by the Board and the delegation of authority for other decisions.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and for ensuring that the Board is briefed on all legislative, regulatory and corporate governance developments and that the Board has regard to them when making decisions.

In order to assist the Board in fulfilling its oversight responsibilities, the four Board sub-committees have been created with the following terms of reference:

• The Audit Committee assists the Board with its responsibilities for financial reporting, maintaining an efficient system of internal control and internal and external audit processes. Using risk assessment methodology and taking into account the Company’s activities, internal audit determines the annual audit programme which is reviewed by the Audit Committee. The Audit Committee also reviews the arrangements by which staff may raise concerns, in confidence, about possible improprieties.

• The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company’s policies and structure in relation to the remuneration of senior management and employees of the Company by reference to corporate goals and objectives resolved by the Board from time to time.

• The Treasury Committee oversees the treasury strategy, policy and procedure development and works to see that all treasury risks are identified, measured and controlled in a manner consistent with corporate strategy and treasury policy.

• The Risk Management and Compliance Committee assists the Board with its responsibilities in relation to risk management and to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement. The management of risk is important to the Company’s business and in building shareholder value. The Board is responsible for approval of the risk management strategy while management is responsible for implementing the Board’s strategy and for developing policies and procedures to identify, manage and mitigate risks across the business.

The Remuneration committee meets as required but at least on an annual basis and the other committees at least three times annually. A chairman is elected at each meeting by the committee. During the reported period the remuneration committee held one meeting and the other committees each held four meetings. A quorum was present at each meeting.

Each committee’s performance, constitution and terms of reference are reviewed annually to ensure that they are operating effectively. The Company Secretary acts as a secretary for each committee.
Governance and control environment continued

The Executive Management Team of the Group comprises the Chief Executive Officer of the Group and Directors for each of the distinct business areas, or Directorates. In order to assist the Executive Management Team in fulfilling their responsibilities, committees with delegated authority for defined matters have been established.

The Group is appropriately structured into distinct Directorates, each of which is managed by a member of the Executive Management Team. The Senior Management Team within each Directorate has defined responsibilities which allow for effective operations to achieve the Group’s objectives. Lines of responsibility and levels of authority are formally documented and enforced.

Risk identification and control

The Group operates a structured risk and control assessment process which is overseen by the Executive Management Team, supported by risk review meetings conducted by the Senior Management Team within each business Directorate.

The role of the business Directorate risk review meetings is to assess new risks, review existing risks and monitor control improvement actions. Each identified risk is defined and assessed by the risk owner. This includes an assessment of the likelihood of the risk occurring and the associated impact, key mitigating controls, and an assessment of the adequacy of those controls. Where appropriate control improvement actions are defined.

Significant risks and delivery of control improvement actions are monitored and reported to the Executive and Senior Management Teams on a monthly basis, and actively managed by the designated risk owners.

The Board of Directors has established the scope of the internal audit function which is responsible for reviewing the effectiveness of the Group’s systems of internal control and reports to the Audit Committee of the Board.

Internal control framework

Control procedures have been implemented throughout the Group and are designed to ensure complete and accurate accounting for financial transactions, to safeguard the Group’s assets and to ensure compliance with laws and regulations. These control procedures form the Integrated Management System; a controlled framework of policy and procedural documentation.

All control procedures are subject to regular review and formal ratification and approval. As part of the Integrated Management System, procedural implementation and compliance is subject to compliance auditing.

Control procedures relating to the reliability of financial information

The consolidated financial statements of the Group and its subsidiaries (including this Company) are prepared by the central reporting team based on results submitted by each Directorate. Each Directorate is supported by an appropriately qualified finance team who provide advice to Directors and managers and liaise with the central reporting team on such matters as the application of accounting policies, procedures and internal controls. The accounts are prepared under UK GAAP and the accounting policies have been aligned, where appropriate, with that of the Cheung Kong (Holdings) Limited group. The role of the central reporting team includes liaising with the shareholders regarding such matters as accounting policies, planning for changes and reporting requirements and to ensure that these are communicated effectively to the Directorates. There is regular dialogue between the reporting team and the Directorates to ensure there is appropriate understanding.
REPORT ON CORPORATE GOVERNANCE continued

Control procedures relating to the reliability of financial information continued

The Directorates are accountable for the review and approval of the monthly accounts prior to submission to the central reporting team who then undertake further reviews and challenge. The monthly accounts of each Directorate are reviewed during the Executive Management Team meetings attended by the CEO and the Finance Director. Consolidated financial information is presented at Board meetings. The annual results of the Group and individual subsidiaries are presented to the Audit Committee prior to approval by the Board. The results for the year to date are formally presented to the Directors at each meeting of the Board.

Monitoring and corrective action

The Group has established structured performance monitoring to measure achievement against the strategy and objectives of the Group. The structured approach includes a combination of quantitative metrics and qualitative analysis to ensure areas for improvement are promptly identified and addressed.

In order to monitor compliance with internal controls, the Group operates a ‘three lines of defence’ approach.

- First line of defence – management control. Management undertake monitoring of their processes to satisfy themselves that the defined controls operate economically, effectively and efficiently; and that key risks are identified and assessed.
- Second line of defence – oversight and challenge. There are designated functions and committees in place to test and challenge the effective operation of controls. These include audit functions, advisory and monitoring functions, and committees established by the executive management team.
- Third line of defence – independent assurance. Independent assurance is provided by the Internal Audit function and external audits and accreditations.

Identified control weaknesses and corrective actions are reported to the executive and senior management teams and monitored monthly. Significant weaknesses in internal control are reported to the executive management team and, if appropriate, to the Audit Committee.

Audit Committee

The Audit Committee is a sub-committee of the Board comprising three members or their alternates to represent each of the Shareholders. The Chairman is appointed annually. The appointment or removal of members is subject to approval by the Board. Members of the Audit Committee are required to be financially literate with at least one member having relevant and recent accounting or financial management expertise.

The Audit Committee’s oversight responsibilities include:

- Reviewing with management and external auditors financial information (and significant financial reporting judgements therein) provided to shareholders or regulatory agencies and recommending their approval or otherwise to the Board of Directors;
- Reviewing the Group’s internal controls including financial, operational and compliance controls and risk management functions;
- Monitoring and reviewing the Group’s internal audit function; and
- Monitoring and reviewing the external auditor’s independence and objectivity and the effectiveness of the external audit process.

Internal audit

The Internal Audit function has responsibility for providing independent assurance to the Chief Executive Officer and Audit Committee as to the effectiveness of the policies, procedures and standards which constitute the system of internal control, including; risk management; corporate governance; and compliance with relevant laws and regulations. The Internal Auditors have a direct reporting line to the Audit Committee.

The relationship between Internal Audit and management requires management to be primarily responsible for ensuring that the systems of internal control are implemented and operated so as to provide reasonable assurance that the objectives of the business will be met and that the risks or threats to the business are mitigated. In addition to providing independent review, the Internal Audit function provides advice and guidance to management on the appropriateness of internal control mechanisms and systems.
REPORT ON CORPORATE GOVERNANCE continued

Audit Committee continued

The Audit Committee reviews and approves the scope of the internal audit’s work plan for the year and monitors the progress against the work plan. With respect to completed audits the Audit Committee reviews major findings by the internal auditors and the status of Management actions to address the conditions reported.

External audit
The Audit Committee is responsible for overseeing the effectiveness of the external audit process and ensuring that appropriate measures are taken to safeguard the independence and objectivity of the external auditor.

The Audit Committee reviews the scope and general extent of the external auditor’s annual audit seeking confirmation from the external auditor that no limitations have been placed on the scope or nature of their audit procedures.

At the completion of the annual audit the Committee reviews with management and the external auditors the annual financial statements and related notes, financial information and discussion to be included in the annual report to the Shareholders. The results of the audit and the audit report are reviewed and enquiries are made as to whether there have been any material disagreements with management. The Committee meets with the external auditors without members of management being present at least twice per annum to discuss any matters that the external auditors or the Committee believe should be discussed privately.

The Committee reviews annually with management the fee arrangement and terms of reference with the external auditor. In particular the nature and extent of non-audit services provided is reviewed with reference to the approved framework within the Corporate Governance Policy.

For each audit period a formal written statement is obtained from the external auditors delineating all relationships between external auditors and the Company. The lead engagement partner is rotated at least every five years, the last rotation being the December 2012 audit engagement. Any proposed appointment of ex-employees of the external audit firm to senior management positions is subject to consent by the Committee.

Effectiveness review

The Group is continuously making improvements to the system of internal control through structured review of the Integrated Management System and other targeted control reviews.

As principal shareholders, Cheung Kong Infrastructure Holdings Limited and Power Assets Holdings Limited, require that the Group provides an annual report of the quality of the internal control system covering key business processes and outlining material control weaknesses. In forming a view of the quality of the systems of internal control, the Executive Management Team consider: audit findings; compliance review findings; risks with controls assessed as sub-optimal; and completion of corrective actions related to these areas.

In addition the Board commissioned an independent review of the systems of Internal Financial Control during the reporting period.

These assessments enable the Group to identify areas where attention is required to improve the system of internal control, business performance and operating effectiveness.
INDEPENDENT AUDITOR'S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ('THE REGULATOR') AND LONDON POWER NETWORKS PLC ('THE COMPANY')

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2013 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes numbered 1 to 23. The financial reporting framework that has been applied in their preparation is Standard Condition 44 of the Electricity Distribution Regulatory Licence (the "Regulatory Licence") and the accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 44 of the Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in an independent auditors' report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Regulator, the Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for preparing the regulatory accounts and for their fair presentation in accordance with the basis of preparation and accounting policies as set out in the notes to the regulatory accounts. Our responsibility is to audit and express an opinion on the regulatory accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the regulatory accounts', below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the regulatory accounts

An audit involves obtaining evidence about the amounts and disclosures in the regulatory accounts sufficient to give reasonable assurance that the regulatory accounts 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 regulatory accounts. In addition, we read all the financial and non-financial information, being the operating and financial review, the Directors' report, the corporate governance statement and the statement of Directors' responsibilities in the annual report to identify material inconsistencies with the audited regulatory accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Standard Condition 44 of the Regulatory Licence. Where Standard Condition 44 of the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory accounts are consistent with those used in the preparation of the statutory financial statements of London Power Networks plc. Furthermore, as the nature, form and content of regulatory accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).
INDEPENDENT AUDITOR’S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY (‘THE REGULATOR’) AND LONDON POWER NETWORKS PLC (‘THE COMPANY’) continued

Opinion on regulatory accounts

In our opinion the regulatory accounts:
- present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in note 1, the financial position of the Company as at 31 March 2013 and its financial performance and cash flows for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies.

Other matters

The nature, form and content of regulatory accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator’s purposes. Accordingly we make no such assessment.

Our opinion on the regulatory accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 19 March 2013, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our “statutory audit”) was made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company’s members those matters we are required to state to them in a statutory auditor’s report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company’s members as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Deloitte LLP
Chartered Accountants
London, United Kingdom
30 July 2013
# PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 MARCH 2013

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>446.1</td>
<td>394.2</td>
</tr>
<tr>
<td></td>
<td>(23.0)</td>
<td>(21.7)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution costs</td>
<td>423.1</td>
<td>372.5</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(158.9)</td>
<td>(147.0)</td>
</tr>
<tr>
<td></td>
<td>(1.7)</td>
<td>(1.7)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance charges (net)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest receivable and similar income</td>
<td>8.9</td>
<td>8.0</td>
</tr>
<tr>
<td>Interest payable and similar charges</td>
<td>(55.4)</td>
<td>(63.5)</td>
</tr>
<tr>
<td>Fair value losses on financial instruments</td>
<td>(12.6)</td>
<td>(10.1)</td>
</tr>
<tr>
<td></td>
<td>(59.1)</td>
<td>(65.6)</td>
</tr>
<tr>
<td><strong>Profit on ordinary activities before taxation</strong></td>
<td>203.4</td>
<td>158.2</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>(12.2)</td>
<td>(10.5)</td>
</tr>
<tr>
<td><strong>Profit for the financial year</strong></td>
<td>191.2</td>
<td>147.7</td>
</tr>
</tbody>
</table>

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

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
## FOR THE YEAR ENDED 31 MARCH 2013

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>Profit for the financial year</strong></td>
<td>191.2</td>
<td>147.7</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>(23.1)</td>
<td>(98.7)</td>
</tr>
<tr>
<td>Deferred tax attributable to actuarial loss</td>
<td>5.3</td>
<td>23.6</td>
</tr>
<tr>
<td>Deferred tax rate change related to historical actuarial losses</td>
<td>(2.3)</td>
<td>(3.1)</td>
</tr>
<tr>
<td>Losses on cash flow hedges</td>
<td>18</td>
<td>(9.9)</td>
</tr>
<tr>
<td>Deferred tax attributable to losses on cash flow hedges</td>
<td>-</td>
<td>2.4</td>
</tr>
<tr>
<td>Transfer to profit or loss on cashflow hedges</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Deferred tax attributable to transfer to profit or loss</td>
<td>(0.3)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Deferred tax rate change attributable to cash flow hedges</td>
<td>(0.1)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total recognised gains and losses relating to the year</strong></td>
<td>171.9</td>
<td>62.7</td>
</tr>
</tbody>
</table>

The deferred tax rate change refers to the reduction in the main stream corporation tax rate from 24% to 23% from 1 April 2013 (2012: 26% to 24% from 1 April 2012).
BALANCE SHEET
AS AT 31 MARCH 2013

<table>
<thead>
<tr>
<th>Note</th>
<th>Fixed assets</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tangible assets</td>
<td>8</td>
<td>1,816.8</td>
</tr>
<tr>
<td></td>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Debtors</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- amounts falling due within one year</td>
<td>9</td>
<td>62.7</td>
</tr>
<tr>
<td></td>
<td>- amounts falling due after more than one year</td>
<td>9</td>
<td>286.7</td>
</tr>
<tr>
<td></td>
<td>Investments: unlisted money market investments</td>
<td></td>
<td>40.0</td>
</tr>
<tr>
<td></td>
<td>Cash at bank and in hand</td>
<td></td>
<td>16.0</td>
</tr>
<tr>
<td></td>
<td>Creditors: amounts falling due within one year</td>
<td>10</td>
<td>(200.4)</td>
</tr>
<tr>
<td></td>
<td>Net current assets</td>
<td></td>
<td>205.0</td>
</tr>
<tr>
<td></td>
<td>Total assets less current liabilities</td>
<td></td>
<td>2,021.8</td>
</tr>
<tr>
<td></td>
<td>Creditors: amounts falling due after more than one year</td>
<td>11</td>
<td>(1,119.0)</td>
</tr>
<tr>
<td></td>
<td>Provisions for liabilities</td>
<td>15</td>
<td>(177.6)</td>
</tr>
<tr>
<td></td>
<td>Net assets excluding pension liability</td>
<td></td>
<td>725.2</td>
</tr>
<tr>
<td></td>
<td>Pension liability</td>
<td>20</td>
<td>(181.8)</td>
</tr>
<tr>
<td></td>
<td>Net assets including pension liability</td>
<td></td>
<td>543.4</td>
</tr>
<tr>
<td></td>
<td>Capital and reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Called up share capital</td>
<td>16</td>
<td>10.0</td>
</tr>
<tr>
<td></td>
<td>Hedging reserve</td>
<td>18</td>
<td>(7.3)</td>
</tr>
<tr>
<td></td>
<td>Profit and loss account</td>
<td>18</td>
<td>540.7</td>
</tr>
<tr>
<td></td>
<td>Shareholder's funds</td>
<td>18</td>
<td>543.4</td>
</tr>
</tbody>
</table>

The regulatory accounts of London Power Networks plc were approved and authorised for issue on 30 July 2013 by the Board of Directors. They were signed on its behalf by:

[Signature]
B Scarsella
Director
# LONDON POWER NETWORKS PLC
## CASH FLOW STATEMENT
### FOR THE YEAR ENDED 31 MARCH 2013

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>285.1</td>
<td>198.0</td>
</tr>
</tbody>
</table>

### Returns on investments and servicing of finance

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(49.1)</td>
<td>(50.5)</td>
</tr>
<tr>
<td></td>
<td>(47.8)</td>
<td>(49.2)</td>
</tr>
</tbody>
</table>

### Taxation

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation tax paid</td>
<td>(13.1)</td>
<td>(16.4)</td>
</tr>
</tbody>
</table>

### Capital expenditure and financial investment

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments to acquire tangible fixed assets</td>
<td>(230.4)</td>
<td>(198.4)</td>
</tr>
<tr>
<td>Receipts of customer contributions</td>
<td>63.1</td>
<td>52.2</td>
</tr>
<tr>
<td>Receipts from sale of tangible fixed assets</td>
<td>-</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(167.3)</td>
<td>(136.1)</td>
</tr>
</tbody>
</table>

### Equity dividends paid

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>(40.0)</td>
<td>(90.0)</td>
</tr>
</tbody>
</table>

### Net cash flow before management of liquid resources and financing

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>16.9</td>
<td>(33.7)</td>
</tr>
</tbody>
</table>

### Management of liquid resources

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Increase)/decrease in short term deposits</td>
<td>(1.2)</td>
<td>42.6</td>
</tr>
</tbody>
</table>

### Financing

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from long term borrowings</td>
<td>-</td>
<td>247.3</td>
</tr>
<tr>
<td>Repayments of long term borrowings</td>
<td>-</td>
<td>(196.1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>51.2</td>
</tr>
</tbody>
</table>

### Increase in cash for the year

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>15.7</td>
<td>0.1</td>
</tr>
</tbody>
</table>

### Reconciliation of net cash flow to movement in net debt

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in cash for the year</td>
<td>15.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Increase/(decrease) in liquid resources</td>
<td>1.2</td>
<td>(42.6)</td>
</tr>
<tr>
<td>Decrease in long term borrowings</td>
<td>-</td>
<td>(51.2)</td>
</tr>
</tbody>
</table>

### Change in net debt resulting from cash flows

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>16.9</td>
<td>(93.7)</td>
</tr>
</tbody>
</table>

### Net non-cash movements (accretion on bonds and amortisation of issue costs)

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>(6.6)</td>
<td>(9.8)</td>
</tr>
</tbody>
</table>

### Movements in net debt

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>10.3</td>
<td>(103.5)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt at 1 April</td>
<td>(1,012.2)</td>
<td>(998.7)</td>
</tr>
<tr>
<td>Net debt at 31 March</td>
<td>(1,001.9)</td>
<td>(1,012.2)</td>
</tr>
</tbody>
</table>
NOTES TO THE ACCOUNTS

1. Accounting policies

The principal accounting policies are set out below. They have all been applied consistently throughout the year and the preceding year except as detailed below.

Purpose and basis of preparation of the accounts

The Regulatory Accounts are a primary source of audited financial information about the licensed electricity distribution business. They have been prepared in accordance with the terms of the Regulatory Licence. Regulatory Accounts are separate to the audited Statutory Financial statements which are prepared to 31 December each year.

The Regulatory Licence requires the Regulatory Accounts to be prepared with the same content and format as the most recent Statutory Accounts of the Company. Statutory Accounts are required to be prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards, except that certain derivative financial instruments are recorded at fair value and except as noted below in respect of ‘Tangible fixed assets’.

In preparing these Regulatory Accounts, all revenues that were directly earned by and costs that arose directly from carrying out an activity within a particular business segment were costed to that activity. This costing was recorded in the Company’s accounting records and undertaken using the costing systems and processes the Company uses to prepare its statutory accounts and internal management accounts.

Revenues and costs that relate to more than one company or business segment, or that arise from a shared service from a related party, are allocated between those companies or business segments using drivers that reflect, in management’s opinion, the relative consumption of the services that gives rise to the revenue or costs.

The majority of the Company’s operating and capital expenditure is charged through the Group’s management business UK Power Networks (Operations) Limited and the transport provider UK Power Networks (Transport) Limited. The Company settles these recharges on a monthly basis. The cash flow statement classifies the recharges as operating cash flows or capital expenditure as per the nature of the costs incurred.

The Company is exempt from the disclosures required by FRS 29 ‘Financial Instruments: Disclosures’ since the Company is a subsidiary of UK Power Networks Holdings Limited which prepares consolidated accounts under UK GAAP that comply with requirements of FRS 29.

FRS 25 “Financial instruments: disclosure and presentation” and FRS 26 “Financial instruments: recognition and measurement” have been applied in the recognition of interest swaps novated to the Company on 26 January 2011. The application of FRS 25 and FRS 26 affects the Company balance sheet principally in respect of derivative financial instruments which are recognised in the balance sheet at their fair value as financial assets or liabilities. The carrying values of borrowings held by the Company which are designated within an effective fair value hedge relationship are also adjusted to reflect movements associated with the hedged risks. The accounting policy is described more fully in the derivative financial instruments policy below.

Going concern

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. Further detail is contained in the Director’s Report on page 11.

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.
NOTES TO THE ACCOUNTS continued

1. Accounting policies continued

Tangible fixed assets continued

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

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Depreciation Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overhead and underground lines</td>
<td>45 to 60 years</td>
</tr>
<tr>
<td>Other network plant and buildings</td>
<td>20 to 60 years</td>
</tr>
<tr>
<td>Fixtures and equipment</td>
<td>5 years</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5 to 10 years</td>
</tr>
</tbody>
</table>

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.

Customer contributions in respect of capital expenditure are credited to a fixed asset account and are released to the profit and loss account over the expected useful lives of the relevant assets by equal annual instalments. The un-amortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 2006, which requires fixed assets to be included at their purchase price or production cost and hence the contribution would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the Directors that the treatment adopted is necessary to give a true and fair view. The value of the contributions is shown in note 8.

Finance costs

Finance costs on borrowings are recognised in the profit and loss account over the term of such instruments, at a constant rate on the carrying amount.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of these assets. The commencement of capitalisation begins when both finance costs and expenditure for the assets are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

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.

Investments

Current asset investments are stated at the lower of cost and net realisable value.
NOTES TO THE ACCOUNTS continued

1. Accounting policies continued

Financial instruments
Financial assets and financial liabilities are recognised in the Company’s balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets
Trade debtors
Trade debtors are initially recognised at fair value. The carrying amount is reduced through the use of an allowance account. Appropriate allowances for estimated irrecoverable amounts are recognised where the estimated cash flows are less than the carrying amount. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities
Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss (FVTPL)’ or ‘other financial liabilities’.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been incurred principally for the purpose of disposal in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company’s documented risk management or investment strategy, and information about the Company is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 26 “Financial Instruments: Recognition and Measurement” permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.
NOTES TO THE ACCOUNTS continued

1. Accounting policies continued

Financial instruments continued

De-recognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

Derivative financial instruments
The Company uses derivative financial instruments to reduce exposure to interest rate and inflation rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Interest rate and inflation rate swaps are entered into for the purpose of matching or eliminating risk from potential movements in interest and inflation rates associated with the borrowing requirements of the group. Amounts payable or receivable in respect of the interest and inflation rate swaps are recognised within net interest payable in the profit and loss account over the life of the financial instrument.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the profit and loss account immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the profit and loss account depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting
At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The ‘Financial instruments’ note below sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in the reserves note below.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Fair value hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit and loss account from that date.
1. Accounting policies continued

Hedge accounting continued

*Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred through the Statement of Total Recognised Gains and Losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account, and is included in the 'finance charges' line.

Amounts previously recognised in the Statement of Total Recognised Gains and Losses are reclassified to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account, in the same line of the profit and loss account as the recognised hedged item.

Cash flow hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in the Statement of Total Recognised Gains and Losses at that time remains there and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the Statement of Total Recognised Gains and Losses is recognised immediately in the profit and loss account.

**Pensions**

The Company has obligations under two funded defined benefit pension arrangements as part of the UK Power Networks group and accounts for these schemes in accordance with FRS 17 'Retirement Benefits'.

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 schemes are funded, with the assets of the schemes 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.

**Provisions**

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

The Company has received certain claims against the Company for work performed to date. The Company takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.
NOTES TO THE ACCOUNTS continued

2. Segment information

The segments, which are designated by the Regulator, are defined as follows:

- 'Distribution (Use of System)' (DUoS) is the distribution of electricity through the Company's distribution system to demand customers, and is subject to price control.

- 'Distributed Generation' is the distribution of electricity to customers having the capacity to generate and supply electricity, and is subject to price control.

- 'Excluded Services' is the supply of electricity to customers with specific requirements, such as the 'top-up' of self-generated supplies, emergency stand-by, and enhanced security of supply. These services are not price-controlled.

- 'Metering' is the provision of metering equipment and services, and is subject to partial price control.

- 'De Minimis' includes low value, non price control revenue.

Turnover between segments is immaterial. The Company has no activities which fall into the other two categories of activity defined by the Regulator; namely 'Out of Area' and 'Other' activities.

SEGMENTAL ANALYSIS
FOR THE YEAR ENDED 31 MARCH 2013

<table>
<thead>
<tr>
<th></th>
<th>Distribution (DUoS) £m</th>
<th>Distributed Generation £m</th>
<th>Excluded Services (excluding metering) £m</th>
<th>Metering £m</th>
<th>De Minimis £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>406.1</td>
<td>-</td>
<td>25.2</td>
<td>7.5</td>
<td>7.3</td>
<td>446.1</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(23.0)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(23.0)</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(86.3)</td>
<td>-</td>
<td>(19.8)</td>
<td>(0.4)</td>
<td>(9.0)</td>
<td>(115.5)</td>
</tr>
<tr>
<td>Admin expenses</td>
<td>(1.7)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(34.2)</td>
<td>-</td>
<td>(9.2)</td>
<td>-</td>
<td>-</td>
<td>(43.4)</td>
</tr>
<tr>
<td></td>
<td>(145.2)</td>
<td>-</td>
<td>(19.8)</td>
<td>(9.6)</td>
<td>(9.0)</td>
<td>(183.6)</td>
</tr>
</tbody>
</table>

Operating profit     | 260.9                  | -                        | 5.4                                      | (2.1)      | (1.7)         | 262.5   |

Net finance charges  | (59.1)                 |                          |                                          |            |               |         |

Profit on ordinary activities before taxation | 203.4 |

Tangible asset additions | 190.1 | 0.1 | 44.7 | 0.2 | 1.1 | 236.2 |
Capital Contributions   | (16.3) | (1.2) | (44.5) | - | (1.1) | (63.1) |

Net additions          | 173.8 | (1.1) | 0.2 | 0.2 | - | 173.1 |
NOTES TO THE ACCOUNTS continued

2. Segment information continued

SEGMENTAL ANALYSIS
FOR THE YEAR ENDED 31 MARCH 2012

<table>
<thead>
<tr>
<th></th>
<th>Distribution (DUoS) £m</th>
<th>Distributed Generation £m</th>
<th>Excluded Services (excluding metering) £m</th>
<th>Metering £m</th>
<th>De Minimus £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>362.2</td>
<td>-</td>
<td>24.6</td>
<td>7.4</td>
<td>-</td>
<td>394.2</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(21.7)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(21.7)</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(84.5)</td>
<td>-</td>
<td>(20.9)</td>
<td>(0.8)</td>
<td>-</td>
<td>(106.2)</td>
</tr>
<tr>
<td>Admin expenses</td>
<td>(1.7)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(31.0)</td>
<td>-</td>
<td>-</td>
<td>(9.8)</td>
<td>-</td>
<td>(40.8)</td>
</tr>
<tr>
<td></td>
<td>(138.9)</td>
<td>(20.9)</td>
<td>(10.6)</td>
<td>-</td>
<td>(170.4)</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>223.3</td>
<td>-</td>
<td>3.7</td>
<td>(3.2)</td>
<td>-</td>
<td>223.8</td>
</tr>
</tbody>
</table>

Net finance charges (65.6)

Profit on ordinary activities before taxation 158.2

<table>
<thead>
<tr>
<th></th>
<th>Tangible asset additions £m</th>
<th>Capital Contributions £m</th>
<th>Net additions £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible asset additions</td>
<td>171.0</td>
<td>(30.3)</td>
<td>140.7</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>(2.1)</td>
<td>(2.4)</td>
<td>(0.3)</td>
</tr>
<tr>
<td></td>
<td>30.0</td>
<td>(29.5)</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>0.7</td>
<td>-</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>141.6</td>
</tr>
</tbody>
</table>

Net assets cannot be reliably allocated between segments and therefore are not presented in the tables above. The greater majority of assets by value are attributable to the Distribution segment.

3. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of electricity distribution and the invoice value of other goods and services provided. This includes an estimate of the sales value of units distributed to customers between the date of the last meter reading and the year end.
### 4. Operating profit

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>This is stated after charging:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation of owned assets</strong></td>
<td>43.4</td>
<td>40.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Amounts payable to Auditor</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fees payable to Company Auditor for the audit of the Company’s annual accounts</strong></td>
<td>35.0</td>
<td>33.0</td>
</tr>
<tr>
<td><strong>Total audit fees</strong></td>
<td>35.0</td>
<td>33.0</td>
</tr>
<tr>
<td><strong>Other services pursuant to legislation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- <strong>Regulatory accounts</strong></td>
<td>24.3</td>
<td>23.3</td>
</tr>
<tr>
<td><strong>Audit related assurance services</strong></td>
<td>24.3</td>
<td>23.3</td>
</tr>
<tr>
<td></td>
<td>59.3</td>
<td>56.3</td>
</tr>
</tbody>
</table>

The Company had no employees in either the current or the prior year.

### 5. Directors’ emoluments

All Directors are not employed directly by the Company and did not receive any remuneration for services to the Company during the year or the preceding year.
6. Finance charges (net)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest receivable and similar income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On loans to Group undertakings</td>
<td>8.7</td>
<td>7.6</td>
</tr>
<tr>
<td>Other interest receivable</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8.9</strong></td>
<td><strong>8.0</strong></td>
</tr>
</tbody>
</table>

| **Interest payable and similar charges** |      |      |
| Net interest cost on pension scheme    | (2.6) | (2.1) |
| On loans from Group undertakings       | (0.2) | -    |
| On loans repayable within five years   | (16.2)| (17.2)|
| On loans repayable after five years    | (41.9)| (48.1)|
| Other finance charges                  | (0.3) | (1.5) |
| **Total**                              | **(61.2)** | **(68.9)** |

| Finance costs capitalised | 5.8 | 5.4 |
| **Total**                | **(55.4)** | **(63.5)** |

| **Fair value gains/(losses) on financial instruments** |      |      |
| Fair value losses on index linked swaps        | (12.7)| (8.0) |
| Fair value gains/(losses) on interest rate swaps not qualifying for hedge accounting | 1.3  | (1.2) |
| Transfer to profit and loss on cash flow hedges | (1.2) | (0.9) |
| **Total**                                         | **(12.6)** | **(10.1)** |

**Total finance charges (net)**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>(59.1)</strong></td>
<td><strong>(65.6)</strong></td>
</tr>
</tbody>
</table>

Finance costs have been capitalised on the basis of a capitalisation rate of 6.9% (2012: 7.1%), which is the weighted average of rates applicable to the Company's general borrowings outstanding during the year. The cumulative interest capitalised amounts to £17.5m (2012: £11.7m).
NOTES TO THE ACCOUNTS continued

7. Tax on profit on ordinary activities

(a) Analysis of tax charge for the year:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK current tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK corporation tax charge on profit for the year</td>
<td>16.8</td>
<td>13.2</td>
</tr>
<tr>
<td>Adjustment in respect of prior years</td>
<td>(3.0)</td>
<td>(4.8)</td>
</tr>
<tr>
<td>Total current tax charge (note(b))</td>
<td>13.8</td>
<td>8.4</td>
</tr>
</tbody>
</table>

| **UK deferred tax**            |      |      |
| Origination and reversal of timing differences | 12.8 | 15.7 |
| Adjustment in respect of prior years         | (7.0) | 0.8 |
| Effect of decrease in tax rate              | (7.4) | (14.4) |
| Total deferred tax charge/(credit)         | (1.6) | 2.1 |
| Tax on profit on ordinary activities       | 12.2 | 10.5 |

(b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit on ordinary activities before tax</strong></td>
<td>203.4</td>
<td>158.2</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities at standard UK rate of corporation tax of 24% (2012: 26%)</td>
<td>48.8</td>
<td>41.1</td>
</tr>
<tr>
<td>Effect of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses not deductible for tax purposes</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Consortium relief not paid for in full</td>
<td>(19.5)</td>
<td>(11.7)</td>
</tr>
<tr>
<td>Capital allowances in excess of depreciation</td>
<td>(7.0)</td>
<td>(7.7)</td>
</tr>
<tr>
<td>Movement in pension liability</td>
<td>(4.7)</td>
<td>(10.3)</td>
</tr>
<tr>
<td>Movement in other timing differences</td>
<td>(1.6)</td>
<td>0.9</td>
</tr>
<tr>
<td>Adjustment in respect of prior years</td>
<td>(3.0)</td>
<td>(4.8)</td>
</tr>
<tr>
<td>Total current tax charge for the year</td>
<td>13.8</td>
<td>8.4</td>
</tr>
</tbody>
</table>
NOTES TO THE ACCOUNTS continued

7. Tax on profit on ordinary activities continued

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 21% by 2014 and 20% by 2015. The reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. The remeasurement of the opening deferred tax balance at 23% reduced the deferred tax charge in the current year by £7.4m. No further adjustments to the deferred tax balance have been made in relation to prospective future changes in the tax rate as these were not substantively enacted in Law at the balance sheet date.

8. Tangible fixed assets

<table>
<thead>
<tr>
<th></th>
<th>Non-network land and buildings</th>
<th></th>
<th>Fixtures and equipment</th>
<th>Customer contributions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Network</td>
<td>Vehicles</td>
<td>equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>At 1 April 2012</td>
<td>3,445.8</td>
<td>27.1</td>
<td>4.5</td>
<td>117.1</td>
<td>(898.4)</td>
</tr>
<tr>
<td>Additions</td>
<td>221.2</td>
<td>1.0</td>
<td>1.1</td>
<td>12.9</td>
<td>(63.1 )</td>
</tr>
<tr>
<td>Disposals</td>
<td>(10.6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 March 2013</td>
<td>3,656.4</td>
<td>28.1</td>
<td>5.6</td>
<td>130.0</td>
<td>(961.5)</td>
</tr>
</tbody>
</table>

| Depreciation         |                                |                      |                        |                        |       |
| At 1 April 2012      | 1,122.2                        | 8.5                  | 2.4                    | 99.0                   | (223.1)| 1,009.0|
| Charge for the year  | 60.4                           | 0.3                  | 0.6                    | 4.0                    | (21.9 )| 43.4   |
| Disposals            | (10.6)                         | -                    | -                      | -                      | -     | (10.6) |
|                       |                                |                      |                        |                        |       |
| At 31 March 2013     | 1,172.0                        | 8.8                  | 3.0                    | 103.0                  | (245.0)| 1,041.8|

| Net book value       |                                |                      |                        |                        |       |
| At 31 March 2013     | 2,484.4                        | 19.3                 | 2.6                    | 27.0                   | (716.5)| 1,816.8|
| At 31 March 2012     | 2,323.6                        | 18.6                 | 2.1                    | 18.1                   | (675.3)| 1,687.1|

Network assets include operational land with a book value of £16.4m (2012: £15.6m).

The net book value of non-network land and buildings comprises:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Freehold buildings</td>
<td>14.9</td>
<td>14.2</td>
</tr>
<tr>
<td>Freehold land</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td></td>
<td>19.3</td>
<td>18.6</td>
</tr>
</tbody>
</table>

Included within tangible assets as at 31 March 2013 are assets in the course of construction of £117.5m (2012: £67.3m). Approximately £49.5m of the prior year assets under construction were completed in the current period.
### 9. Debtors

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amounts falling due within one year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>48.0</td>
<td>40.6</td>
</tr>
<tr>
<td>Amounts owed by Group undertakings</td>
<td>13.8</td>
<td>75.1</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>62.7</td>
<td>116.5</td>
</tr>
<tr>
<td><strong>Amounts falling due after more than one year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owed by Group undertakings</td>
<td>258.5</td>
<td>197.5</td>
</tr>
<tr>
<td>Derivatives (note 13)</td>
<td>28.2</td>
<td>18.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>286.7</td>
<td>215.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>349.4</td>
<td>332.2</td>
</tr>
</tbody>
</table>

Amounts owed by Group undertakings due after more than one year represents a loan to the parent company UK Power Networks Holdings Limited which is repayable in June 2016 and bears interest at 3.85% per annum.

### 10. Creditors: amounts falling due within one year

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors</td>
<td>0.3</td>
<td>-</td>
</tr>
<tr>
<td>Amounts owed to Group undertakings</td>
<td>26.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>9.1</td>
<td>8.4</td>
</tr>
<tr>
<td>Other taxation and social security</td>
<td>20.8</td>
<td>18.6</td>
</tr>
<tr>
<td>Other creditors</td>
<td>2.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>141.6</td>
<td>150.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>200.4</td>
<td>197.5</td>
</tr>
</tbody>
</table>

### 11. Creditors: amounts falling due after more than one year

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings (note 12)</td>
<td>1,057.9</td>
<td>1,051.3</td>
</tr>
<tr>
<td>Derivatives (note 13)</td>
<td>61.1</td>
<td>39.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,119.0</td>
<td>1,091.0</td>
</tr>
</tbody>
</table>
12. Borrowings

<table>
<thead>
<tr>
<th>Amounts falling due after more than one year</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>£300m 5.375% Bond due November 2016</td>
<td>299.3</td>
<td>299.1</td>
</tr>
<tr>
<td>£250m 5.125% Bond due March 2023</td>
<td>247.7</td>
<td>247.5</td>
</tr>
<tr>
<td>£300m 6.125% Bond due June 2027</td>
<td>303.9</td>
<td>304.2</td>
</tr>
<tr>
<td>£150m 3.125% Index Linked Bond due June 2032</td>
<td>207.0</td>
<td>200.5</td>
</tr>
<tr>
<td></td>
<td>1,057.9</td>
<td>1,051.3</td>
</tr>
</tbody>
</table>

Bonds are stated net of unamortised issue costs of £4.5m (2012: £4.9m). The 6.125% bonds include an unamortised premium of £3.9m (2012: £4.2m) and the index linked bonds include accretion of £58.3m (2012: £52.0m). These balances together with the interest expense are allocated to the profit and loss account over the term of the debt.

No security has been given over the assets of the Company in respect of the Company's borrowings.

13. Derivative financial instruments

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative financial assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps not designated in hedge accounting relationships</td>
<td>28.2</td>
<td>18.2</td>
</tr>
<tr>
<td></td>
<td>28.2</td>
<td>18.2</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index linked swap not designated in a hedge accounting relationship</td>
<td>(26.0)</td>
<td>(13.3)</td>
</tr>
<tr>
<td>Interest rate swaps not designated in hedge accounting relationships</td>
<td>(35.1)</td>
<td>(26.4)</td>
</tr>
<tr>
<td></td>
<td>(61.1)</td>
<td>(39.7)</td>
</tr>
<tr>
<td></td>
<td>(32.9)</td>
<td>(21.5)</td>
</tr>
</tbody>
</table>

Further details of derivative financial instruments are provided in note 14.
14. Financial instruments

Risk management
The Company's exposure to interest rate risk is managed by the immediate parent company, UK Power Networks Holdings Limited. Treasury operations are conducted within a framework of policies and guidelines authorised by the Board of UK Power Networks Holdings Limited.

(a) Interest rate and currency risk
A number of swaps have been transacted to change the interest rate exposure of the Company to include an appropriate mix of fixed, floating and RPI linked interest rates.

The Company does not have any direct material exposure to foreign currencies.

(b) Interest rate swap contracts
Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest calculated on agreed notional principal amounts. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows implicit in the swaps. The notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date are disclosed below.

A swap contract was entered into as a pre-hedge to the issue of new bond debt in 2011, swapping 6 month Libor to a fixed rate of 3.73% on a notional value of £225.0m. The swap was designated as a cash flow hedge until the issue of the bonds in June 2011 at which point it was de-designated from the hedge relationship and subsequent gains or losses recognised immediately in the profit or loss. Whilst the instrument was effective as a cash flow hedge a loss of £11.6m was deferred to the cash flow hedge reserve. This loss is now being amortised to the profit and loss account over the remaining life of the swap instrument. During the year £1.2m (2012: £0.9m) was transferred to the profit and loss from the cash flow hedge reserve.

At the time of the bond issue in 2011 a mirror swap was transacted to offset the effect of the original swap by exchanging 3.30% fixed interest with 6 month Libor. The net ongoing effect of both instruments is 0.43% fixed interest payable on a notional principal of £225.0m until May 2021.

At 31 March 2013 the fair value of the floating to fixed rate swap was £35.1m (2012: £26.4m) out of the money and the fixed to floating rate mirror swap was £28.2m (2012: £18.2m) in the money. Interest payable and receivable on the swaps is settled on a semi-annual basis.

(c) Index linked swap contracts
The Company uses an RPI linked swap contract to convert a portion of the fixed rate interest payable under the bonds to an inflation linked rate. Although designed as an economic hedge against the RPI exposure of the Company's regulated income this instrument is not designated in a formal hedge accounting relationship. The index linked swap receives fixed interest and pays RPI linked interest on a notional value of £120.0m with a maturity date of June 2027. The interest payable is settled on a semi annual basis and the interest receivable on an annual basis.

At 31 March 2013 the fair value of this instrument amounted to a liability of £26.0m (2012: £13.3m).
14. Financial instruments continued

(d) Interest rate profile

Interest earned on cash deposits is predominantly through money market investments. Money market investments are short term in nature and taken out at fixed rates of interest for the duration of the investment.

After taking into account the Company’s interest rate and index linked swaps, the interest rate profile of the Company’s financial liabilities is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Borrowings</th>
<th>Fixed Rate Borrowings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Floating rate</td>
<td>Index linked</td>
</tr>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>As at 31 March 2013</td>
<td>-</td>
<td>328.6</td>
</tr>
<tr>
<td>As at 31 March 2012</td>
<td>-</td>
<td>322.2</td>
</tr>
</tbody>
</table>

The index linked rates range from 2.9% to 3.1% indexed by RPI over the period of the relevant instrument. The combined weighted average cost of index linked and fixed rate borrowings for the year was 6.9% (2012: 7.1%).

(e) Fair values

The fair values of financial instruments represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The Company’s borrowings recorded at amortised cost are shown below together with the fair value:

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Fair value</th>
<th>Carrying amount</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 £m</td>
<td>2013 £m</td>
<td>2012 £m</td>
<td>2012 £m</td>
</tr>
<tr>
<td>Amounts payable:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In two to five years</td>
<td>299.3</td>
<td>338.2</td>
<td>299.1</td>
<td>334.7</td>
</tr>
<tr>
<td>In more than five years</td>
<td>758.6</td>
<td>1,070.3</td>
<td>752.2</td>
<td>949.4</td>
</tr>
<tr>
<td></td>
<td>1,057.9</td>
<td>1,408.5</td>
<td>1,051.3</td>
<td>1,284.1</td>
</tr>
</tbody>
</table>

The fair values of bonds have been determined by reference to closing quoted market values where available or otherwise by discounting future cash flows at their market interest rate. The fair value of all other financial assets and liabilities approximates to their carrying value.

(f) Borrowing facilities

The Company has access to a revolving credit facility of £145.0m until February 2017 which was undrawn as at 31 March 2013.
15. Provisions for liabilities

The movements in provisions during the current year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>At 1 April 2012</th>
<th>Arising during the year</th>
<th>Released in the year</th>
<th>At 31 March 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax</td>
<td>£181.5</td>
<td>-</td>
<td>(5.7)</td>
<td>£175.8</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Total provisions</strong></td>
<td><strong>181.5</strong></td>
<td><strong>1.8</strong></td>
<td><strong>(5.7)</strong></td>
<td><strong>177.6</strong></td>
</tr>
</tbody>
</table>

“Other” comprises provisions for legal costs which are expected to become payable within the next two years.

Deferred taxation provided in the financial statements is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated capital allowances</td>
<td>185.4</td>
<td>193.4</td>
</tr>
<tr>
<td>Other timing differences</td>
<td>(9.6)</td>
<td>(11.9)</td>
</tr>
<tr>
<td><strong>Provision for deferred tax</strong></td>
<td>175.8</td>
<td>181.5</td>
</tr>
</tbody>
</table>

The movements in deferred taxation are as follows:

<table>
<thead>
<tr>
<th></th>
<th>At 1 April 2012</th>
<th>Profit and loss account</th>
<th>Statement of total recognised gains and losses</th>
<th>At 31 March 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for deferred tax</td>
<td>£181.5</td>
<td>(6.1)</td>
<td>0.4</td>
<td>£175.8</td>
</tr>
<tr>
<td>Deferred tax shown against pension liability</td>
<td>(56.8)</td>
<td>4.5</td>
<td>(3.0)</td>
<td>(54.3)</td>
</tr>
<tr>
<td><strong>Net deferred tax</strong></td>
<td><strong>125.7</strong></td>
<td><strong>(1.6)</strong></td>
<td><strong>(2.6)</strong></td>
<td><strong>121.5</strong></td>
</tr>
</tbody>
</table>

16. Share capital

Authorised, allotted, called up and fully paid

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number</strong></td>
<td><strong>10,000,000</strong></td>
<td><strong>10,000,000</strong></td>
</tr>
<tr>
<td><strong>£m</strong></td>
<td><strong>10.0</strong></td>
<td><strong>10.0</strong></td>
</tr>
</tbody>
</table>

Ordinary shares of £1.00 each
17. Dividends paid

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td></td>
</tr>
<tr>
<td>Ordinary dividends on equity shares – £4.00 (2012: £9.00) per ordinary share</td>
<td>40.0</td>
<td>90.0</td>
</tr>
</tbody>
</table>

18. Reconciliation of shareholder's funds

<table>
<thead>
<tr>
<th></th>
<th>Share Capital £m</th>
<th>Hedging Reserve £m</th>
<th>Profit and loss account £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 March 2011</td>
<td>10.0</td>
<td>(1.3)</td>
<td>430.1</td>
<td>438.8</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>147.7</td>
<td>147.7</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>-</td>
<td>(90.0)</td>
<td>(90.0)</td>
</tr>
<tr>
<td>Actuarial loss net of deferred tax on defined pension benefits</td>
<td>-</td>
<td>-</td>
<td>(75.1)</td>
<td>(75.1)</td>
</tr>
<tr>
<td>Deferred tax rate change</td>
<td>-</td>
<td>-</td>
<td>(3.1)</td>
<td>(3.1)</td>
</tr>
<tr>
<td>Loss net of deferred tax on cash flow hedges</td>
<td>-</td>
<td>(7.5)</td>
<td>-</td>
<td>(7.5)</td>
</tr>
<tr>
<td>Transfer to profit or loss net of deferred tax on cash flow hedges</td>
<td>-</td>
<td>0.7</td>
<td>-</td>
<td>0.7</td>
</tr>
<tr>
<td>At 31 March 2012</td>
<td>10.0</td>
<td>(8.1)</td>
<td>409.6</td>
<td>411.5</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>191.2</td>
<td>191.2</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>-</td>
<td>-</td>
<td>(40.0)</td>
<td>(40.0)</td>
</tr>
<tr>
<td>Actuarial loss net of deferred tax on defined pension benefits</td>
<td>-</td>
<td>-</td>
<td>(17.8)</td>
<td>(17.8)</td>
</tr>
<tr>
<td>Deferred tax rate change</td>
<td>-</td>
<td>(0.1)</td>
<td>(2.3)</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Transfer to profit or loss net of deferred tax on cash flow hedges</td>
<td>-</td>
<td>0.9</td>
<td>-</td>
<td>0.9</td>
</tr>
<tr>
<td>At 31 March 2013</td>
<td>10.0</td>
<td>(7.3)</td>
<td>540.7</td>
<td>543.4</td>
</tr>
</tbody>
</table>

The losses deferred to the hedging reserve relate to an interest rate swap entered into as a pre hedge to the issue of new Eurobonds. The swap was designated as an effective cash flow hedge until the issue of the bonds at which time hedge accounting was discontinued and subsequent gains or losses on the instrument recognised immediately in the profit or loss account. The hedge reserve is amortised to the profit and loss over the life of the instrument.

19. Capital commitments

Amounts contracted for but not provided in the regulatory accounts amounted to £43.8m (2012: £58.5m).
20. Pension commitments

The Group operates two funded defined benefit pension schemes:

- The UK Power Networks Group of the ESPS (the UKPN Group) – formerly the Networks Section of the EDF Energy Group of the Electricity Supply Pension Scheme (ESPS); and

- The UK Power Networks Pension Scheme (UKPNPS) – formerly the Networks Section of the EDF Energy Pension Scheme (EEPS).

The parent company UK Power Networks Holdings Limited assumed responsibility for these defined benefit arrangements when it acquired the Distribution Networks businesses and associated unregulated businesses from the former parent company EDF Energy plc on 29 October 2010. Scheme assets and liabilities were assigned to the individual legal entities of the Group, including this Company, using a revised allocation methodology based on the attribution portions agreed with the industry regulator Ofgem, within the latest price control determination, DPCR5.

The actuarial valuation at 31 March 2013 was carried out by Aon Hewitt. The last triennial valuation of the schemes completed on behalf of the trustees for funding purposes was performed as at 31 March 2010. The next triennial valuation as at 31 March 2013 was still in progress at the time of approval of these financial statements.

Under the funding schedule agreed with the scheme trustees, the Group aims to eliminate the current deficit over the next 13 years. The Group monitors funding levels annually and the funding schedule is reviewed between the Group and the trustees at each triennial valuation. The Group considers that the contribution rates agreed with the trustees are sufficient to eliminate the current deficit over the agreed period.
20. Pension commitments continued

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

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discount rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- UKPN Group</td>
<td>4.3</td>
<td>4.7</td>
</tr>
<tr>
<td>- UKPNPS</td>
<td>4.8</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Expected return on scheme assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- UKPN Group</td>
<td>4.8</td>
<td>5.4</td>
</tr>
<tr>
<td>- UKPNPS</td>
<td>5.6</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Rate of increase in RPI</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- UKPN Group</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>- UKPNPS</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Rate of increase in CPI</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- UKPN Group</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>- UKPNPS</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Rate of increase in salaries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- UKPN Group</td>
<td>4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>- UKPNPS</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Rate of pension increases in payment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Pensions in excess of GMP (UKPN Group)</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>- Post 88 GMP (UKPN Group)</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>- RPI up to 5% per annum (UKPNPS)</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>- RPI up to 2.5% per annum (UKPNPS)</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>- Post 88 GMP (UKPNPS)</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Rate of pension increases in deferment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- UKPN Group</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>- CPI up to 5% per annum (UKPNPS)</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>- CPI up to 2.5% per annum (UKPNPS)</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>
20. Pension commitments continued

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

<table>
<thead>
<tr>
<th></th>
<th>At 31 March 2013</th>
<th>At 31 March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>UKPN Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy for current male pensioner aged 60</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Life expectancy for current female pensioner aged 60</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Life expectancy for future male pensioner from age 60 retiring in 2030</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Life expectancy for future female pensioner from age 60 retiring in 2030</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>UKPNPS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy for current male pensioner aged 65</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Life expectancy for current female pensioner aged 65</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Life expectancy for future male pensioner from age 65 retiring in 2030</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Life expectancy for future female pensioner from age 65 retiring in 2030</td>
<td>27</td>
<td>27</td>
</tr>
</tbody>
</table>

These assumptions are governed by FRS 17 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2010, which determined the Company’s contribution rate for future years.

The amount recognised in the balance sheet in respect of the defined benefit retirement schemes is as follows:

<table>
<thead>
<tr>
<th></th>
<th>UKPN Grp 2013 £m</th>
<th>UKPNPS 2013 £m</th>
<th>Total 2013 £m</th>
<th>Total 2012 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of scheme assets</td>
<td>1,181.6</td>
<td>35.7</td>
<td>1,217.3</td>
<td>1,100.7</td>
</tr>
<tr>
<td>Present value of defined benefit obligations</td>
<td>(1,411.8)</td>
<td>(41.6)</td>
<td>(1,453.4)</td>
<td>(1,333.4)</td>
</tr>
<tr>
<td>Deficit in scheme</td>
<td>(230.2)</td>
<td>(5.9)</td>
<td>(236.1)</td>
<td>(232.7)</td>
</tr>
<tr>
<td>Related deferred tax asset</td>
<td>52.9</td>
<td>1.4</td>
<td>54.3</td>
<td>55.8</td>
</tr>
<tr>
<td>Liability recognised in the balance sheet</td>
<td>(177.3)</td>
<td>(4.5)</td>
<td>(181.8)</td>
<td>(176.9)</td>
</tr>
</tbody>
</table>

This amount is presented in pension liabilities on the balance sheet.
20. Pension commitments continued

Amounts recognised in the profit and loss account in respect of the defined benefit scheme are as follows:

<table>
<thead>
<tr>
<th></th>
<th>UKPN Grp 2013 £m</th>
<th>UKPNPS 2013 £m</th>
<th>Total 2013 £m</th>
<th>Total 2012 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service cost</td>
<td>(6.6)</td>
<td>(3.0)</td>
<td>(9.6)</td>
<td>(8.2)</td>
</tr>
<tr>
<td>Changes in respect of terminations</td>
<td>(1.2)</td>
<td>-</td>
<td>(1.2)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Interest cost</td>
<td>(60.0)</td>
<td>(1.8)</td>
<td>(61.8)</td>
<td>(66.8)</td>
</tr>
<tr>
<td>Expected return on scheme assets</td>
<td>57.4</td>
<td>1.8</td>
<td>59.2</td>
<td>64.7</td>
</tr>
<tr>
<td></td>
<td>(10.4)</td>
<td>(3.0)</td>
<td>(13.4)</td>
<td>(12.4)</td>
</tr>
</tbody>
</table>

Of the charge for the year £10.8m (2012: £10.3m) has been included in distribution costs and an expense of £2.6m (2012: £2.1m) has been included in interest payable. The estimated amount of contributions expected to be paid to the schemes in the year ending 31 March 2014 is £31.5m.

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

<table>
<thead>
<tr>
<th></th>
<th>UKPN Grp 2013 £m</th>
<th>UKPNPS 2013 £m</th>
<th>Total 2013 £m</th>
<th>Total 2012 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 April</td>
<td>(1,299.3)</td>
<td>(34.1)</td>
<td>(1,333.4)</td>
<td>(1,213.7)</td>
</tr>
<tr>
<td>Current service cost</td>
<td>(6.6)</td>
<td>(3.0)</td>
<td>(9.6)</td>
<td>(8.2)</td>
</tr>
<tr>
<td>Interest cost</td>
<td>(60.0)</td>
<td>(1.8)</td>
<td>(61.8)</td>
<td>(66.8)</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>(102.8)</td>
<td>(1.1)</td>
<td>(103.9)</td>
<td>(100.1)</td>
</tr>
<tr>
<td>Changes in respect of terminations</td>
<td>(1.2)</td>
<td>-</td>
<td>(1.2)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Benefits paid/(received)</td>
<td>58.1</td>
<td>(1.6)</td>
<td>56.5</td>
<td>57.5</td>
</tr>
<tr>
<td></td>
<td>(1,411.8)</td>
<td>(41.6)</td>
<td>(1,453.4)</td>
<td>(1,333.4)</td>
</tr>
</tbody>
</table>

The actuarial loss includes a net transfer in of scheme liabilities amounting to £4.1m (2012: £28.1m transfer out) to align the allocation of scheme liabilities across the Group to the attribution portions agreed with the Regulator under the latest price control determination DPCR5.
20. Pension commitments continued

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

<table>
<thead>
<tr>
<th></th>
<th>UKPN Gp</th>
<th>UKPNPS</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2013</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>At 1 April</td>
<td>1,073.9</td>
<td>26.8</td>
<td>1,100.7</td>
<td>1,058.1</td>
</tr>
<tr>
<td>Expected return on scheme assets</td>
<td>57.4</td>
<td>1.8</td>
<td>59.2</td>
<td>64.7</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>78.2</td>
<td>2.6</td>
<td>80.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Contributions by employer</td>
<td>7.0</td>
<td>2.0</td>
<td>9.0</td>
<td>9.4</td>
</tr>
<tr>
<td>Deficit payments</td>
<td>23.2</td>
<td>0.9</td>
<td>24.1</td>
<td>24.6</td>
</tr>
<tr>
<td>Benefits (paid)/received</td>
<td>(58.1)</td>
<td>1.6</td>
<td>(56.5)</td>
<td>(57.5)</td>
</tr>
</tbody>
</table>

At 31 March

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,181.6</td>
<td>35.7</td>
<td>1,217.3</td>
<td>1,100.7</td>
</tr>
</tbody>
</table>

The actuarial gain includes a net transfer in of scheme assets amounting to £3.4m (2012: £22.7m transfer out) to align the allocation of scheme liabilities across the Group to the attribution portions agreed with the Regulator under the latest price control determination DPCR5.

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Expected return</th>
<th>Fair value of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 %</td>
<td>2012 %</td>
</tr>
<tr>
<td>Gilts - fixed interest</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td>- index linked</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Equities</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Property</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>4.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>4.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Other</td>
<td>0.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

At 31 March

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,181.6</td>
<td>35.7</td>
<td>1,217.3</td>
<td>1,100.7</td>
</tr>
</tbody>
</table>

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out in the table above. The overall expected rate of return as presented in the assumptions table on page 43 is derived by aggregating the expected return for each asset class over the actual asset allocation for each of the schemes as at 31 March 2013.

The actual return on scheme assets in the year was a gain of £136.6m (2012: £88.8m).
20. Pension commitments continued

History of experience gains and losses are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Fair value of scheme assets</td>
<td>1,217.3</td>
<td>1,100.7</td>
<td>1,058.1</td>
<td>743.9</td>
<td>596.7</td>
</tr>
<tr>
<td>Present value of defined benefit obligations</td>
<td>(1,453.4)</td>
<td>(1,333.4)</td>
<td>(1,213.7)</td>
<td>(1,034.3)</td>
<td>(740.2)</td>
</tr>
<tr>
<td>Deficit in the scheme</td>
<td>(236.1)</td>
<td>(232.7)</td>
<td>(155.6)</td>
<td>(290.4)</td>
<td>(143.5)</td>
</tr>
</tbody>
</table>

Experience adjustments on scheme liabilities:

<table>
<thead>
<tr>
<th></th>
<th>Amount (£m)</th>
<th>Percentage of scheme liabilities (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(18.9)</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>(8.3)</td>
<td>0.6</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(7.9)</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>(1.4)</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Experience adjustments on scheme assets:

<table>
<thead>
<tr>
<th></th>
<th>Amount (£m)</th>
<th>Percentage of scheme assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>77.4</td>
<td>6.4</td>
</tr>
<tr>
<td></td>
<td>24.1</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>17.3</td>
<td>1.6</td>
</tr>
<tr>
<td></td>
<td>137.5</td>
<td>18.5</td>
</tr>
<tr>
<td></td>
<td>(175.8)</td>
<td>29.5</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>UKPN Grp</th>
<th></th>
<th>UKPNPS</th>
<th></th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>At 1 April</td>
<td>(195.2)</td>
<td>(5.7)</td>
<td>(200.9)</td>
<td>(122.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial (loss)/gain</td>
<td>(24.6)</td>
<td>1.5</td>
<td>(23.1)</td>
<td>(98.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>5.6</td>
<td>(0.3)</td>
<td>5.3</td>
<td>23.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax rate change</td>
<td>(2.2)</td>
<td>(0.1)</td>
<td>(2.3)</td>
<td>(3.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 March</td>
<td>(216.4)</td>
<td>(4.6)</td>
<td>(221.0)</td>
<td>(200.9)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
21. Notes to the cash flow statement

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>262.5</td>
<td>223.8</td>
</tr>
<tr>
<td>Depreciation of tangible fixed assets</td>
<td>43.4</td>
<td>40.8</td>
</tr>
<tr>
<td>Decrease/(increase) in debtors</td>
<td>6.3</td>
<td>(80.2)</td>
</tr>
<tr>
<td>(Decrease)/increase in creditors</td>
<td>(6.6)</td>
<td>37.8</td>
</tr>
<tr>
<td>Increase/(decrease) in provisions</td>
<td>1.8</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Pension adjustment</td>
<td>1.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Pension deficit payment</td>
<td>(24.1)</td>
<td>(24.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>285.1</td>
<td>198.0</td>
</tr>
</tbody>
</table>

Major non-cash flows in respect of pension schemes have been disclosed in Note 20.

22. Related parties

As part of the UK Power Networks Group, the Company engages in transactions with other Group companies in the normal course of business.

Charges were received from other Group entities (principally UK Power Networks (Operations) Limited) in respect of costs incurred on the Company’s behalf. These were for personnel and administration costs, capital expenditure (net of customer contributions), metering services and loan interest and amounted to £213.1m for the year ended 31 March 2013 (2012: £184.8m).

Balances owed to other Group entities amounted to £26.0m (2012: £15.8m). Balances due from other Group entities amounted to £272.3m (2012: £272.6m).

23. Parent undertaking and controlling party

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

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

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

It is the opinion of the Directors that the parent company, UK Power Networks Holdings Limited has no single controlling party as that company is controlled jointly by the consortium. The UK Power Networks Holdings group is both the smallest and largest group for which consolidated financial statements are prepared which include the results of the Company. Copies of the financial statements of UK Power Networks Holdings Limited may be obtained from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX.