EASTERN POWER NETWORKS LIMITED
(Formerly EDF ENERGY NETWORKS (EPN) PLC)

Registered Number 2366906

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2010

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Directors

Hok Shan Chong
Tak Cheun Edmond
Andrew John Hunter
Hing Lam Kam
Neil Douglas Mcgee
Basil Scarsella
Charles Chao Chung Tsai
Kai Sum Tso
Sui Sec Yuen

Company Secretary

Christopher Baker

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Registered Office

Newington House,
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London
SE1 6NP

DIRECTORS' REPORT

The Directors present their annual report and financial statements for the year ended 31 December 2010.

Principal activity and review of the business

The Company's principal activity 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.

On 29 October 2010, UK Power Networks Holdings Limited (formerly Eclipse First Network Limited) acquired the EDF Energy plc Distribution Networks (including Eastern Power Networks Limited) and associated non-regulated businesses (collectively the Distribution Networks Businesses).

Change of name

On 1 November 2010, the Company changed its name from EDF Energy Networks (EPN) plc, to Eastern Power Networks plc. Subsequent to this the Company changed its name to Eastern Power Networks Limited following re-registration of the Company as a private limited Company.

Business Review

The profit for the year, before taxation, amounted to £67.4m (2009 restated: £163.0m) and after taxation, to £59.7m (2009 restated: £117.3m). Dividends of £21.2m were paid in the year (2009: £nil).

Significant investment in the electricity networks continued in the year. The capital expenditure programme over the five year period from 2005 to 2010 focused on network reinforcement, expansion and driving improved network performance.

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 performance indicators ('KPIs') are set below:

Key performance indicator	2010	2009	%
Turnover	£440.5m	£455.6m	-3%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	£257.0m	£279.8m	-8%
Capital expenditure net of customer contributions	£270.6m	£290.2m	-7%
Net debt	£1125.1m	£965.8m	16%
Regulatory asset value (RAV)	£1902.9m	£1698.5m	12%
Ratio of net debt to RAV	59%	57%	

The UK Power Networks group ("the Group") manages its operations on a business segment basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business.

Future developments

The Directors aim to deliver the right balance of customer service and shareholder return through efficient investment in the Network within the boundaries of the price control allowances set by the regulator the Office of Gas and Electricity Markets ("Ofgem"). New price control allowances for the next five years were agreed with Ofgem in December 2009 and took effect from 1 April 2010. This is the result of the fifth electricity distribution price control review ("DPCR5"). The Directors believe the Company will continue to operate as a profitable, sustainable business under the DPCR5 price control allowances.

DIRECTORS' REPORT continued

Directors

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

Laurent Ferrari	(resigned on 29 October 2010)
Thomas Kusterer	(resigned on 29 October 2010)
Vincent de Rivaz	(resigned on 29 October 2010)
Andrew John Hunter	(appointed on 29 October 2010)
Neil Douglas Mcgee	(appointed on 29 October 2010)
Hok Shan Chong	(appointed on 24 November 2010)
Tak Cheun Edmond	(appointed on 24 November 2010)
Hing Lam Kam	(appointed on 24 November 2010)
Basil Scarsella	(appointed on 24 November 2010)
Charles Chao Chung Tsai	(appointed on 24 November 2010)
Kai Sum Tso	(appointed on 24 November 2010)
Sui Sec Yuen	(appointed on 24 November 2010)
Richard Martin Harpley	(appointed on 20 October 2010 and resigned on 29 October 2010)*

*Appointed as alternate director to Laurent Ferrari

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 Group develops and implements risk management policies and procedures and promotes a robust control environment at all levels of the organisation. Further details of the principal risks and risk management activities are included within the UK Power Networks Holdings Limited accounts.

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risks the Directors consider relevant to this Company are credit risk, liquidity risk and interest rate risk.

Liquidity and credit risk

The Company finances its operation by a mixture of cash generated from operations, bank borrowings, medium-term loans, long-term loans and commercial paper. The Company has 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 on a group wide basis 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 investment grade rating and has secured a rating of Baa1 from Moody's. 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

DIRECTORS' REPORT continued

Interest rate risk

The Company's exposure to interest rate fluctuations on its borrowings and deposits is managed by issuing a proportion of debt at fixed rates. Interest rate risk is managed on a UK Power Networks Holdings group wide basis. The policies and procedures for managing interest rate risk of the group have been included within the Directors' Report and Accounts of UK Power Networks Holdings Limited for the year ended 31 December 2010.

Going concern

As at 31 December 2010, the Company had borrowings of £1,140.4m (2009:£1,089.8m) of which £50.0m (2009: nil) was short term. The company has access to a revolving credit facility of £190.0m and a working capital facility of £22.0m which is sufficient to finance the operation of the business for the foreseeable future. In addition 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.

After consideration, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing its financial statements. This consideration includes 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 December 2010, the Company had an average of nil days (2009: nil days) purchases outstanding in its trade creditors.

Political and charitable contributions

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

Subsequent events

On 26 January 2011, the Company acceded as an additional borrower to a £975.0m credit facility. At the same time, debt drawn by UK Power Networks Holdings Limited was novated to the Company. In addition, various swap instruments transacted by UK Power Networks Holdings Limited were transferred to the Company as related to current and prospective debt instruments entered into by the Company.

DIRECTORS' REPORT continued

Disclosure of information to Auditor

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

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

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

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

B Scarsella
Director
15 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and of the profit and loss of the Company for the year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets and liabilities, financial position and profit of Eastern Power Networks Limited as at 31 December 2010; and
- the Directors' report includes a true and fair view of the development and performance of the business and the financial position of Eastern Power Networks Limited, together with a description of its principal risks and uncertainties.

Signed on behalf of the Board of Directors of Eastern Power Networks Limited on 15 March 2011.

Basil Scarsella
Director

INDEPENDENT AUDITOR REPORT TO THE MEMBERS OF EASTERN POWER NETWORKS LIMITED

We have audited the financial statements of Eastern Power Networks Limited (formerly known as EDF Energy Networks (EPN) plc) for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit;

Makhan Chahal (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
15 March 2011

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £m	Restated 2009 £m
Turnover	*2*	**440.5**	455.6
Cost of sales		**(14.4)**	(14.5)
Gross profit		**426.1**	441.1
Distribution costs		**(285.4)**	(221.3)
Administrative expenses		**(2.3)**	(1.8)
Operating profit	*3*	**138.4**	218.0
Interest receivable and similar income	*5*	**0.4**	0.3
Interest payable and similar charges	*6*	**(71.4)**	(55.3)
Profit on ordinary activities before taxation		**67.4**	163.0
Tax on profit on ordinary activities	*7*	**(7.7)**	(45.7)
Profit for the financial year	*17*	**59.7**	117.3

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £m	2009 £m
Profit for the financial year		**59.7**	112.6
Actuarial loss net of deferred tax on defined pension benefits	*19*	**(11.4)**	(29.9)
Deferred tax rate change		**(0.5)**	-
Total recognised gains and losses relating to the year		**47.8**	**82.7**
Prior year adjustment (see note 1)		**4.7**	
Total gains and losses recognised since last annual report and financial statements		**52.5**	

The deferred tax credit reflected in the actuarial loss net of deferred tax on defined benefit pensions amounted to £4.2m (2009: £11.7m). The deferred tax rate change of £0.5m represents the reduction in main stream corporation tax from 28% to 27% from 1 of April 2011.

BALANCE SHEET
AT 31 DECEMBER 2010

	Note	2010 £m	Restated 2009 £m
Fixed assets			
Tangible assets	8	**2,398.9**	2,247.0
Current assets			
Debtors	9	**61.0**	68.5
Investments: unlisted money market investments		**15.0**	124.0
Cash at bank and in hand		**0.3**	-
		76.3	192.5
Creditors: amounts falling due within one year	10	**(224.6)**	(198.1)
Net current liabilities		**(148.3)**	(5.6)
Total assets less current liabilities		**2,250.6**	2,241.4
Creditors: amounts falling due after more than one year	11	**(1,090.4)**	(1,089.8)
Provision for liabilities	14	**(290.6)**	(302.1)
Net assets excluding pension liability		**869.6**	849.5
Pension liability	19	**(33.3)**	(39.8)
Net assets		**836.3**	809.7
Capital and reserves			
Called up share capital	15	**125.8**	125.8
Share premium account	17	**5.6**	5.6
Capital redemption reserve	17	**10.6**	10.6
Profit and loss account	17	**694.3**	667.7
Shareholder's funds		**836.3**	809.7

The financial statements of Eastern Power Networks Limited, registered number 2366906, on pages 8 to 28 were approved by the Board of Directors on 15 March 2011
and were signed on its behalf by:

B. Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards, except as noted below in respect of tangible fixed assets.

Fixed Assets have been restated to reflect a change in accounting policy effective from 1 January 2009, to capitalise finance costs attributable to the funding of assets under the course of construction. The directors consider that the new policy provides a fairer presentation of the result and of the financial position of the Company as the cost of financing expenditure of a capital nature is now included in the capitalised cost of the assets. The comparative financial statements and notes have been restated to reflect the new policy. The effect of the change is to increase net assets by £4.3m (2009: £4.7m) and increased profit after taxation of £4.3m (2009: £4.7m). Finance costs incurred prior to 1 January 2009 have not been capitalised because it is impractical to perform this computation over asset lives which extend back 20 to 60 years.

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

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 that comply with the requirements of FRS 29.

Going concern

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

Tangible fixed assets

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

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

Overhead and underground lines	–	45 to 60 years
Other network plant and buildings	–	20 to 60 years
Fixtures and equipment	–	5 years
Vehicles	–	5 to 10 years

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

Following the legislative requirement for energy suppliers to replace domestic meters with smart meters by the end of 2020, the Directors have reassessed the useful economic life of conventional domestic meters such that these are fully depreciated by 2020 (refer to note 3).

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Tangible fixed assets continued

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 of debt 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.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

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 FINANCIAL STATEMENTS continued

1. Accounting policies continued

Pensions

The Company has obligations under two funded defined benefit pension arrangements as part of the UK Power Networks group, and the Company accounts for these schemes in accordance with FRS 17 ‘Retirement Benefits’, (“FRS17”).

The amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately the costs are recognised over the period until vesting occurs. The interest cost and the expected return on the assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in a separate trustee administered fund. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

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.

2. Turnover

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

NOTES TO THE FINANCIAL STATEMENTS continued

3. Operating profit

This is stated after charging/(crediting):	**2010 £m**	2009 £m
Depreciation of owned assets	**118.6**	61.8
Loss/(profit) on disposal of fixed assets	**0.1**	(0.7)

Amounts payable to Auditor	**2010 £000**	2009 £000
Fees payable to Company Auditor for the audit of the Company's annual accounts	35.0	35.0
Other services pursuant to legislation - Regulatory accounts	20.0	20.0
Total audit fees	**55.0**	55.0

The depreciation of owned tangible fixed assets includes accelerated depreciation for meters of £52.0m. This arises following the legislative requirement for energy suppliers to replace domestic meters with smart meters by the end of 2020. As a result of this new legislation the Directors reassessed the useful economic life of conventional domestic meters such that these are fully depreciated by 2020. The accelerated depreciation resulted in a reduction of the deferred tax charge of £14.0m.

The Company had no employees in 2010 (2009: None).

4. Directors' emoluments

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

NOTES TO THE FINANCIAL STATEMENTS continued

5. Interest receivable and similar income

	2010	2009
	£m	£m
Other interest receivable	**0.4**	0.3

6. Interest payable and similar charges

		Restated
	2010	2009
	£m	£m
Net interest cost on pension scheme (note 1)	**1.7**	1.9
On loans from other Group companies	**0.1**	0.3
On loans payable within five years	**17.5**	17.5
On loans repayable after five years	**57.9**	40.4
Other interest payable	**0.2**	1.7
	77.4	61.8
Finance costs capitalised	**(6.0)**	(6.5)
	71.4	55.3

Finance costs have been capitalised on the basis of a capitalisation rate of 6.9% (2009: 6.9%), which is the weighted average of rates applicable to the Company's general borrowings outstanding during the year. This is a change in accounting policy and reflects the Directors view that this provides a fairer presentation of the results of the Company. Prior year numbers have been restated.

The cumulative interest capitalised amounts to £12.5m (2009: £6.5m).

NOTES TO THE FINANCIAL STATEMENTS continued

7. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year:

	2010 £m	Restated 2009 £m
UK current tax		
UK corporation tax charge on profit for the year	**13.6**	31.8
Group relief	**5.0**	-
Adjustment in respect of prior year	**(0.6)**	(5.8)
Total current tax charge (note (b))	**18.0**	26.0
UK deferred tax		
Origination and reversal of timing differences	**(0.5)**	14.4
Adjustment in respect of prior year	**0.9**	5.3
Effect of tax rate change on opening balance	**(10.7)**	-
Total deferred tax (credit)/charge for the year	**(10.3)**	19.7
Total tax charge on profit on ordinary activities	**7.7**	45.7

(b) Factors affecting tax charge for the year:

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

The differences are explained below.	2010 £m	Restated 2009 £m
Profit on ordinary activities before tax	**67.4**	163.0
Tax on profit on ordinary activities at standard UK rate of corporation tax of 28.0% (2009: 28.0%)	**18.9**	45.6
Effect of:		
Adjustment in respect of prior year	**(0.6)**	(5.8)
Disallowed expenses and non-taxable income	**0.1**	0.6
Capital allowances less than/(in excess) of depreciation	**2.5**	(11.9)
Capitalised interest deduction	**(1.7)**	(1.8)
Movement in pension liability	**(1.2)**	(0.3)
Other timing differences	**-**	(0.4)
Current tax charge for the year	**18.0**	26.0

NOTES TO THE FINANCIAL STATEMENTS continued

7. Tax on profit on ordinary activities continued

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No2) Act 2010 included legislation to reduce the main steam rate of corporation tax from 28% to 27% from 1 April 2011. As a result of the change the deferred tax balances have been remeasured. The impact was to reduce the deferred tax on fixed asset timing differences by £10.7m. No further adjustments to the deferred tax balance have been made in relation to prospective future changes in the tax rate as these have not been substantially enacted in Law.

8. Tangible fixed assets

	Network	Non Network land & buildings	Fixtures and equipment	Vehicles	Customers' contributions	**Total**
		£m	£m	£m	£m	**£m**
Cost						
At 1 January 2010	4,129.8	20.7	34.9	15.8	(1,071.3)	**3,129.9**
Additions	323.9	1.6	6.0	1.7	(62.6)	**270.6**
Disposals	(19.2)	-	-	-	-	**(19.2)**
At 31 December 2010	**4,434.5**	**22.3**	**40.9**	**17.5**	**(1,133.9)**	3,381.3
Depreciation						
At 1 January 2010	1,141.8	0.9	17.5	4.7	(282.0)	**882.9**
Charge for the year	134.7	0.3	7.6	2.2	(26.2)	**118.6**
Disposals	(19.1)	-	-	-	-	**(19.1)**
At 31 December 2010	**1,257.4**	**1.2**	**25.1**	**6.9**	**(308.2)**	**982.4**
Net book value						
At 31 December 2010	**3,177.1**	**21.1**	**15.8**	**10.6**	**(825.7)**	**2,398.9**
Restated at 31 December	2,988.0	19.8	17.4	11.1	(789.3)	2,247.0

Prior year figures have been restated to reflect a change in accounting policy on Fixed Assets, from 1 January 2009 (note 1).

Network assets include land at £20.2m (2009: £20.2m). Non Network land and buildings comprises freehold buildings only.

Included within Network assets at 31 December 2010 are assets in the course of construction of £89.4m (2009: £84.6m). Approximately £22.0m of the prior year assets under construction were completed during 2010.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Debtors

	2010	2009
	£m	£m
Trade debtors	**52.3**	52.7
Amounts owed by Group undertakings	**0.1**	8.3
Prepayments and accrued income	**8.6**	7.5
	61.0	68.5

10. Creditors: amounts falling due within one year

	2010	2009
	£m	£m
Bank overdraft	**-**	0.3
Borrowings (note 12)	**50.0**	-
Amounts owed to Group undertakings	**47.7**	53.5
Corporation tax (Group payments)	**2.0**	31.8
Trade Creditors	**1.5**	-
Other creditors	**6.0**	3.3
Other taxation and social security	**5.8**	4.1
Accruals and deferred income	**111.6**	105.1
	224.6	198.1

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

	2010	2009
	£m	£m
Borrowings (note 12)	**1,090.4**	1,089.8

NOTES TO THE FINANCIAL STATEMENTS continued

12. Borrowings

	2010	2009
	£m	£m
Amounts falling due within one year		
Bank overdraft	**-**	0.3
Amounts due to Group undertakings	**50.0**	-
	50.0	0.3
Amounts falling due after more than one year		
£200m 8.75% Eurobond due March 2012	**199.8**	199.6
£350m 5.75% Eurobond due March 2024	**349.0**	349.0
£200m 8.50% Eurobond due March 2025	**198.3**	198.2
£350m 6.00% Eurobond due November 2036	**343.3**	343.0
	1,090.4	1,089.8
	1,140.4	1,090.1

The unamortised issue cost of the bonds is the difference between the nominal value and the carrying amount.

No security has been given over the assets of the Company in respect of external debt or amounts owed to Group undertakings. Amounts due to Group undertakings reflect drawings under a revolving credit facility to which the Company has now acceded as an additional borrower. The balance outstanding was repayable within a month and was subject to an interest charge equivalent to the borrowing cost of the lending Company.

13. Financial instruments

The Company's funding, liquidity and exposure to interest rate risks are managed by the Company's 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

The Company's long-term debt has been issued at fixed rates of interest. Exposure to short-term interest rate movements is limited to short-term investments and short and long-term borrowings resulting from funding needs and working capital surpluses and deficits. The Company does not have any direct material exposure to foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS continued

13. Financial Instruments continued

(b) 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.

The interest rate profile of the Company's financial liabilities was as follows:

	Borrowings			Fixed Rate Borrowings	
	Floating Rate	Fixed Rate	**Total**	Weighted average interest rate	Weighted average fixed period
	£m	£m	**£m**	**%**	Years
As at 31 December 2010	**-**	**1,140.4**	**1,140.4**	**6.9**	**15.0**
As at 31 December 2009	0.3	1,089.8	1,090.1	6.9	16.0

(c) 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. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates at the year end.

The fair value of the Company's borrowings was as follows:

	Book value 2010	**Fair value 2010**	Book value 2009	Fair value 2009
Amounts payable:	**£m**	**£m**	£m	£m
Within one year	**50.0**	**50.0**	0.3	0.3
In two to five years	**199.8**	**217.0**	199.6	225.1
In more than five years	**890.6**	**1,001.7**	890.2	939.3
	1,140.4	**1,268.7**	1,090.1	1,164.7

The fair value of amounts payable within one year approximates the carrying value.

(d) Borrowing facilities

On 26 January 2011, the Company acceded as an additional borrower to a revolving credit and working capital facility in favour of UK Power Networks Holdings Limited. At this time, borrowings of £144.5m were novated from UK Power Networks Holdings Limited but lent back to the parent company by way of a back to back loan. In addition, under the facility the Company was given access to £190m under a revolving credit facility and £22m under a working capital facility.

NOTES TO THE FINANCIAL STATEMENTS continued

14. Provision for liabilities

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

	Restated At 1 January 2010 £m	Arising during the year £m	Utilised during the year £m	Released during the year £m	**At 31 December 2010 £m**
Deferred tax	299.9	-	-	(11.5)	**288.4**
Other	2.2	**-**	**-**	**-**	**2.2**
	302.1	**-**	**-**	**(11.5)**	**290.6**

"Other" comprises provisions for legal fees which are expected to become payable within the next year.

Deferred taxation provided in the financial statements is as follows:

	2010 £m	Restated 2009 £m
Accelerated capital allowances	**288.4**	299.9
Other timing differences	**-**	-
Provision for deferred tax	**288.4**	299.9

The movements in deferred taxation are as follows:

	Restated At 1 January 2010 £m	Profit and loss account £m	Statement of total recognised gains and losses £m	**At 31 December 2010 £m**
Provision for deferred tax	299.9	(11.5)	-	**288.4**
Deferred tax shown against pension liability	(15.5)	1.2	(3.7)	**(18.0)**
Net deferred tax	**284.4**	**(10.3)**	**(3.7)**	**270.4**

NOTES TO THE FINANCIAL STATEMENTS continued

15. Share capital

Authorised

	2010 Number	2009 Number	**2010 £m**	2009 £m
Ordinary shares of £0.50 each	**400,000,000**	400,000,000	**200.0**	200.0

Allotted, called up and fully paid

	2010 Number	2009 Number	**2010 £m**	2009 £m
Ordinary shares of £0.50 each	**251,513,142**	251,513,142	**125.8**	125.8

16. Dividends paid

Authorised

	2010 £m	2009 £m
Ordinary dividends on equity shares - £0.0843 (2009: £nil) per ordinary share	**21.2**	-

The dividend was approved on 26 October 2010 for payment to the former parent company EDF Energy plc on 27 October 2010.

NOTES TO THE FINANCIAL STATEMENTS continued

17. Reconciliation of shareholder's funds

	Share Capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	**Total Share holder's funds £m**
At 1 January 2009	125.8	5.6	10.6	580.3	**722.3**
Profit for the year	-	-	-	112.6	**112.6**
Actuarial loss net of deferred tax on defined pension benefits	-	-	-	(29.9)	**(29.9)**
At 31 December 2009	125.8	5.6	10.6	663.0	**805.0**
Prior year adjustment (note 1)	-	-	-	4.7	**4.7**
At 31 December 2009 restated	125.8	5.6	10.6	667.7	**809.7**
Profit for the year	-	-	-	59.7	**59.7**
Dividends paid	-	-	-	(21.2)	**(21.2)**
Actuarial loss net of deferred tax on defined pension benefits	-	-	-	(11.4)	**(11.4)**
Deferred tax rate change	-	-	-	(0.5)	**(0.5)**
At 31 December 2010	**125.8**	**5.6**	**10.6**	**694.3**	**836.3**

Prior year figures have been restated to reflect a change in accounting policy on Fixed Assets, from 1 January 2009 (note 1).

NOTES TO THE FINANCIAL STATEMENTS continued

18. Financial commitments

Amounts contracted for but not provided in the financial statements amounted to £56.4m (2009: £78.8m).

19. 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 new parent company UK Power Networks Holdings Limited assumed responsibility for these defined benefit arrangements on 29 October 2010, the date of acquisition of the Distribution Networks Businesses from the former parent company EDF Energy plc. Scheme assets and liabilities were assigned to the individual legal entities of the Group, including this Company, using a revised allocation methodology based on the attribution portions agreed with the industry regulator Ofgem, within the latest price control determination, DPCR5. This resulted in some transfers between legal entities of the Group where the revised allocation differed from the results of the roll forward method used by EDF Energy since 2005

The actuarial valuation at 29 October 2010 and an updated valuation as at 31 December 2010 were carried out by Aon Hewitt. The most recent triennial valuation of the schemes for funding purposes has been performed as at 31 March 2010. Under the funding schedule agreed with the scheme trustees, the Group aims to eliminate the current deficit over the next 15 years. The Group will monitor funding levels annually and the funding schedule will be reviewed between the Group and the trustees every three years based on actuarial valuations. The next actuarial valuation is due to be completed at 31 March 2013. The Group considers that the contribution rates agreed with the trustees are sufficient to eliminate the current deficit over the agreed period.

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

	2010	2009
	%	%
Discount rate		
- UKPN Group	5.5	5.7
- UKPNPS	5.4	5.6
Rate of increase in RPI		
- UKPN Group	3.5	3.6
- UKPNPS	3.6	3.8
Rate of increase in CPI		
- UKPNPS	2.8	3.0
Rate of increase in salaries		
- UKPN Group	5.0	5.6
- UKPNPS	5.1	5.3
Rate of increase of pensions		
- RPI (UKPN Group)	3.5	3.6
- RPI up to 5% (UKPNPS - service to 31 March 2006)	3.4	3.5
- RPI up to 2.5% (UKPNPS - service from 1 April 2006)	2.2	2.3

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

NOTES TO THE FINANCIAL STATEMENTS continued

19. Pension commitments continued

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

UKPN Grp	**At 31 December 2010 years**
Life expectancy for current male pensioner aged 60	**28**
Life expectancy for current female pensioner aged 60	**30**
Life expectancy for future male pensioner currently aged 40 from age 60	**30**
Life expectancy for future female pensioner currently aged 40 from age 60	**32**

UKPNPS	**At 31 December 2010 years**
Life expectancy for current male pensioner aged 65	**22**
Life expectancy for current female pensioner aged 65	**24**
Life expectancy for future male pensioner currently aged 40 from age 65	**24**
Life expectancy for future female pensioner currently aged 40 from age 65	**27**

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 Company's defined benefit retirement benefit plan is as follows:

	UKPN Grp 2010 £m	**UKPNPS 2010 £m**	**Total 2010 £m**	Total 2009 £m
Fair value of scheme assets	**278.6**	**21.4**	**300.0**	182.9
Present value of defined benefit obligations	**(323.1)**	**(28.2)**	**(351.3)**	(238.2)
Deficit in scheme	**(44.5)**	**(6.8)**	**(51.3)**	(55.3)
Related deferred tax asset	**16.2**	**1.8**	**18.0**	15.5
Liability recognised in the balance sheet	**(28.3)**	**(5.0)**	**(33.3)**	(39.8)

This amount is presented in pension liabilities.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Pension commitments continued

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

	UKPN Grp 2010 £m	**UKPNPS 2010 £m**	**Total 2010 £m**	Total 2009 £m
Current service cost	**(1.8)**	**(0.7)**	**(2.5)**	-
Interest cost	**(13.8)**	**(0.3)**	**(14.1)**	(11.5)
Expected return on scheme assets	**12.1**	**0.3**	**12.4**	9.6
	(3.5)	**(0.7)**	**(4.2)**	(1.9)

Of the charge for the year £2.5m (2009: £nil) has been included in distribution costs and an expense of £1.7m (2009: £1.9m) has been included in interest payable. The estimated amounts of contributions expected to be paid to the scheme in 2011 is £11.5m.

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

	UKPN Grp 2010 £m	**UKPNPS 2010 £m**	**Total 2010 £m**	Total 2009 £m
At 1 January	**(238.2)**	-	**(238.2)**	(179.4)
Current service cost	**(1.8)**	**(0.7)**	**(2.5)**	-
Interest cost	**(13.8)**	**(0.3)**	**(14.1)**	(11.5)
Actuarial loss	**(79.7)**	**(26.9)**	**(106.6)**	(56.5)
Benefits received/(paid)	**10.4**	**(0.3)**	**10.1**	9.2
At 31 December	**(323.1)**	**(28.2)**	**(351.3)**	(238.2)

The actuarial loss includes a net transfer in of scheme liabilities amounting to £109.2m at 29 October 2010 as a result of a review of the allocation of the scheme liabilities across the participating companies.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Pension commitments continued

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

	UKPN Grp 2010 £m	**UKPNPS 2010 £m**	**Total 2010 £m**	Total 2009 £m
At 1 January	**182.9**	**-**	**182.9**	164.6
Expected return on scheme assets	**12.1**	**0.3**	**12.4**	9.6
Actuarial gain	**70.7**	**20.3**	**91.0**	14.9
Contributions by employer	**1.3**	**0.5**	**1.8**	-
Deficit payments	**22.0**	**-**	**22.0**	3.0
Benefits paid	**(10.4)**	**0.3**	**(10.1)**	(9.2)
At 31 December	**278.6**	**21.4**	**300.0**	182.9

Deficit payments include an additional £19.0m paid to the UKPN Group scheme on 29 October 2010 as a condition of the sale of the Company by EDF Energy plc to UK Power Networks Holdings Limited. The actuarial gain includes a net transfer in of scheme assets amounting to £78.0m at 29 October 2010 as a result of a review of the allocation of the scheme assets across the participating companies.

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

	Expected return		Fair value of assets			
	2010	2009	**2010**	**2010**	**2010**	2009
			UKPN Grp	**UKPNPS**	**Total**	Total
	%	%	**£m**	**£m**	**£m**	£m
Gilts - fixed	**4.3**	4.6	**40.9**	**-**	**40.9**	19.6
- index linked	**4.2**	4.5	**30.8**	**-**	**30.8**	20.7
Equities	**7.9**	8.2	**111.4**	**7.2**	**118.6**	78.5
Property	**7.8**	8.7	**11.0**	**2.4**	**13.4**	4.0
Corporate bonds	**5.4**	5.9	**68.5**	**6.5**	**75.0**	51.8
Hedge Funds	**5.4**	5.9	**1.6**	**-**	**1.6**	-
Cash	**1.4**	0.7	**14.4**	**5.3**	**19.7**	8.3
			278.6	**21.4**	**300.0**	182.9

The group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for each scheme as at 31 December 2010.

The actual return on scheme assets in the year was a gain of £25.4m (2009: £24.5m).

NOTES TO THE FINANCIAL STATEMENTS continued

19. Pension commitments continued

History of experience gains and losses are as follows:

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Fair value of scheme assets	**300.0**	182.9	164.6	203.2	195.7
Present value of defined benefit obligations	**(351.3)**	(238.2)	(179.4)	(225.9)	(223.1)
Deficit in the scheme	**(51.3)**	(55.3)	(14.8)	(22.7)	(27.4)
Experience adjustments on scheme liabilities:					
Amount (£m)	**(2.6)**	(1.9)	(0.7)	(10.2)	-
Percentage of scheme liabilities (%)	**0.7**	0.8	0.4	4.5	-
Experience adjustments on scheme assets:					
Amount (£m)	**13.0**	14.9	(44.9)	0.3	1.9
Percentage of scheme assets (%)	**4.3**	8.2	27.3	0.1	1.0

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

	UKPN Grp 2010 £m	**UKPNPS 2010 £m**	**Total 2010 £m**	2009 £m
At 1 January	**(38.3)**	**-**	**(38.3)**	(8.4)
Actuarial loss	**(9.0)**	**(6.6)**	**(15.6)**	(41.6)
Deferred taxation	**2.4**	**1.8**	**4.2**	11.7
Deferred tax rate change	**(0.5)**	**-**	**(0.5)**	-
At 31 December	**(45.4)**	**(4.8)**	**(50.2)**	(38.3)

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is a loss of £50.2m (2009: £38.3m).

20. Related parties

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

NOTES TO THE FINANCIAL STATEMENTS continued

21. 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 (Formerly Hong Kong Electric Holdings Limited)	Incorporated in Hong Kong
Li Ka Shing Foundation Limited	Incorporated in Hong Kong
Cheung Kong Infrastructure Holdings Limited	Incorporated in Bermuda

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

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

22. Regulatory accounts

On 1 October 2001, under the Utilities Act 2000, Eastern Power Networks Limited (Formerly EDF Energy Networks (EPN) plc) was granted a Distribution Licence under which it is required to produce regulatory accounts. The regulatory accounts, which cover a 12 month period ended 31 March of each year, are available free of charge by contacting the finance department at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX or by telephoning 01293 657862.

23. Contingent liabilities

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.