

Registration number: 2965182

UK Power Networks Services (Commercial) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2017



UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

COMPANY INFORMATION

Directors Andrew John Hunter
 Basil Scarsella
 Loi Shun Chan

Company Secretary Christopher Baker

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

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

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

Principal activity

The principal activity of UK Power Networks Services (Commercial) Limited (the "Company") is the supply of electrical contracting services.

Ownership

The Company is a wholly owned subsidiary of the group headed by UK Power Networks Holdings Limited, ("the Group") which owns and operates electricity distribution networks in London, the South East and East of England serving over eight million customers.

Review of the business

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

This is the first year that the Company has presented its Financial Statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (the FRC). The prior period financial information has been restated for material adjustments on adoption of FRS 102 as summarised in note 20. The transition date to FRS 102 is therefore the start of the prior period 31 December 2014.

The results for the year amounted to a profit before taxation of £1,336,000 (31 December 2014 to 31 March 2016: £140,000) and a profit after taxation of £864,000 (31 December 2014 to 31 March 2016 loss after taxation: £165,000). No dividends were paid in the current year or prior period.

Key performance indicators (KPI's)

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

	Year ended 31 March 2017	31 December 2014 to 31 March 2016
Financial performance		
Turnover (£000)	34,605	62,244
EBITDA (Profit before interest, tax, depreciation and amortisation) (£000)	1,450	437
Non-financial performance		
Lost time incidents (LTIs)		
LTIs - Injuries at work resulting in lost time of one day or more	-	2

Financial performance indicators represent the key financial metrics that reflect the financial health of the business. Turnover for the year ended 31 March 2017 was 44% lower than in the prior period from 31 December 2014 to 31 March 2016. This reduction is due primarily to the change in length of the accounting period, alongside the completion of major contracts within the rail sector in the prior period.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

Key performance indicators (KPI's) continued

The key non-financial performance indicator relates to safety. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. A lost time incident is recorded if an employee or contractor suffers an injury at work which results in lost time of one day or more. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign for all operational staff is ongoing. No lost time incidents occurred during the year.

Principal risks and uncertainties

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

Health and safety

There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public or a third party. Such an incident could lead to prosecution or a fine and have an adverse impact on the reputation of the Company.

Network assets

There is a risk of faults on the electricity network resulting in a loss of supply of electricity to customers. Continuity and quality of supply are important customer requirements and poor performance in these areas can result in financial penalties. A significant incident could cause adverse publicity and impact negatively on the reputation of the Company.

Supply chain

An interruption to the supply of critical materials or services could have a significant impact on the Company's ability to repair, maintain, develop and reinforce the 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. The risk management framework sets out policies, procedures and responsibilities designed to assess, mitigate, monitor and report risks. The Group's Board and Risk Management and Compliance subcommittee oversee the risk management function and make annual assessments of changes to significant risks and the effectiveness of the risk management processes.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The Group observes formal risk management policies and procedures and promotes a robust control environment at all levels of the organisation, to manage financial risk. The key financial risk is that the proceeds from financial assets are not sufficient to fund financial obligations as they fall due. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet, the most relevant financial risks are credit and liquidity risk.

The Company's exposure to credit and liquidity risk is reduced as it is a wholly owned subsidiary of the UK Power Networks Holdings Group of companies. Credit risk is mitigated by the nature of the debtor balances owed with these being due from other Group companies of strong financial standing. In addition, the liquidity risk is mitigated by the strong financial standing of the parent company UK Power Networks Services Holdings Limited.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

Future developments

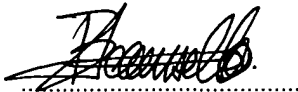
The Company has refined its strategic model and has developed a more targeted approach, to secure long term growth. This will be achieved by increased focus on the addressable market, broadening service offerings, expansion into new solutions and segments that are adjacent to current activities, and improving the efficiency of the underlying operating model.

Going concern

In considering the going concern basis in preparing the Annual Report and Financial Statements, the Directors have regard to the Company's budget for 2017 and the Company's strategic business plan which extends to 31 December 2020. In particular the following factors have been taken into account:

- the Company's existing long-term contracts are profitable, providing a steady and predictable stream of revenues and cash flows;
- the Company continues to pursue new opportunities in the electrical infrastructure market and is currently bidding for a number of major projects;
- the Company has considerable financial resources and no external debt.

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



B Scarsella
Director

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

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

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

Political contributions

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

Directors of the Company

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

Andrew John Hunter

Basil Scarsella

Loi Shun Chan

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

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

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The Group places considerable value on the engagement and involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, various media channels and publications. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees.

Disclosure of information to Auditor

Each of the persons who is a director of the Company at the date of approval of this Annual Report confirms that:

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

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

Reappointment of Auditor

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

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

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

B Scarsella
Director

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors acknowledge their responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

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

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

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

We have audited the financial statements of UK Power Networks Services (Commercial) Limited for the year ended 31 March 2017, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 7), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Marianne Milnes

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Marianne Milnes (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London
United Kingdom

10 August 2017

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017

	Note	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
Turnover	4	34,605	62,244
Cost of sales		<u>(30,450)</u>	<u>(54,490)</u>
Gross profit		4,155	7,754
Other operating expenses		<u>(2,705)</u>	<u>(7,450)</u>
Operating profit	5	1,450	304
Finance costs (net)	6	<u>(114)</u>	<u>(164)</u>
Profit before tax		1,336	140
Taxation	9	<u>(472)</u>	<u>(305)</u>
Profit/(loss) for the year		<u>864</u>	<u>(165)</u>

The above results were derived from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
Profit/(loss) for the year	864	(165)
Remeasurement of net defined benefit pension liability	<u>(4,322)</u>	<u>(956)</u>
Total comprehensive loss for the year	<u>(3,458)</u>	<u>(1,121)</u>

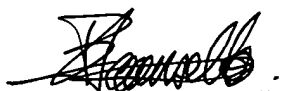
The notes on pages 13 to 31 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

BALANCE SHEET AS AT 31 MARCH 2017

	Note	31 March 2017 £ 000	31 March 2016 £ 000
Fixed assets			
Tangible assets	10	-	-
Current assets			
Stocks	11	6,030	4,579
Debtors falling due within one year	12	68,897	67,767
Cash at bank and in hand		8,871	-
		<u>83,798</u>	<u>72,346</u>
Creditors: Amounts falling due within one year	13	<u>(48,719)</u>	<u>(39,992)</u>
Net current assets		<u>35,079</u>	<u>32,354</u>
Total assets less current liabilities		<u>35,079</u>	<u>32,354</u>
Provisions for liabilities	14	<u>(12,866)</u>	<u>(6,683)</u>
Net assets		<u>22,213</u>	<u>25,671</u>
Capital and reserves			
Called up share capital	16	33,371	33,371
Profit and loss account	16	<u>(11,158)</u>	<u>(7,700)</u>
Total shareholders' funds		<u>22,213</u>	<u>25,671</u>

The financial statements of UK Power Networks Services (Commercial) Limited (registered number 2965182) were approved by the Board of Directors and authorised for issue on 10 August 2017. They were signed on its behalf by:



B Scarsella
Director

The notes on pages 13 to 31 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 31 December 2014	<u>33,371</u>	<u>(6,579)</u>	<u>26,792</u>
Loss for the period	-	(165)	(165)
Remeasurement of defined benefit pension liability	-	(956)	(956)
Total comprehensive loss	-	(1,121)	(1,121)
At 31 March 2016	<u>33,371</u>	<u>(7,700)</u>	<u>25,671</u>

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2016	<u>33,371</u>	<u>(7,700)</u>	<u>25,671</u>
Profit for the year	-	864	864
Remeasurement of defined benefit pension liability	-	(4,322)	(4,322)
Total comprehensive loss	-	(3,458)	(3,458)
At 31 March 2017	<u>33,371</u>	<u>(11,158)</u>	<u>22,213</u>

The notes on pages 13 to 31 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

1 General information

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

The principal activities of the Company and the nature of the Company's operations are set out in the Strategic Report on pages 2 to 4.

The address of its registered office is:

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

2 Accounting policies

The principal accounting policies adopted by the Company are set out below. This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (the FRC). The last financial statements under previous UK GAAP were for the period from 31 December 2014 to 31 March 2016 and the date of transition to FRS 102 was therefore 31 December 2014. The prior period financial information has been restated for material adjustments on adoption of FRS 102 as summarised in note 20. The accounting policies have all been applied consistently throughout the current and preceding period subject to the changes resulting from the application of FRS 102.

Basis of accounting

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

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

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

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

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

2 Accounting policies (continued)

Going concern

As discussed in the Strategic Report the Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Tangible assets

Tangible assets are stated at historical cost, net of depreciation and provision for impairment. The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

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

Asset class	Depreciation rate
Furniture, fixtures and equipment	5 years
Vehicles	5 years

Revenue recognition

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date turnover represents the value of the service provided to date based on a proportion of the total contract value. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred Income and included as part of creditors due within one year.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

2 Accounting policies (continued)

Long-term contracts

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

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

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

Stocks

Stocks are stated at the lower of cost and of estimated selling price less costs to sell which is equivalent to net realisable value. Cost includes materials, direct labour and an attributable proportion of overheads based on normal levels of activity. Cost is determined using the first-in, first-out (FIFO) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Provisions

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

Leases

Rentals payable under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly within the same component of other comprehensive income.

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

Deferred tax is provided for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses. Provision is made for gains on re-valued fixed assets only where there is a commitment to dispose of the re-valued assets and the attributable gain can neither be rolled over nor eliminated by capital losses.

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

2 Accounting policies (continued)

Employee benefits

The Company has obligations under defined benefit and defined contribution pension arrangements operated by the Group.

Defined benefit

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period as well as the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

The defined benefit schemes are funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. Formal actuarial valuations are undertaken by independent qualified actuaries at least triennially. Actuaries also provide valuations at each balance sheet date using a roll forward of member data from the most recent triennial valuation and reflecting updated financial and demographic assumptions. Pension scheme assets are measured at fair value and liabilities are measured 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.

Defined contribution

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors may be required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience or other factors that are considered to be relevant. Actual results might differ from these estimates.

Critical judgements in applying the Company's accounting policies

Revenue and profit recognition on long-term contracts

Revenues on long-term contracts are recognised by reference to the stage of completion of the project which requires estimates of the value of the work performed to date as well as the total contract costs to complete the project. Management uses judgement to determine the likely outcome of claims and negotiations relating to work variations and how these impact the revenues and costs of the project. Expected future losses on projects are provided for immediately. At 31 March 2017 losses expected to be incurred in relation to contract obligations amount to £4,175,000 (31 March 2016: £2,491,000). These are presented within the provisions balance in note 14.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

Valuation of defined benefit obligation

The defined benefit obligation is estimated by calculating the net present value of future cash flows from the pension schemes projected many years into the future. Assumptions of future inflation rates, life expectancy, the rate of salary and pension increases are set with reference to market and economic conditions in consultation with an independent qualified actuary. The assumptions are reviewed on an ongoing basis to reflect market and demographic changes and the actual experience of the pension schemes.

Estimated future cash flows are discounted at a rate set by reference to market yields on high quality corporate bonds. Advice is sought from the actuary to determine a discount rate which falls within the norms of wider market practice. Judgement is required in setting the criteria for bonds to be included in the population from which the yield curve is derived including the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

Details of the defined benefit schemes and the assumptions used to estimate the defined benefit obligation are set out in note 15.

4 Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of electrical contracting services.

5 Operating profit

Arrived at after charging/(crediting):

	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
Depreciation expense	-	133
Operating lease expense - property	92	44
Operating lease expense - other	<u>310</u>	<u>415</u>

Auditor's remuneration

The amount payable to Deloitte LLP was £23,100 (31 December 2014 to 31 March 2016: £24,200) in respect of audit services and £Nil (31 December 2014 to 31 March 2016: £Nil) in respect of non-audit services. Auditor's remuneration was borne by another Group company in the current year and prior period.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

6 Finance costs (net)

	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
Net interest on defined benefit liabilities	<u>(114)</u>	<u>(164)</u>

7 Staff costs

The aggregate payroll costs were as follows:

	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
Wages and salaries	7,411	10,199
Social security costs	924	1,033
Pension costs	1,080	1,287
Redundancy costs	-	73
	<u>9,415</u>	<u>12,592</u>

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

	Year ended 31 March 2017 Number	31 December 2014 to 31 March 2016 Number
Average monthly number of employees	<u>132</u>	<u>138</u>

8 Directors' remuneration

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

9 Taxation

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

	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
Current taxation		
UK corporation tax	318	(17)
Adjustments in respect of prior periods	39	(2)
Total current taxation	357	(19)
Deferred taxation		
Origination and reversal of timing differences	141	306
Effect of decrease in tax rate on opening liability	8	16
Adjustments in respect of prior periods	(34)	2
Total deferred taxation	115	324
Total tax charge	472	305

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

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

	Year ended 31 March 2017 £ 000	31 December 2014 to 31 March 2016 £ 000
Profit before tax	1,336	140
Corporation tax at standard rate	267	28
Expenses not deductible for tax purposes	217	299
Deferred tax credit relating to changes in tax rates	(17)	(22)
Adjustments to deferred tax in respect of prior periods	(34)	2
Adjustments to current tax in respect of prior periods	39	(2)
Total tax charge	472	305

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

10 Tangible assets

	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Total £ 000
Cost			
At 1 April 2016	<u>3,714</u>	<u>44</u>	<u>3,758</u>
At 31 March 2017	<u>3,714</u>	<u>44</u>	<u>3,758</u>
Depreciation			
At 1 April 2016	<u>3,714</u>	<u>44</u>	<u>3,758</u>
At 31 March 2017	<u>3,714</u>	<u>44</u>	<u>3,758</u>
Carrying amount			
At 31 March 2017	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
At 31 March 2016	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

11 Stocks

	31 March 2017 £ 000	31 March 2016 £ 000
Work in progress	<u>6,030</u>	<u>4,579</u>

The replacement cost of stock held by the Company at the balance sheet date was not materially different to the amount stated in the financial statements.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

12 Debtors

	31 March 2017 £ 000	31 March 2016 £ 000
Amounts falling due within one year:		
Trade debtors	2,879	727
Amounts owed by Group undertakings	63,000	63,047
Other debtors	20	2
Prepayments and accrued income	1,215	2,358
Deferred tax asset	1,577	857
Corporation tax (Group relief receivable)	206	776
	<u>68,897</u>	<u>67,767</u>

Amounts owed by Group undertakings represent an interest free loan of £63,000,000 to UK Power Networks Services (South East) Ltd which is repayable on demand.

Deferred tax

The movements in the deferred tax assets are set out below.

	Deferred tax £ 000
At 1 April 2016	857
Charged to profit and loss account	(115)
Credited to other comprehensive income	835
At 31 March 2017	<u>1,577</u>

Analysis of deferred tax

The analysis of deferred tax in the period is as follows:

	31 March 2017 £ 000	31 March 2016 £ 000
Differences between accumulated depreciation and amortisation and capital allowances	68	87
Other timing differences	32	15
Deferred tax relating to defined benefit pension scheme deficit	1,477	755
Net deferred tax asset	<u>1,577</u>	<u>857</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

13 Creditors

	31 March 2017 £ 000	31 March 2016 £ 000
Amounts falling due within one year:		
Bank loans and overdrafts	-	494
Trade creditors	1,910	1,373
Amounts owed to Group undertakings	2,890	2,228
Social security and other taxes	1,430	402
Other payables	1,669	1,293
Deferred income	40,820	34,202
	<u>48,719</u>	<u>39,992</u>

Amounts owed to Group undertakings are interest free trade balances repayable on demand.

14 Provisions for liabilities

	31 March 2017 £ 000	31 March 2016 £ 000
Defined benefit retirement obligations		
UKPN Group of the ESPS (UKPN Group Scheme)	4,171	2,376
UK Power Networks Pension Scheme (UKPNPS)	4,520	1,816
	<u>8,691</u>	<u>4,192</u>
Other provisions	4,175	2,491
	<u>12,866</u>	<u>6,683</u>

Movements in the defined benefit pension schemes are detailed in note 15. Movements in other provisions relating to legal and constructive obligations, expected to become payable within the next two years, are shown below:

	Other provisions £ 000
At 1 April 2016	2,491
Charged to profit and loss account	<u>1,684</u>
At 31 March 2017	<u>4,175</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

15 Pension commitments

Defined contribution pension scheme

The Company contributes to a defined contribution pension scheme, the UK Power Networks Personal Pension Plan. This was introduced in 2011 following the closure of the Group's defined benefit schemes to new members.

Employees can opt for a contribution rate of between 3% and 5% of their salary with the employer making double this contribution. The Company made contributions to the scheme amounting to £162,000 (31 December 2014 to 31 March 2016: £154,000) during the year.

Defined benefit pension schemes

The Company contributes to two funded defined benefit pension schemes operated by the Group:

The UK Power Networks Group of the ESPS (the UKPN Group) scheme

This scheme is an independent section of the Electricity Supply Pension Scheme "ESPS" which was formed in 1990 following privatisation of the Electricity Industry. The UKPN Group of the ESPS has been closed to new members since 1994.

The UK Power Networks Pension Scheme (UKPNPS)

The UKPNPS was formed from a number of legacy arrangements with membership dating back to 1994. It has been closed to new members since 2011.

Funding levels are monitored annually and a funding schedule formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The current funding schedule is based on the actuarial valuation as at 31 March 2016 and was agreed in June 2017. The new contribution rates are considered sufficient to eliminate the current deficit over the next seven years.

A valuation under FRS 102 at the balance sheet date was provided by actuaries using rolled forward member data from the 31 March 2016 triennial actuarial valuation and reflecting updated financial and demographic assumptions. The defined benefit scheme assets and liabilities are assigned to participating entities using an allocation methodology based on employment records and attribution portions agreed with the industry regulator Ofgem.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

15 Pension commitments (continued)

The key financial assumptions (% per annum) used to calculate scheme liabilities at the balance sheet date are presented below for both defined benefit schemes:

	31 March 2017 %	31 March 2016 %
UKPN Group key financial assumptions		
Discount rate	2.5	3.4
Future salary increases	3.6	3.4
RPI inflation	3.1	2.9
CPI inflation	2.0	1.9
Pension increases in deferment	3.1	2.9
Pension increases in payment		
- pensions in excess of GMP	3.1	2.9
- post-88 GMP	1.8	1.7

	31 March 2017 %	31 March 2016 %
UKPNPS key financial assumptions		
Discount rate	2.5	3.5
Future salary increases	3.6	3.5
RPI inflation	3.1	3.0
CPI inflation	2.0	2.0
Pension increases in deferment		
- CPI up to 5% per annum	2.0	2.0
- CPI up to 2.5% per annum	2.0	2.0
Pension increases in payment		
- RPI up to 5% per annum	3.0	2.9
- RPI up to 2.5% per annum	2.1	2.1
- post-88 GMP	1.8	1.8

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

15 Pension commitments (continued)

The following life expectancies have been assumed in the calculation of scheme liabilities:

	31 March 2017 Years	31 March 2016 Years
UKPN Group life expectancy assumptions		
Current male pensioner aged 60	27	28
Current female pensioner aged 60	29	30
Future male pensioner from age 60 retiring in 2037	29	30
Future female pensioner from age 60 retiring in 2037	<u>31</u>	<u>32</u>

	31 March 2017 Years	31 March 2016 Years
UKPNPS life expectancy assumptions		
Current male pensioner aged 65	23	23
Current female pensioner aged 65	25	25
Future male pensioner from age 65 retiring in 2037	25	25
Future female pensioner from age 65 retiring in 2037	<u>27</u>	<u>27</u>

The amounts recognised in the balance sheet in respect of the defined benefit schemes are as follows:

	UKPN Grp 31 Mar 2017 £ 000	UKPNPS 31 Mar 2017 £ 000	Total 31 Mar 2017 £ 000	Total 31 Mar 2016 £ 000
Fair value of scheme assets	39,612	12,521	52,133	41,034
Present value of defined benefit obligation	<u>(43,783)</u>	<u>(17,041)</u>	<u>(60,824)</u>	<u>(45,226)</u>
Defined benefit pension scheme deficit	<u>(4,171)</u>	<u>(4,520)</u>	<u>(8,691)</u>	<u>(4,192)</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

15 Pension commitments (continued)

Amounts (charged)/credited to the profit and loss account in respect of the defined benefit schemes were as follows:

	UKPN Grp 1 Apr 2016 to 31 Mar 2017 £ 000	UKPNPS 1 Apr 2016 to 31 Mar 2017 £ 000	Total 1 Apr 2016 to 31 Mar 2017 £ 000	Total 31 Dec 2014 to 31 Mar 2016 £ 000
Current service cost	(464)	(454)	(918)	(1,195)
Curtailments	-	-	-	62
Net interest cost	(67)	(47)	(114)	(164)
	(531)	(501)	(1,032)	(1,297)
Recognised in other comprehensive income	(2,319)	(2,838)	(5,157)	(1,053)
	<u>(2,850)</u>	<u>(3,339)</u>	<u>(6,189)</u>	<u>(2,350)</u>

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

	UKPN Grp 31 Mar 2017 £ 000	UKPNPS 31 Mar 2017 £ 000	Total 31 Mar 2017 £ 000	Total 31 Mar 2016 £ 000
At 1 April 2016 / 31 December 2014	(32,375)	(12,851)	(45,226)	(42,725)
Current service cost	(464)	(454)	(918)	(1,195)
Curtailments	-	-	-	62
Interest cost	(1,072)	(466)	(1,538)	(1,906)
Actuarial losses	(11,340)	(3,130)	(14,470)	(984)
Benefits paid	1,468	(140)	1,328	1,522
At 31 March	<u>(43,783)</u>	<u>(17,041)</u>	<u>(60,824)</u>	<u>(45,226)</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

15 Pension commitments (continued)

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

	UKPN Grp	UKPNPS	Total	Total
	31 Mar	31 Mar	31 Mar	31 Mar
	2017	2017	2017	2016
	£ 000	£ 000	£ 000	£ 000
At 1 April 2016 / 31 December 2014	29,999	11,035	41,034	38,132
Interest income	1,005	419	1,424	1,742
Return on plan assets (excluding amounts included in net interest cost)	9,021	292	9,313	(69)
Contributions by employer	427	366	793	1,212
Deficit payments	628	269	897	1,539
Benefits (paid)/received	(1,468)	140	(1,328)	(1,522)
At 31 March	39,612	12,521	52,133	41,034

	UKPN Grp	UKPNPS	Total	Total
	31 Mar	31 Mar	31 Mar	31 Mar
	2017	2017	2017	2016
	£ 000	£ 000	£ 000	£ 000
Equities	7,311	5,840	13,151	9,657
Liability driven investments	16,821	3,800	20,621	15,517
Corporate bonds	160	1,280	1,440	1,247
Multi credit funds	3,185	-	3,185	2,498
Property	-	720	720	940
Hedge funds	-	720	720	857
Macro funds	4,549	-	4,549	3,672
Multi asset funds	6,795	-	6,795	6,428
Other	791	161	952	218
	39,612	12,521	52,133	41,034

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

16 Called up share capital and reserves

	31 March 2017 £ 000	31 March 2016 £ 000
Allotted, called up and fully paid		
33,370,733 ordinary shares of £1 each	<u>33,371</u>	<u>33,371</u>

Reserves

The profit and loss reserve represents cumulative profits or losses, including actuarial gains and losses on remeasurement of the net defined benefit pension liability, net of dividends paid.

17 Obligations under leases and hire purchase contracts

Operating leases

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

	31 March 2017 £ 000	31 March 2016 £ 000
Land and buildings		
- Within one year	88	92
- Between one and five years	352	352
- Over five years	<u>353</u>	<u>-</u>
	<u>793</u>	<u>444</u>
Vehicles		
- Within one year	301	310
- Between one and five years	661	757
- Over five years	<u>41</u>	<u>49</u>
	<u>1,003</u>	<u>1,116</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

18 Related party transactions

The Company has taken an exemption under FRS 102 (section 33 2.2) not to disclose transactions with other wholly owned members of the Group. The Company qualifies for this exemption on the basis that it is a wholly owned subsidiary of a parent which prepares publicly available consolidated financial statements intended to give a true and fair view of the financial position and results of the Group, and the Company is included within the consolidation.

Transactions with joint ventures

During the year the Company made sales in the ordinary course of business of £6,527,000 (31 December 2014 to 31 March 2016: £9,302,000) to MUJV Limited which is a 50% controlled joint venture of the Group. Trade debtors presented in note 12 include £1,350,000 (31 March 2016: £1,388,000) due from MUJV Limited and accruals and deferred income (note 13) include £37,676,000 (31 March 2016: £32,812,000) of deferred income on projects with MUJV Limited.

No other related party transactions were entered into during the year or prior period.

19 Parent and ultimate parent undertaking

The Company's immediate parent is UK Power Networks Services (Asset Management) Limited, incorporated in England and Wales and registered at the following address:

Newington House
237 Southwark Bridge Road
London
SE1 6NP

UK Power Networks Services Holdings Limited, incorporated in England and Wales and registered at the above address, is the parent of the smallest group in which the Company's financial statements are consolidated.

The ultimate controlling party and parent of the largest group in which the Company's financial statements are consolidated is UK Power Networks Holdings Limited, incorporated in England and Wales and also registered at the above address.

Copies of the financial statements of UK Power Networks Holdings Limited and UK Power Networks Services Holdings Limited may be obtained from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX.

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

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

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

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

20 Transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the period from 31 December 2014 to 31 March 2016 and the date of transition to FRS 102 was therefore 30 December 2014. The impact of FRS 102 on the Company's financial position and financial performance is set out below:

Reconciliation of equity

	31 December 2014 £ 000	31 March 2016 £ 000
Equity reported under previous UK GAAP	26,792	25,671
Equity reported under FRS 102	<u>26,792</u>	<u>25,671</u>

Reconciliation of profit or loss and other comprehensive income

	Profit or loss £ 000	Other com- prehensive income £ 000	Total com- prehensive income £ 000
Profit for the financial period under previous UK GAAP	163	(1,284)	(1,121)
Net interest on defined benefit pension liabilities	(401)	401	-
Deferred tax effect of transitional adjustments	<u>73</u>	<u>(73)</u>	<u>-</u>
Profit for the financial period under FRS 102	<u>(165)</u>	<u>(956)</u>	<u>(1,121)</u>

Net interest on defined benefit pension liabilities

As a consequence of adopting FRS 102, the net interest cost on defined benefit pension liabilities charged to profit or loss increased by £401,000 in the comparative period.

Under previous UK GAAP the net pension interest cost was calculated as: the discount rate (based on yields of high quality corporate bonds) applied to scheme liabilities; offset by the expected return on plan assets based on actuarial estimates. FRS 102 applies the discount rate to both scheme liabilities and assets with the balance of the return on scheme assets recognised in reserves. As a result, the net interest charge delivered to the profit and loss is higher. The net effect on equity is nil due to a balancing gain recognised through other comprehensive income as set out in the reconciliation above.