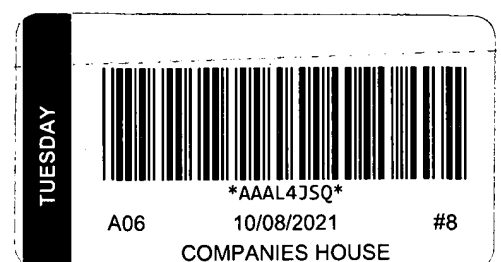


Registration number: 2965182

UK Power Networks Services (Commercial) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2021



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 Andrew Pace

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 237 Southwark Bridge Road
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 United Kingdom

Auditor Deloitte LLP
 Statutory Auditor
 1 New Street Square
 London
 EC4A 3HQ
 United Kingdom

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

The Directors present their Strategic Report for the year ended 31 March 2021.

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 connected homes and businesses.

Review of the business

The results for the year amounted to a profit before taxation of £8,911,000 (2020: £5,321,000) and a profit after taxation of £7,172,000 (2020: £4,147,000).

No dividends were paid in the current or prior year.

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:

	2021	2020
Financial performance		
Turnover (£000)	36,956	52,488
EBITDA (Profit before interest, tax, depreciation and amortisation) (£000)	8,893	5,410
Non-financial performance		
Lost time incidents (LTIs)		
LTIs - Injuries at work resulting in lost time of one day or more	<u>-</u>	<u>-</u>

Financial performance

Financial performance indicators represent the key financial metrics that reflect the financial health of the business.

The reduction in turnover from £52,488,000 to £36,956,000 is primarily due to the completion of several major network construction projects during the year.

EBITDA has improved by £3,483,000 reflecting the reduction in operating costs as significant projects were completed.

The EBITDA measure excludes the effect of interest, taxation, depreciation and amortisation from earnings and thus reflects the operational performance of the business. As there is no depreciation or amortisation charge in the current or prior year, EBITDA is equivalent to the operating profit presented in the profit and loss statement.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Key performance indicators continued

Financial performance continued

Impact of COVID-19

The Company has felt the effects of the COVID-19 pandemic less than many other businesses in the UK. It has not required any funding support from the government and the adverse economic climate has not resulted in an increase in debtors.

Turnover on the Company's core long term infrastructure management contracts has increased in line with expectation although the completion of certain major contracts during the year has resulted in a reduction in total turnover. Uncertainty across markets as a result of the pandemic, may be impacting investment decisions. The Company has seen an impact on new business opportunities with some schemes which were scheduled for delivery being deferred rather than cancelled. The Directors expect new business to pick up as the economy emerges from the pandemic. Their assessment is that COVID-19 is a temporary disruption which will not have a material effect on the Company's financial position and prospects in the medium to long term. The response to the pandemic during the year is discussed in the narrative below.

Non financial performance

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 is regularly ongoing for all operational staff. Safety procedures and training have been updated and adapted in response to the COVID-19 pandemic to protect employees in the workplace and where they come into contact with members of the public or contractors. No lost time incidents occurred during the current or prior year.

Response to the COVID-19 pandemic

With a primary focus on the safety and welfare of employees and customers, the Company has continued to deliver essential projects and manage critical infrastructure throughout the pandemic. The Company's response to the pandemic is discussed in the context of the Group as a whole because strategies have been developed and applied on a Group-wide basis. Business resilience and well developed business continuity plans have enabled the Group to sustain its operational and financial performance during the COVID-19 pandemic. The Group has closely monitored the evolving pandemic situation and followed Government guidelines to minimise the risk to customers and members of the public and to safeguard staff in their role as key workers. The response to the pandemic included the following measures:

- Clear regular communications to inform staff of the latest developments and guidelines.
- Use of Personal Protective Equipment ("PPE") and specific safety procedures for field staff entering premises with occupants that may be self isolating due to a COVID infection or shielding.
- Facilitating working from home to limit contact between staff members and with members of the public.
- Social distancing arrangements, temperature checks and hygiene practices to create "COVID secure" work environments at operational and office sites.
- Engaging with clients to understand and comply with their pandemic plans and resilience activities.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Response to the COVID-19 pandemic continued

In April and May 2020 some operational work was paused, primarily at the client's request, while new safety measures were introduced. By June 2020, operational activities were back up to full capacity. Over the winter, the Company adapted to the changing lockdown restrictions and maintained its operations at near normal levels using the safe work methods developed during the early stages of the pandemic. A large proportion of office staff worked from home but all offices remained open for those staff who needed to be on site to work effectively. As set out on page 5 the Group continues to monitor COVID-19 as a principal risk.

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. 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. A subcommittee of the Group Board, the Risk Management and Compliance Committee, oversees the risk management function and makes annual assessments of changes to significant risks and the effectiveness of the risk management processes.

The Company's principal risks and uncertainties, and a summary of actions to mitigate them, 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.

The Group aims to create and foster a culture in which safety is the highest priority in the minds of all of its employees. The Company actively monitors, measures and investigates safety incidents, including near misses, and seeks to learn from each one.

Network assets

There is a risk of faults on client electricity networks resulting in a loss of supply. 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.

The Company closely monitors network performance and strives to continually innovate to improve the ways in which it identifies and manages the risk of outages or other client network issues.

Information Technology (IT)

A cyber security breach or failure of the Group's core systems, applications or associated IT processes could have a significant impact on the Company. Business operations could be affected and data breaches could result in legal or regulatory non-compliance with resulting financial penalties and reputational damage.

The Company benefits from the Group's Cyber Security Improvement Programme which operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation. Activities are focused across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactive testing of resilience. All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Principal risks and uncertainties continued

Information Technology (IT) continued

The Group operates a training programme to see that all its staff are aware of cyber risks and know how to minimise and manage those risks, as well as how to respond in the event of a suspected breach.

COVID-19

An inadequate response to the COVID-19 pandemic could result in a failure in the Company's performance (e.g. power outages at key facilities, safety incidents, or poor customer service) resulting in significant financial and reputational damage and a less engaged and committed workforce. Measures taken to mitigate the risks arising from the pandemic include:

- Continual monitoring of the pandemic using guidance from Public Health England and the Department of Business, Energy and Industrial Strategy ("BEIS"). Employees are provided with regular updates via email, a dedicated information site on the intranet and frequent video briefings and Q&A sessions by the Chief executive officer.
- Scenario planning to stress test the business continuity plans for each business unit.
- Adapting work practices, safety procedures and training to protect employees in the workplace and where they come into contact with members of the public or contractors. Measures include providing appropriate PPE to field staff, splitting operational teams to ensure social distancing, re-organising operational sites and offices in line with COVID safety government guidelines.
- Review and reprioritisation of work as required, in response to the changing risks.
- Recovery plans to monitor work back-logs against strategic targets and resume work as quickly as possible if projects are impacted by the pandemic.
- Monitoring by senior management of key performance areas which could be impacted by COVID-19 e.g. network safety and performance, customer satisfaction levels, employee health and absenteeism, PPE allocation, adherence to new policies and procedures, financial impacts.

The changing risk profile of the pandemic and the Group's response is under constant review by senior management in three main forums: the Incident Leadership team, the Organisational Resilience Leadership team and the Strategic Operational team.

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 Group which operates pooled treasury arrangements that the Company can access via intercompany loans.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Future developments

The Company plans to achieve long-term growth through broadening service offerings, expansion into new solutions and segments that are adjacent to current activities, and improving the efficiency of the underlying operating model.

There is still uncertainty in predicting the full extent and duration of the COVID-19 impact on the business. The adverse effect of the pandemic on the economy may be influencing the investment decisions of potential customers. The Directors consider the effects of the COVID-19 pandemic to be a temporary disruption which will not have a material effect on the future financial position and prospects of the Company. However COVID-19 continues to be monitored as principal risk, as discussed on page 5.

Section 172 (1) statement

The Directors are aware of their duties under Section 172(1) of the Companies Act 2006, which requires them to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have regard to, amongst other matters, the issues described in paragraphs a) to f) below.

The Company participates in a range of Group initiatives designed to benefit and foster good relationships with stakeholders. Where references are made to the Group below this refers to Group wide activities as they apply to the Company. Further detail may be found in the annual report and consolidated financial statements of the ultimate parent UK Power Networks Holdings Ltd.

a) The likely consequences of any decision in the long term

The Company operates in an industry characterised by long term investment in the future to ensure sustainable energy solutions for customers. The consequences of the Company's strategy over the long term are considered in its long term business plans and five year projections, which are updated annually.

The Group also operates a long term incentive plan for its Executive Management Team to promote achievement of sustainable, good long term performance.

b) The interests of the Company's employees

The Group recognises that its employees (including the employees of the Company) are fundamental to the achievement of its objectives and to its longer term success, and has articulated being an Employer of Choice as one of the three pillars to its vision.

A diverse workforce, with a range of backgrounds, abilities, skills and experience, is considered to be vital to achieving the best outcomes.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Section 172 (1) statement continued

b) The interests of the Company's employees continued

Accordingly the Group places considerable value on the engagement and involvement of its workforce, through a variety of activities and initiatives including:

- A comprehensive annual employee engagement survey by an external survey provider "Best Companies" in which employees provide their views on key matters pertinent to the success of the Group and their own engagement. The results of the survey continue to improve and this year the Group achieved a top rating of 3 stars in recognition of exceptional levels of employee engagement. Feedback indicated that Leadership, Fair Deal and Wellbeing were key areas of strength. Shorter monthly polls are conducted on samples of employees across the organisation, as a supplement to the annual survey.
- The Group has featured on the Sunday Times Top 25 Best Big Companies To Work For list since 2013, achieving sixth position nationally in the last survey published in May 2021.
- The Group issues communications to employees through a range of channels including Group-wide magazine publications, intranet sites, emails and social media forums. The management team engages with employees in monthly team briefings and monthly roadshows in which the Group's performance is discussed and employees have the opportunity to direct questions to the senior management team.
- Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees through dedicated employee engagement forums.
- The values of Diversity and Inclusiveness are key considerations in the Group's recruitment, training and communication programmes. Training is provided to senior and middle managers on how unconscious biases, affecting the way people are treated, can be overcome. Diversity Champions are appointed to act as role models for diversity and equality within the business. Through various forums, employees are asked to share their views on diversity and inclusiveness in the work place and make recommendations for improvement. Achieving the National Equality Standard (NES) accreditation and 3rd place in the 2020 Inclusive Companies list reflects the Group's intent and commitment toward becoming a truly diverse and inclusive workplace.
- Each employee undertakes performance reviews with their managers, in which their performance against objectives is reviewed and discussed, and personal development opportunities and training identified.
- The Group holds an "Investors in People" platinum accreditation which recognises its commitment to excellence in people management, an achievement obtained by only 2% of companies globally.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Section 172 (1) statement continued

c) The need to foster the Company's business relationships with suppliers, customers and others

Customers

The Company aims to create long-term strategic partnerships with its clients and deliver energy solutions which optimise existing assets and integrate new technologies to deliver improved performance and commercial benefits. Customer engagement helps build a sustainable business, as it anchors the Company to the needs and expectations of its customers and shapes its long term vision and objectives.

- The Group engages with its customers through a programme of events, forums and focus groups along with other communications such as newsletters and media campaigns.
- The Company takes the time to understand the client's business and strategic energy requirements and develop technologically advanced solutions that deliver the best outcome possible.
- Feedback is received in the form of a customer satisfaction rating from an external agency whose work includes extensive interviews and telephone surveys with clients.

The Company uses the information obtained from the above initiatives to further improve the services that it delivers.

Suppliers

Good relationships with suppliers are key to delivering value efficiently and effectively. The Group operates an established procurement function which seeks to ensure fair and ethical dealings with its suppliers, and has put in place policies and practices, such as:

- The Group has published guidance to suppliers, both current and prospective, on how to operate in accordance with the Group's vision, values, and standards. It outlines its approach to business ethics and sustainable procurement and clarifies the standards and behaviours it expects to be adopted throughout the supply chain.
- The Group assesses its suppliers through a pre-qualification platform Achilles Utilities Vendor Database ("UVDB"). As an industry-recognised risk management framework, Achilles UVDB provides a fair, open and transparent means of supplier selection for potential tender opportunities.
- The Group is a signatory to the Prompt Payment Code, which sets standards for payment practices and best practice, working towards adopting 30 day payment terms as the norm, and to avoid any practices that adversely affect the supply chain.
- The Group has formed an alliance model with key strategic partners to promote closer working relationships and common practices on shared projects.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Section 172 (1) statement continued

d) The impact of the Company's operations on the community and the environment

The Company recognises its responsibility not only to deliver to the highest standards but also to be environmentally responsible and achieve a positive legacy in the communities where it operates. Being a respected and trusted corporate citizen is a key part of the Company's vision. The Company is committed to protecting the natural environment and minimising its impact on the locations in which it operates and to provide energy solutions which help clients to sustainably reduce carbon emissions.

The Group regularly engages with local community groups, councils, businesses and customers through a programme of events and forums in order to identify trends and developments, inform policies and procedures, and re-align its strategy. The Group's Green Action Plan which was launched in 2019 and is developing over time, sets out targets for reducing the Group's impact on the environment in relation to carbon emissions, waste, water usage, air and noise pollution and biodiversity. Progress against these targets is reported on the UKPN Group's website at www.ukpowernetworks.co.uk/internet/en/about-us/sustainability.

e) The desirability of the Company maintaining a reputation for high standards of business conduct; and f) The need to act fairly as between members of the Company

The Group's vision is to be a respected and trusted corporate citizen, operating within a set of values which are designed to promote high standards and fair and ethical behaviour. The Company has adopted the same vision and values to set the direction and guide the decisions taken in carrying out its business, as described below.

The Company aims to be a leading performer within the electrical contracting industry through being:

- an employer of choice;
- a respected and trusted corporate citizen including delivering high quality services to the Company's customers; and
- sustainably cost efficient.

The values of the Company underpin what the Company does. They define how the Company expects its employees to behave and how the Company wants to be perceived by its stakeholders and those who come into contact with the business.

Integrity: The Company will do what it says it will do and build trust and confidence by being honest to colleagues, partners and customers.

Respect: The Company will treat partners and customers in the way in which the Company would want to be treated.

Continuous improvement: The Company is committed to learning, development, innovation and achievement.

Responsibility: The Company will act in an ethical, safe and socially/environmentally aware manner.

Diversity and inclusiveness: The Company recognises and encourages the value which difference can bring.

Unity: The Company is stronger together and this comes from a shared vision, a common purpose, and a supportive and collaborative working environment.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Section 172(1) statement continued

e) The desirability of the Company maintaining a reputation for high standards of business conduct; and f) The need to act fairly as between members of the Company continued

The Board are committed to seeing that the vision and values are embedded in the Group, and reiterate them regularly. Internal bonus and incentive targets are based on the achievement of the vision, measuring both financial and non-financial metrics. The Group also operates a Living our Values award system, which promotes and recognises employees who demonstrate the values in their work.

Through open discussion, the vision and values are reviewed internally, and from time to time are modified to reflect the changing environment in which the Group operates. This is done through feedback from the annual employee survey, engagement with trade unions, and regular senior leadership forums.

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 2021 and the Company's strategic business plan which extends to 31 December 2025. 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;
- in the year ended 31 March 2021 the Company earned profits after tax of £7,172,000 and at that date held net current assets of £51,890,000; and
- the Company has no interest bearing debt or covenant obligations with third parties outside the Group and has a strong liquidity position with cash reserves of £26,081,000 at 31 March 2021.

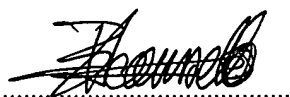
The Company has delivered a strong financial and operational performance during the year. While there remains uncertainty, the Directors' assessment is that the pandemic is not expected to have a material impact on the Company's future financial position and prospects.

The Company's forecasts and projections, taking into account reasonably possible changes in trading performance including having considered the impacts of COVID-19, show that the Company has adequate resources to continue operating for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2021

Approved by the Board on 3 August 2021 and signed on its behalf by:

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

Basil 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 2021

The Directors present their Annual Report including the Audited Financial Statements of the Company for the year ended 31 March 2021.

Details of the Company's risk management objectives and policies, future developments, the Section 172 (1) statement on the duties of directors and the going concern statement 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 or prior year.

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 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.

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.

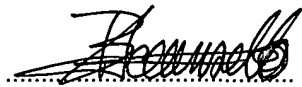
UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2021

Auditor

The Auditor, Deloitte LLP, is deemed reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 3 August 2021 and signed on its behalf by:

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

Basil 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 to 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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of UK Power Networks Services (Commercial) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements 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 including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the relevant controls relating to the going concern process;
- Assessing the recoverability of intercompany loans, including determining the recoverability of the loans with counterparties within the group;
- Obtaining an understanding of the going concern forecast prepared by Management, including the downside scenarios as well as evaluating any plan for future actions;
- Testing the mathematical accuracy of the model used to prepare the going concern forecast;
- Challenging the key assumptions, including forecast revenue and capital expenditure cash flows, on which the assessment is based and evaluating the consistency of assumptions with other assumptions within the going concern assessment as well as related assumptions used in other areas;
- Evaluating Management's assessment of the impact of Covid-19 within the forecast;
- Assessing the forecast liquidity in the intercompany loans;
- Assessing whether any additional facts or information has become available since the date Management made its assessment; and
- Evaluating the appropriateness of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

Extent to which the audit was considered capable of detecting irregularities, including fraud continued

We discussed among the audit engagement team and relevant internal specialists such as financial instruments, valuations, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports, and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

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 the 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.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

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

Matters on which we are required to report by exception

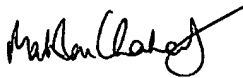
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

Use of our report

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.



.....
Makhan Chahal (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

London
United Kingdom

3 August 2021

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £ 000	2020 £ 000
Turnover	4	36,956	52,488
Cost of sales		<u>(27,487)</u>	<u>(44,057)</u>
Gross profit		9,469	8,431
Other operating expenses		<u>(576)</u>	<u>(3,021)</u>
Operating profit	5	8,893	5,410
Finance income/(costs) (net)	6	<u>18</u>	<u>(89)</u>
Profit before tax		8,911	5,321
Taxation	9	<u>(1,739)</u>	<u>(1,174)</u>
Profit for the year		<u>7,172</u>	<u>4,147</u>

The results above were derived from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	2021 £ 000	2020 £ 000
Profit for the year	7,172	4,147
Remeasurement of net defined benefit pension liability	<u>(4,983)</u>	<u>2,503</u>
Total comprehensive income for the year	<u>2,189</u>	<u>6,650</u>

The components of other comprehensive income are presented net of tax related effects.

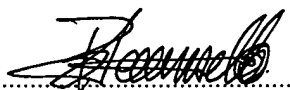
The notes on pages 23 to 40 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

BALANCE SHEET AS AT 31 MARCH 2021

	Note	2021 £ 000	2020 £ 000
Fixed assets			
Tangible assets	10	-	-
Current assets			
Stocks	11	2,996	5,063
Debtors falling due within one year	12	68,590	69,409
Debtors falling due after more than one year	12	2,083	1,673
Cash at bank and in hand		26,081	19,729
		<u>99,750</u>	<u>95,874</u>
Creditors: Amounts falling due within one year	13	<u>(47,860)</u>	<u>(52,416)</u>
Net current assets		<u>51,890</u>	<u>43,458</u>
Total assets less current liabilities		<u>51,890</u>	<u>43,458</u>
Provisions for liabilities	14	<u>(14,958)</u>	<u>(8,715)</u>
Net assets		<u>36,932</u>	<u>34,743</u>
Capital and reserves			
Called up share capital	16	33,371	33,371
Profit and loss account	16	3,561	1,372
Total shareholders' funds		<u>36,932</u>	<u>34,743</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 3 August 2021. They were signed on its behalf by:



Basil Scarsella
Director

The notes on pages 23 to 40 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 2021

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2019	<u>33,371</u>	<u>(5,278)</u>	<u>28,093</u>
Profit for the year	-	4,147	4,147
Remeasurement of defined benefit pension liability	<u>-</u>	<u>2,503</u>	<u>2,503</u>
Total comprehensive income	<u>-</u>	<u>6,650</u>	<u>6,650</u>
At 31 March 2020	<u><u>33,371</u></u>	<u><u>1,372</u></u>	<u><u>34,743</u></u>

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2020	<u>33,371</u>	<u>1,372</u>	<u>34,743</u>
Profit for the year	-	7,172	7,172
Remeasurement of defined benefit pension liability	<u>-</u>	<u>(4,983)</u>	<u>(4,983)</u>
Total comprehensive income	<u>-</u>	<u>2,189</u>	<u>2,189</u>
At 31 March 2021	<u><u>33,371</u></u>	<u><u>3,561</u></u>	<u><u>36,932</u></u>

The notes on pages 23 to 40 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 2021

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 11.

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. They have all been applied consistently throughout the current and prior year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (FRC).

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 taken the exemption not to present a cash flow statement and not to disclose related party transactions with other wholly owned members of the Group.

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.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

2 Accounting policies (continued)

Tangible assets

Tangible assets are stated at 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 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 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

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.

Contract revenue recognition

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

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

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.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

2 Accounting policies (continued)

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.

Tax

The tax expense for the year 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 2021

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 are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following represent the critical judgements and key sources of estimation uncertainty that may have a significant effect on the amounts recognised in the financial statements.

Critical judgements in applying the Company's accounting policies

In the course of preparing the financial statements, the Directors do not consider that any judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations (which are dealt separately with below), that have had a significant effect on the amounts recognised in the financial statements.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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.

Details of the defined benefit schemes and the assumptions used to estimate the defined benefit obligation are set out in note 15. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2021.

		Impact on scheme liabilities	
		UKPN Grp	UKPNPS
		2021	2021
	Change in assumption	£m	£m
Discount rate	+/- 0.50%	-7.0% to 8.2%	-13.9% to 16.9%
RPI inflation	+/- 0.50%	7.2% to -6.3%	12.9% to -11.5%
Life expectancy	+/- 3yrs	16.4% to -16.3%	10.7% to -10.5%
Rate of salary increases	+/- 0.50%	0.6% to -0.6%	4.1% to -3.7%

At 31 March 2021 scheme liabilities were valued at £44,368,000 (2020: £38,563,000) for the UKPN Group scheme and £25,971,000 (2020: £18,323,000) for the UKPNPS Scheme, in accordance with FRS 102 (as disclosed 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.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

5 Operating profit

Arrived at after charging:

	2021 £ 000	2020 £ 000
Operating lease expense - property	88	88
Operating lease expense - other	<u>275</u>	<u>259</u>

The amount payable to Deloitte LLP was £24,100 (2020: £28,700) in respect of audit services and £Nil (2020: £Nil) in respect of non-audit services. Auditor's remuneration was borne in both years by another group company.

6 Finance costs (net)

	2021 £ 000	2020 £ 000
Net interest income on defined benefit pension surplus	58	-
Net interest cost on defined benefit pension deficit	<u>(40)</u>	<u>(89)</u>
	<u>18</u>	<u>(89)</u>

7 Staff costs

The aggregate payroll costs were as follows:

	2021 £ 000	2020 £ 000
Wages and salaries	9,858	9,874
Social security costs	1,247	1,279
Pension costs, defined benefit scheme	<u>1,249</u>	<u>1,208</u>
	<u>12,354</u>	<u>12,361</u>

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

	2021 Number	2020 Number
Average monthly number of employees	<u>143</u>	<u>151</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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 or prior year.

9 Taxation

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

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	1,550	985
Adjustments in respect of prior years	<u>(38)</u>	<u>(3)</u>
Total current taxation	<u>1,512</u>	<u>982</u>
Deferred taxation		
Origination and reversal of timing differences	221	211
Effect of increase in tax rate on opening balance ¹	-	(12)
Adjustments in respect of prior years	<u>6</u>	<u>(7)</u>
Total deferred taxation	<u>227</u>	<u>192</u>
Total tax charge	<u><u>1,739</u></u>	<u><u>1,174</u></u>

The total tax assessed for the year was higher than the standard rate of 19% (2020: 19%) applied to profit before tax. The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit before tax	<u>8,911</u>	<u>5,321</u>
Corporation tax at standard rate	1,693	1,011
Expenses not deductible for tax purposes	78	185
Deferred tax credit relating to changes in tax rates ¹	-	(12)
Adjustments to current tax in respect of prior years	(38)	(3)
Adjustments to deferred tax in respect of prior years	<u>6</u>	<u>(7)</u>
Total tax charge	<u><u>1,739</u></u>	<u><u>1,174</u></u>

¹ In the prior year the deferred tax rate increased from 17% to 19%, resulting in a reduction in the tax charge of £12,000.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

9 Taxation (continued)

Tax rate changes

The current tax rate applied during the year was 19% (2020: 19%) and deferred tax was calculated at 19% (2020: 19%) based on the standard rate of corporation tax substantively enacted at the reporting date.

Within the Finance Bill 2021 published on 11 March 2021, the standard rate of corporation tax is set to increase from 19% to 25% with effect from 1 April 2023. This rate increase was not yet substantively enacted at the reporting date and therefore has no effect on these financial statements. The enactment took place in the third reading of the Finance Bill 2021 on 24 May 2021 and as such is a non-adjusting post balance sheet event. Remeasuring the 31 March 2021 deferred tax asset at the new rate of 25% will result in a credit of £377,000 to the profit and loss account in the next financial year ended 31 March 2022.

10 Tangible assets

	Furniture, fittings and equipment £ 000	Total £ 000
Cost		
At 1 April 2020	3,685	3,685
At 31 March 2021	3,685	3,685
Depreciation		
At 1 April 2020	3,685	3,685
At 31 March 2021	3,685	3,685
Net book value		
At 31 March 2021	-	-
At 31 March 2020	-	-

11 Stocks

	2021 £ 000	2020 £ 000
Work in progress	2,996	5,063

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 2021

12 Debtors

	Note	2021 £ 000	2020 £ 000
Amounts falling due within one year:			
Trade debtors		3,803	4,665
Amounts owed by Group undertakings		63,320	63,501
Other debtors		10	6
Prepayments and accrued income		263	985
Deferred tax asset		1,194	252
		<u>68,590</u>	<u>69,409</u>
Amounts falling due after more than one year:			
Surplus in the UKPN Group defined benefit pension scheme	15	2,083	1,673
		<u>70,673</u>	<u>71,082</u>

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

Deferred tax

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

	Deferred tax £ 000
At 1 April 2020	252
Charged to profit and loss account	(227)
Credited to other comprehensive income	1,169
At 31 March 2021	<u>1,194</u>

Analysis of deferred tax

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

	2021 £ 000	2020 £ 000
Differences between accumulated depreciation and capital allowances	41	47
Other timing differences	53	54
Deferred tax relating to defined benefit pension scheme deficit	1,100	151
Net deferred tax asset	<u>1,194</u>	<u>252</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

13 Creditors

	2021 £ 000	2020 £ 000
Amounts falling due within one year:		
Trade creditors	343	867
Amounts owed to Group undertakings	1,670	2,289
Corporation tax	1,596	1,380
Social security and other taxes	1,191	953
Other payables	26	1,235
Accruals and deferred income	43,034	45,692
	47,860	52,416

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

14 Provisions for liabilities

	Note	2021 £ 000	2020 £ 000
Defined benefit retirement obligations			
Deficit in the UKPNPS defined benefit pension scheme	15	7,876	2,470
		7,876	2,470
Other provisions		7,082	6,245
		14,958	8,715

Other provisions relate to legal and constructive obligations, expected to become payable within the next two years.

	Other provisions £ 000
At 1 April 2020	6,245
Charged to profit and loss account	837
At 31 March 2021	7,082

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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 4% and 10% of their salary. As the employer, the Company matches the employee contribution up to a maximum of 5% of the salary. During the year the Company made contributions to the scheme amounting to £434,000 (2020: £394,000).

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 is formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The latest funding schedule, based on the triennial valuation as at 31 March 2019, was agreed in June 2020 and became effective from 1 January 2021. The new contribution rates are considered sufficient to eliminate the funding deficits over the next five years.

A valuation under FRS 102 at the balance sheet date was provided by actuaries using rolled forward member data from the 31 March 2019 triennial 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.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

15 Pension commitments (continued)

The key financial assumptions (% per annum) used to calculate scheme liabilities at the balance sheet date under FRS 102 were:

	2021 %	2020 %
UKPN Group key financial assumptions		
Discount rate	2.1	2.6
Future salary increases	3.5	3.0
RPI inflation	3.0	2.5
CPI inflation	2.6	1.9
Pension increases in deferment	3.0	2.5
Pension increases in payment		
- pensions in excess of GMP	3.0	2.5
- post-88 GMP	2.2	1.7

	2021 %	2020 %
UKPNPS key financial assumptions		
Discount rate	2.1	2.5
Future salary increases	3.3	2.6
RPI inflation	2.8	2.1
CPI inflation	2.3	1.6
Pension increases in deferment		
- CPI up to 5% per annum	2.3	1.6
- CPI up to 2.5% per annum	2.3	1.6
Pension increases in payment		
- RPI up to 5% per annum	2.7	2.1
- RPI up to 2.5% per annum	2.0	1.6
- post-88 GMP	2.0	1.5

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

15 Pension commitments (continued)

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

	2021 Years	2020 Years
UKPN Group life expectancy assumptions		
Life expectancy for male currently aged 60	26	26
Life expectancy for female currently aged 60	29	29
Life expectancy at 60 for male currently aged 40	28	28
Life expectancy at 60 for female currently aged 40	<u>30</u>	<u>30</u>

	2021 Years	2020 Years
UKPNPS life expectancy assumptions		
Life expectancy for male currently aged 65	23	22
Life expectancy for female currently aged 65	25	25
Life expectancy at 65 for male currently aged 45	24	24
Life expectancy at 65 for female currently aged 45	<u>26</u>	<u>26</u>

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

	UKPN Grp 2021 £ 000	UKPNPS 2021 £ 000	Total 2021 £ 000	Total 2020 £ 000
Fair value of scheme assets	46,451	18,095	64,546	56,089
Present value of defined benefit obligation	<u>(44,368)</u>	<u>(25,971)</u>	<u>(70,339)</u>	<u>(56,886)</u>
Defined benefit pension scheme surplus/(deficit)	<u>2,083</u>	<u>(7,876)</u>	<u>(5,793)</u>	<u>(797)</u>

In respect of the UKPN Group scheme, the Directors are of the view that the surplus is recoverable on the basis that a right of refund exists under the scheme rules, assuming the gradual settlement of the liabilities over time until all the members have left the scheme. Based on this view, the surplus is presented as a non-current asset within Debtors (note 12).

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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 2021 £ 000	UKPNPS 2021 £ 000	Total 2021 £ 000	Total 2020 £ 000
Current service cost	(371)	(444)	(815)	(985)
Reduction in scheme liabilities due to plan amendments	-	-	-	171
Net interest cost	58	(40)	18	(89)
	(313)	(484)	(797)	(903)
Recognised in other comprehensive income	(483)	(5,669)	(6,152)	2,971
	(796)	(6,153)	(6,949)	2,068

During the prior year a plan amendment was made by the trustees of the UKPN Group scheme which permitted members to exchange inflation-linked pension payments for initially higher, but non-escalating, pension payments. This resulted in an overall reduction of £171,000 to the present value of defined benefit obligations, credited to profit or loss.

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

	UKPN Grp 2021 £ 000	UKPNPS 2021 £ 000	Total 2021 £ 000	Total 2020 £ 000
At 1 April	(38,563)	(18,323)	(56,886)	(62,284)
Current service cost	(371)	(444)	(815)	(985)
Reduction in scheme liabilities due to plan amendments	-	-	-	171
Interest cost	(976)	(438)	(1,414)	(1,567)
Actuarial (losses)/gains	(6,421)	(6,606)	(13,027)	6,061
Benefits paid/(received)	1,963	(160)	1,803	1,718
At 31 March	(44,368)	(25,971)	(70,339)	(56,886)

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

15 Pension commitments (continued)

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

	UKPN Grp 2021 £ 000	UKPNPS 2021 £ 000	Total 2021 £ 000	Total 2020 £ 000
At 1 April	40,236	15,853	56,089	57,471
Interest income	1,034	398	1,432	1,478
Return on plan assets (excluding amounts included in net interest cost)	5,938	937	6,875	(3,090)
Contributions by employer	359	401	760	680
Deficit payments	847	346	1,193	1,268
Benefits (paid)/received	(1,963)	160	(1,803)	(1,718)
At 31 March	46,451	18,095	64,546	56,089

The fair value of scheme assets is analysed as follows:

	UKPN Grp 2021 £ 000	UKPNPS 2021 £ 000	Total 2021 £ 000	Total 2020 £ 000
Equities	10,997	7,376	18,373	16,969
Liability driven instruments	18,905	5,916	24,821	19,865
Credit funds	8,843	1,806	10,649	7,288
Hedge funds	2,877	1,229	4,106	10,485
Alternatives ¹	3,101	1,537	4,638	1,275
Cash and net current assets	1,728	231	1,959	207
	46,451	18,095	64,546	56,089

¹ Investment vehicles investing in property, real estate debt, private equity and infrastructure.

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

16 Called up share capital and reserves

	2021 £ 000	2020 £ 000
Share capital: 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:

	2021 £ 000	2020 £ 000
Land and buildings		
- Within one year	101	88
- Between one and five years	403	352
- Over five years	<u>2</u>	<u>89</u>
	<u>506</u>	<u>529</u>
Vehicles		
- Within one year	262	275
- Between one and five years	<u>332</u>	<u>393</u>
	<u>594</u>	<u>668</u>

UK POWER NETWORKS SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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 £13,431,000 (2020: £11,614,000) to MUJV Ltd which is a 50% controlled joint venture of the Group. In addition the Company received a management fee from MUJV Ltd of £1,210,000 (2020: £2,205,000). Trade debtors (note 12) include £1,550,000 (2020: £1,573,000) due from MUJV Ltd and prepayments and accrued income (note 12) include £988,000 (2020: £1,074,000) relating to MUJV Ltd. Accruals and deferred income (note 13) include £38,270,000 (2020: £43,504,000) of deferred income on projects with MUJV Ltd.

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

19 Parent and ultimate parent undertaking

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

Newington House
237 Southwark Bridge Road
London
SE1 6NP

UK Power Networks Services Holdings Limited, incorporated in the United Kingdom and registered in England and Wales 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 the United Kingdom and registered in England and Wales 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 SERVICES (COMMERCIAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

19 Parent and ultimate parent undertaking (continued)

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

- CK Infrastructure Holdings Limited ¹ (40% shareholding);
- Power Assets Holdings Limited ² (40% shareholding); and
- Li Ka-Shing Foundation Limited ² (20% shareholding) until 21 May 2021. Subsequent to that date, this share was held by CK Asset Holdings Limited ³ (as disclosed in note 20).

¹ Incorporated in Bermuda

² Incorporated in Hong Kong

³ Incorporated in the Cayman Islands

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

20 Subsequent events

Change in ownership

On 21 May 2021 the 20% share of the Group held by Li Ka-Shing Foundation Limited (as disclosed in note 19 above) was transferred to CK Asset Holdings Limited, a company incorporated in the Cayman Islands.

Tax rate changes

The corporation tax rate increase from 19% to 25%, with effect from 1 April 2023, was substantively enacted in the third reading of the Finance Bill 2021 on 24 May 2021. Remeasuring the 31 March 2021 deferred tax asset at the new rate of 25% will result in a credit of £377,000 to the profit and loss account in the next financial year ended 31 March 2022. The rate increase has no effect on the tax charge for the year ended 31 March 2021.