

AMENDED ACCOUNTS

These amended accounts have been prepared and delivered for filing, for the sole purpose of making a corrective edit to the signing date of the Independent Auditor's Report on page 25, and they:

- replace the original accounts filed with Companies House on 14 August 2020;
- are now the statutory accounts; and
- are prepared as they were at the date of the original accounts.



UK POWER NETWORKS SERVICES HOLDINGS LIMITED

Registered Number 7306419

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2020



CONTENTS

Page:

2	Strategic report
11	Directors' report
13	Corporate Governance Statement
22	Statement of Directors' responsibilities
23	Independent Auditor's report
26	Consolidated profit and loss account
27	Consolidated statement of comprehensive income
28	Consolidated balance sheet and Company balance sheet
30	Consolidated statement of changes in equity
31	Company statement of changes in equity
32	Consolidated cash flow statement
33	Notes to the financial statements

Directors

Andrew John Hunter (Chairman)
Hing Lam Kam
Neil Douglas McGee
Hok Shan Chong
Basil Scarsella
Charles Chao Chung Tsai
Duncan Nicholas Macrae
Mei Fan Ngan
Loi Shun Chan
Kee Ham Chan
Chi Tin Wan

Company Secretary

Andrew Pace

Auditor

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

Registered Office

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

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 March 2020. The vision of UK Power Networks Services Holdings Limited (the "Company") and its subsidiaries (the "Group") sets the direction and guides the decisions which are taken within the business. The Group's vision is to be a leading performer in the electrical infrastructure industry through being:

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

The values of the Group underpin what the Group does, and are disclosed on page 14. They define how the Group expects its employees to behave and how the Group wants to be perceived by its stakeholders and those who come into contact with the business.

Business model

The Group operates in the unregulated utility network sector. It develops, delivers and manages high-voltage electrical networks along with some multi-utility networks for owners of major infrastructure. It offers end-to-end energy solutions to improve the productivity of client assets and the decarbonisation of their electrical infrastructure.

The portfolio includes a range of high-profile clients from both the public and private sector including Heathrow Airport, Gatwick Airport, Stansted Airport, Manchester Airport, the Channel Tunnel Rail Link from Folkestone to London, Network Rail, Ministry of Defence, Docklands Light Railway, Nuclear New Build Generation Company and Canary Wharf.

The business seeks to develop new opportunities within target markets such as rail, airports, defence and nuclear and assist clients achieve their net zero carbon ambition.

The Group's principal objective is to manage long term electricity infrastructure projects, safely, reliably and efficiently, to achieve growth within the electrical infrastructure market and to provide a high standard of service to its customers, whilst delivering value to shareholders.

The key performance indicators used to measure progress against the Group's safety, efficiency and customer service objectives are discussed on pages 3 to 5.

The Company is wholly owned by UK Power Networks Holdings Limited which heads the UK Power Networks Group ("UK Power Networks") including the electricity distribution businesses licensed to operate networks in London, the South East and the East of England, serving over eight million homes and businesses.

Review of the business

The Group targets markets and customers where the management of electrical infrastructure is not a core skill of the customer's business. As appropriate the Group funds, constructs, operates and maintains large private electricity networks including Heathrow Airport and the Channel Tunnel Rail Link, and has built up a portfolio of long term contracts for asset infrastructure and electrical distribution network projects. These contracts provide a stable and predictable stream of revenues and cash flows. The relationship with partners and customers creates ongoing opportunities to develop the Group's activities, as well as a platform from which to market to new potential partners and customers.

The activities of the Group are organised into the following principal sectors:

- Energy and Utilities
- Transport
- National Infrastructure
- Commercial and Industrial
- Defence and Public Sector

STRATEGIC REPORT continued

Review of the business continued

Performance for the year ended 31 March 2020

Turnover decreased by £7.2m to £163.4m in the year due to lower work volumes as certain projects near completion.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") decreased by £0.5m to £70.5m reflecting the reduction in turnover largely offset by a reduction in operating costs, excluding depreciation and amortisation, of £6.7m.

Profit after tax for the year decreased from £25.8m to £22.6m principally due to a higher tax charge resulting from an increase in the deferred tax rate from 17% to 19%.

Capital expenditure during the year amounted to £15.3m of which £6.3m relates to investment in electrical infrastructure and £9.0m to vehicle purchases by the Group's transport business.

Response to the COVID-19 pandemic

On 23 March 2020 the UK Government declared a national lockdown due to the uncontrolled and rapid spread of the COVID-19 virus. This followed confirmation on 11 March 2020 by the World Health Organisation that the virus was officially a pandemic.

The Group's Organisational Resilience Leadership Team had started tracking the virus in early January 2020 as an emerging risk and through February reviewed the Group's pandemic response plans. The primary objective was to prepare the business, minimise the likely impact and allow the business to recover as quickly as possible. The risk assessment relating to the impact of COVID-19 is discussed further on page 6.

The Group's ongoing approach has been communicated to employees as three phases; Response, Recovery and Reimagination.

The Group's Response has focused first and foremost on the safety and wellbeing of its employees, while continuing to provide reliable electricity supplies and service to customers. Although some operational work was paused, this was primarily at the client's request, with some office based staff working from home where possible. Relevant policies have been established or updated in accordance with Government guidelines. This has included regular and cooperative engagement with the group's Trade Unions and daily communication to all employees. Incident leadership meetings have been held by the Executive Management Team and key members of senior management throughout April and May. The Group has not made use of any of the COVID-19 support schemes established by Government.

The Recovery phase was initiated during May on a prioritised basis, to resume work that had been paused during March and April, and to support employees in returning to the workplace over a phased period.

The Reimagination phase will incorporate key learnings and reshape the business as required to ensure it remains fit for future operations.

Key performance indicators (KPI's)

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

STRATEGIC REPORT continued

Key performance indicators continued

The Group's key performance indicators are set out in the table below.

	Year ended 31 March 2020	Year ended 31 March 2019
Non-financial key performance indicators		
Customer satisfaction ratings ¹	87%	85%
Lost time incidents ²	nil	nil
Financial key performance indicators		
Turnover (£m)	163.4	170.6
EBITDA ³ (£m)	70.5	71.0
Profit after tax (£m)	22.6	25.8
Net cash generated from operations (£m)	78.6	5.5
EBITDA interest coverage ratio ⁴	3.4x	3.4x
Capital expenditure (£m)	15.3	11.5

¹ Benchmark of customer satisfaction established by an external agency.

² Injuries at work resulting in lost time of 1 day or more.

³ Earnings before interest, taxation, depreciation and amortisation.

⁴ Interest cover is the number of times the underlying finance cost (net finance cost as disclosed in note 5 to the financial statements excluding pension interest and fair value gains and losses on derivative instruments) is covered by EBITDA.

Non-financial key performance indicators

Safety

The Group's top priority is the safety of employees, contractors and the general public. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. 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.

Lost time incidents, defined as the number of injuries at work to employees or contractors which result in lost time of one day or more, is a key safety measure. No lost time incidents occurred during the current or prior year.

Customer satisfaction rating

The customer satisfaction rating is established by an external agency whose work includes extensive interviews and telephone surveys with clients. The objective is to benchmark customer satisfaction year on year. The rating has improved from 85% in the prior year to 87% in the current year.

STRATEGIC REPORT continued

Financial key performance indicators

EBITDA

EBITDA excludes the effect of interest, taxation, depreciation and amortisation from earnings and is therefore relevant in monitoring the operational performance of the business. It is also the basis for certain of the Company's covenant metrics. The closest statutory measure is operating profit which can be reconciled to EBITDA as follows:

	Year ended 31 March 2020	Year ended 31 March 2019
Operating profit (£m)	49.3	50.3
Share of joint ventures' operating loss (£m)	(0.7)	(0.2)
Depreciation of tangible fixed assets (£m) (note 4)	20.8	19.8
Amortisation of goodwill (£m) (note 4)	1.1	1.1
EBITDA (£m)	70.5	71.0

Removing the effect of depreciation and amortisation from operating profit provides a clearer measure of operating efficiencies within the business and enables comparison with industry peers.

Interest cover ratio

The interest cover ratio, calculated below as the number of times the underlying finance cost is covered by EBITDA, is a measure of the Group's ability to pay interest on its outstanding debt. This indicator allows the Group and its creditors and lenders to assess whether earnings are sufficient to cover interest payments and to monitor this relationship from year to year.

	Year ended 31 March 2020	Year ended 31 March 2019
EBITDA (£m) (as calculated above)	70.5	71.0
Underlying finance cost (£m)		
Net finance costs (£m) (note 5)	16.7	17.2
Less: Net gain related to derivative instruments (£m) (note 5)	4.3	4.0
Less: Net interest on defined benefit pension liability (£m) (note 5)	(0.2)	(0.2)
	20.8	21.0
Interest cover ratio (EBITDA / Underlying finance cost)	3.4	3.4

The underlying finance cost excludes the net gain related to derivative instruments and net interest on the defined benefit pension liability because these items are subject to volatility arising from changes in the financial markets. Removing these effects provides a more stable measure of interest cover enabling comparison across different periods.

STRATEGIC REPORT continued

Principal risks and uncertainties

As well as the opportunities the Group has to grow and develop its business, certain risks and uncertainties are faced in achieving its objectives. The Group's principal risks and uncertainties, and a summary of actions to mitigate them, are set out below.

In addition to the principal risks outlined below, the Group has identified an emerging risk that the COVID-19 pandemic has heightened many of the Group's risks. The Group's risk register has been updated to specifically reference this and subsequent to year end, COVID-19 has been separately established as a Top 10 risk within the risk register. The Group has detailed and robust business continuity plans in place to deal with major events, and these have been enacted and are under constant review as a result of the developing COVID-19 situation, UK Government advice, and discussions with other bodies such as the Department for Business, Energy and Industrial Strategy. The Group's response to the pandemic is discussed in more detail on page 3. The COVID-19 crisis is not expected to materially affect the Group's performance over the long term.

Risk	Mitigation
Health and safety incidents There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public or a third party. Any such incident could lead to a prosecution or a fine and have an adverse impact on the reputation of the Group.	<p>The Group aims to create and foster a culture in which safety is the highest priority in the minds of all of its employees.</p> <p>The Group actively monitors, measures and investigates safety incidents, including near misses, and seeks to learn from each one.</p>
Major outage of network assets There are significant risks associated with network assets where failure could result in a loss of supply of electricity to customers. Customer service and continuity/quality of supply are important customer requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Group.	<p>The reliability of the Group's networks is closely monitored by the Group and a priority for investment. The Group strives to continually innovate to improve the ways in which it identifies and manages the risk of outages.</p>
Cyber security breach A cyber security breach which results in a failure of the Group's core systems, applications or associated IT processes could have a significant impact in a number of areas. Business operations could be affected and if the breach or failure is related to control systems, the Group's ability to operate its networks could be impacted. Data breaches could result in legal or regulatory non-compliance with resulting financial penalties and reputational damage.	<p>A Cyber Security Improvement Programme operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation. The UK Power Networks group focuses its activities in this area 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.</p> <p>The UK Power Networks 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.</p>

STRATEGIC REPORT continued

Risk	Mitigation
<p>Funding and liquidity risk The Group's financing requirements are partially met through bonds and bank lending facilities.</p> <p>There is a risk that the Group is not able to access funding at acceptable rates, either through changes in market conditions or through a downgrade in the credit rating of the Group, or through breaching covenants on existing facilities.</p>	<p>The Treasury Committee, a sub-committee of the UK Power Networks Board, oversees the setting of treasury policy and guidelines, and seeks to ensure that treasury risks are identified and managed.</p> <p>The Group monitors its financial position carefully on a regular basis, including the use of detailed financial projections that assess funding requirements and performance against credit metrics and covenants of the Group.</p>

Financial risk management objectives and policies

The Group finances its operations by a mixture of retained profits and long-term loans. The Group's activities expose it to a number of financial risks, the most important of which are credit and liquidity risk, interest rate risk and currency risk.

These risks are managed within a framework of documented treasury policies and guidelines which are reviewed on an annual basis. The Treasury function is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange rate exposures and for managing the credit risk relating to the counterparties with which it transacts. The department's operations are reviewed and monitored by the Treasury Committee, a sub-committee of the UK Power Networks Board.

Credit and liquidity risk

The Group's principal financial assets are cash balances, money market investments and trade and other receivables. Borrowings at 31 March 2020 comprise a USD 315m bond with a sterling value of £203.0m (2019: £202.8m) and drawings of £85.0m (2019: £85.0m) from a £1.5 billion shareholder loan facility.

Liquidity risk is managed by detailed long term cash flow forecasting which provides comfort that the Group will be able to fund its financial obligations as they fall due. The USD bond matures in 2021 and bears interest at 5% per annum. The shareholder loans are due for repayment in 2030 and bear interest at 9.95%.

The Group's credit risk is primarily attributable to its trade receivables and related balances. Credit risk is mitigated by the nature of the debtor balances owed, with these being due from entities of strong financial standing. The amounts presented in the balance sheet are net of impairment allowances for expected credit losses.

Foreign exchange risk and interest rate risk

The Treasury department uses interest rate swaps and cross currency swaps to manage the interest rate risk and exchange rate risk on the Company's borrowings. The use of financial derivatives to manage risk is governed by formal policies which are reviewed and monitored by the Treasury Committee. The Group does not use derivative financial instruments for speculative purposes.

There is minimal exposure to the financial risk of changes in foreign currency exchange rates arising from the purchase of goods and services denominated in foreign currencies.

The Group holds a USD 315m Dollar bond which is converted to sterling by way of a cross currency swap, providing some protection against exchange rate movements.

When appropriate, swap instruments are employed to lock in UK Gilt rates in anticipation of future financing to reduce exposure to the variability of future interest rates.

STRATEGIC REPORT continued

Pension commitments

A significant proportion of the Group's employees are members of two funded defined benefit pension schemes: the UK Power Networks Group of the Electricity Supply Pension Scheme (the "UKPN Group" scheme); and the UK Power Networks Pension Scheme ("UKPNPS"). Both schemes are closed to new members. The Group's new employees now have the option to join a defined contribution pension scheme which was introduced in 2011.

The Group's defined benefit pension obligation at 31 March 2020, accounted for under FRS 102, amounts to a net deficit of £1.6m (2019: £8.1m). This comprises a surplus of £2.7m (2019: deficit of £1.1m) in the UKPN Group scheme and a deficit of £4.3m (2019: deficit of £7.0m) in the UKPNPS scheme.

Taxation

The Group operates entirely within the United Kingdom and is subject to all the main charges which fall under UK legislation. These include corporation tax, VAT, national insurance, local authority fees and relevant rates.

The Group has a significant long-term capital expenditure programme which generates a charge against taxable profit each year through capital allowances. The timing of the tax relief on these allowances has the effect of delaying the payment of Corporation tax and giving rise to a deferred tax liability. At 31 March 2020 the Group's net deferred tax liability was £24.3m (2019: £19.6m). The higher liability compared to the prior year reflects an increase in the deferred tax rate from 17% to 19% as a result of the government's decision not to implement the rate reduction to 17% from 1 April 2020.

The acquisition of the business in 2010 was funded partly by an injection of equity and partly through the provision of interest bearing shareholder loans. The loans are the subject of an Advance Thin Capitalisation Agreement which has been agreed with HMRC.

Factors likely to affect future development and performance

The Directors intend to develop the Group's business in a manner that concentrates on its core skills of managing long-term electricity infrastructure projects. The Group is currently bidding for a number of major projects to add to its current portfolio of long term contracts, in line with its strategic growth ambitions.

Covid-19

The COVID-19 outbreak may continue to result in a significant economic slowdown, if not recession, in the months ahead and there is uncertainty in predicting the extent and duration of the effects of the pandemic on the business. The Group's business model has been stress tested to understand the impact under several severe but plausible downside scenarios, as discussed in the Going Concern statement below. The Directors expect the disruption to the business to be temporary without material effect on the long term financial position and prospects of the Group. The risk assessment relating to the impact of COVID-19 is discussed on page 6.

Going concern

The Group's business activities together with details of its risk management policies and its future development are set out in the preceding paragraphs of this Strategic Report.

In considering the going concern basis in preparing the Annual Report and Financial Statements, the Directors have regard to the Group's budget for 2020 and the Group's strategic business plan which extends to 31 December 2024. In particular the following factors have been taken into account:

- The Group is profitable and its existing long-term contracts provide a steady and predictable stream of revenues and cash flows;
- The Group is financed by a long-term USD bond swapped to a Sterling value of £203.0m (2019: £202.8m) which matures in 2021; and

STRATEGIC REPORT continued

Going concern continued

- The Group has access to a long-term shareholder loan facility of £1.5 billion (2019: £1.5 billion) with drawings as at 31 March 2020 of £85.0m (2019: £85.0m) due for repayment in 2030.

The Directors have applied sensitivities to the Group's forecasts with a central case that anticipates an economic downturn during 2020 and a deterioration in debtor days with a level of recovery in the second half of the year for the majority of the Group's activities. In addition, forecasts were stress tested assuming a more dramatic and prolonged reduction in revenues.

The outbreak of COVID-19 is a very significant humanitarian and economic event facing many businesses. In this period of uncertainty, it is not possible to reliably estimate the duration and overall impact of the pandemic. However, the Directors believe that this will be a temporary disruption. Whilst there is uncertainty in predicting the impact of COVID-19, the forecast modelling has shown that the Group will remain profitable over the next 12 months, under all reasonable scenarios, and there is considerable headroom in lending facilities and covenants (comprising gearing and interest cover measures) which underpins the going concern assumption on which these financial statements have been prepared. The Directors closely monitor cash conversion and covenants, and there are a number of mitigating actions including delay in capital expenditure and deferral of discretionary dividend payments within the control of the Group.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, demonstrate that the Group will be able to operate within its credit facilities. The COVID-19 pandemic and related disruption is impacting the economic environment within the UK, including certain sectors within which the Group operates. However, this is not expected to have a material impact on the Group's long term financial position and prospects. The Directors are satisfied that the Company and the Group have adequate resources to continue operating for the foreseeable future and on this basis the principle of a going concern has been adopted in the preparation of the financial statements.

Viability statement

Taking into account the Group's current position and its principal risks (as discussed in preceding paragraphs of this Strategic Report), the Directors have assessed the Group's prospects and viability.

The Group's business model has proven to be stable and predictable in the long term supported by a consistent revenue stream from its long term contracts.

The Directors assess the Group's prospects on a regular basis. Although there is no reason not to believe that the Group will be viable over a longer period, including having considered the impacts of COVID-19, and given the stability and long term nature of the Group's major contracts, the Board has chosen to monitor the viability of the Group over a five year forecast period up to 31 December 2024. This period is used, as it aligns with the Group's formal financial planning process and provision of information to its shareholders. The Board also consider the Group's profitability, cash flows, funding requirements and elements of non-financial performance. The performance of the Group against the forecasts for the current year is monitored monthly.

The Group's forward plan has been stress tested using sensitivity analysis which reflects plausible but severe combinations of the principal risks of the business and the impact on cash flows. These stress test events included potential impacts as a result of COVID-19 such as reductions in revenue or deferred cash receipts from customers and operational failures which could lead to penalties and a requirement for higher capital investment. In this stress testing, management has considered the Board's risk appetite and how the Group's principal risks are managed. In assessing the principal risks, the Board also has considered the strong financial position of the Group, as well as the ability to raise capital and adopt a flexible dividend policy. Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will continue to operate and meet its liabilities as they fall due over the five year forecast period.

STRATEGIC REPORT continued

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 Group for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term;
- b) the interests of the Group's employees;
- c) the need to foster the Group's business relationships with suppliers, customers and others;
- d) the impact of the Group's operations on the community and the environment;
- e) the desirability of the Group maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly as between members of the Group.

The Group operates in an industry characterised by long term investment in the future to ensure sustainable energy solutions for customers. The consequences of the Group's strategy over the long term are considered in its long term business plans and five year projections, which are updated annually. Factors likely to affect future performance are discussed on page 8.

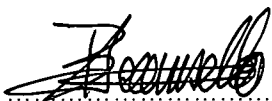
The Group actively engages with its stakeholders on a regular basis in order to identify trends and developments, inform policies and procedures, and re-align its strategy. The Group has identified its key stakeholders as: employees, customers, suppliers, community and the environment, and shareholders. Further information about how the Group has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 19 to 21.

As described on pages 13 and 14, 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.

Fair, balanced and understandable

Taking into account the process and procedures in place to prepare and present the information in the Annual Report the Board considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Group's position and performance, business model and strategy.

Approved by the Board and signed on its behalf by:



Basil Scarsella

Director

4 August 2020

Newington House

237 Southwark Bridge Road

London

SE1 6NP

DIRECTORS' REPORT

The Directors present the Annual Report and Audited Financial Statements of UK Power Networks Services Holdings Limited (the "Company") and its subsidiary undertakings (the "Group") for the year ended 31 March 2020.

The preceding Strategic Report discusses the Group's exposure to financial risks and its financial risk management objectives and policies including the use of derivative financial instruments. An indication of likely future developments in the business, the going concern assessment and the Section 172 (1) statement on the duties of directors are also included in the Strategic Report, which forms part of this report by cross reference.

Dividends

Dividends of £25.0m were paid in the year (2019: £19.0m).

Political contributions

No political donations were made during the year (2019: £nil).

Directors

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

Andrew John Hunter (Chairman)
Hing Lam Kam
Neil Douglas McGee
Hok Shan Chong
Basil Scarsella
Charles Chao Chung Tsai
Duncan Nicholas Macrae
Mei Fan Ngan
Loi Shun Chan
Kee Ham Chan
Chi Tin Wan

None of the Directors had a service contract with the Company or the Group in the current or prior year. Basil Scarsella has a service contract with UK Power Networks (Operations) Limited, a fellow subsidiary within the UK Power Networks Group. The other directors are all employed by or have contracts with intermediate shareholder companies.

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

Disabled employees

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

Employee consultation

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

DIRECTORS' REPORT continued

Business relationships

The Group has identified its key stakeholders as: employees, customers, suppliers, community and the environment, and shareholders. Further information about how the Group has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 19 to 21.

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.

Auditor

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

Approved by the Board and signed on its behalf by:



Basil Scarsella
Director
4 August 2020
Newington House
237 Southwark Bridge Road
London
SE1 6NP

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Code

The Company and Group are not required to make a corporate governance statement under the Companies (Miscellaneous Reporting) Regulations 2018. However the Group seeks to operate to high standards of corporate governance and has voluntarily adopted the Wates Corporate Governance Principles for Large Private Companies, as issued by the Financial Reporting Council (FRC), 2018.

The Company and the Group are wholly owned by UK Power Networks Holdings Limited and form part of the UK Power Networks Group ("the UKPN Group" or "UK Power Networks" or "UK Power Networks Holdings Limited and its subsidiaries").

UK Power Networks applies a range of governance principles and practices which are adopted and implemented by its subsidiaries to the extent they are relevant to their operations. The purpose of this report is to set out how corporate governance principles have been applied to the Company and the Group within the corporate governance framework of the UKPN Group. Relevant disclosures are contained within this Report on Corporate Governance, in the Statement of Directors' Responsibilities, in the Directors' Report and in the Strategic Report.

Principle 1 – Purpose and Leadership

Purpose, vision and values

The Group's purpose is to provide safe, sustainable, and profitable high voltage electrical and multi utility networks. The Board has articulated the vision and values to which the Group aspires in fulfilling its purpose and these are set out below.

The Group's vision is to be a leading performer in the electrical infrastructure industry through being an:

- employer of choice
 - the safest, with an exemplary safety record
 - a place where people love to come to work
 - embracing diversity
 - an appropriately skilled workforce for both today and the long term
- a respected and trusted corporate citizen
 - the most reliable networks
 - the most satisfied customers
 - the most innovative
 - the most socially and environmentally responsible
 - enabling the low-carbon transition
- sustainably cost-efficient
 - minimising the costs to customers
 - seeking opportunities to apply continuous improvement techniques and to outperform
 - delivering on commitments
 - delivering profitable growth

CORPORATE GOVERNANCE STATEMENT

Principle 1 – Purpose and Leadership continued

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

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

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

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

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

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

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

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 UKPN 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.

Principle 2 – Board composition

The Board of the Company ("the Board") comprises the Chief Executive Office ("CEO") of the UKPN Group, Basil Scarsella, and ten Directors appointed to represent the ultimate shareholders of the Group. The Company, via its immediate parent UK Power Networks Holdings Limited, is wholly owned by a consortium of three companies incorporated outside the UK: CK Infrastructure Holdings Limited, Power Assets Holdings Limited, and Li Ka-Shing Foundation Limited. The Board composition is determined by the shareholding companies, each of which nominates Directors in proportion to their shareholdings.

The Directors of the Company are all members of the board of the parent UK Power Networks Holdings Limited ("the UKPN Board") which oversees the management of the entire UKPN Group. The UKPN Board and its sub-committees meet on a regular basis to conduct the affairs of the UKPN Group. The Board considers and acts on matters pertaining to the Company and the Group within this decision making forum.

The UKPN Board has overall responsibility for leading and controlling the UKPN Group and therefore the financial and operational performance of the Company and the Group.

The positions of the Chairman of the Board and CEO are held by separate individuals with a view to maintaining effective segregation of duties between management of the Board and the day-to-day management of the Group. The CEO is the only Executive Board member. The other directors do not hold executive roles and therefore maintain an acceptable level of independence from the executive management of the Group. As such the appointment of an independent Chairman is not deemed necessary.

The UKPN Board and its sub-committees meet on a regular basis to oversee the management of the UKPN Group as a whole and where appropriate to consider and act on matters pertaining to individual subsidiary companies. A total of five meetings of the UKPN Board were held during the year with eight to ten directors, present, including at least one representative of each shareholder.

CORPORATE GOVERNANCE STATEMENT continued

Principle 3 – Directors’ responsibilities

The UKPN Board is responsible to the Shareholders for the performance of the Group in both the short and the longer term and seeks to balance competing objectives in the best interests of the Group, with the objective of enhancing shareholder value.

The powers of the Directors have been set out in the Company’s Articles of Association. To ensure good corporate governance the UKPN Board has adopted a formal corporate governance statement and has clearly defined terms of reference setting out matters reserved for the UKPN Board.

The Directors make active contributions to the affairs of the UKPN Board and the UKPN Board acts in the best interests of the Group. Furthermore the UKPN Board has established formal committees with specific responsibilities to assist in the execution of its duties and to allow detailed consideration of complex issues. Below the UKPN Board, executive responsibility rests with the CEO Basil Scarsella and the Executive Management Team (“EMT”). The CEO and EMT operate within the Delegations of Authority, governance structure and terms of reference defined in the UKPN Group’s Corporate Governance Framework, which outlines the governance structure within the UKPN Group.

Governance and control environment

The UKPN Board is collectively responsible for the oversight of the management of the UKPN Group. The UKPN Board has determined those decisions that require approval by the UKPN Board and the delegation of authority for those decisions that do not.

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

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

- The *Audit Committee* assists the UKPN Board with its responsibilities for financial reporting, maintaining an effective system of internal control and internal and external audit processes. Using risk assessment methodology and taking into account the UKPN Group’s activities, Internal Audit determines the annual audit programme which is approved and monitored by the Audit Committee. The Audit Committee also reviews the arrangements by which staff may raise concerns in confidence about possible improprieties and monitors any investigations into concerns raised.
- The principal responsibilities of the *Remuneration Committee* include making recommendations to the UKPN Board on the UKPN Group’s policies and structure in relation to the remuneration of senior management and employees of the Group, by reference to corporate goals and objectives resolved by the UKPN Board from time to time.
- The *Treasury Committee* oversees the treasury strategy, policy and procedure and seeks to ensure that all treasury risks are identified, measured and controlled in a manner consistent with corporate strategy and treasury policy.
- The *Risk Management and Compliance Committee* assists the UKPN Board with its responsibilities in relation to risk management, and to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement. The UKPN Board is responsible for approval of the risk management strategy while management is responsible for implementing the UKPN Board’s strategy and for developing policies and procedures to identify, manage and mitigate risks across the business.

CORPORATE GOVERNANCE STATEMENT continued

Principle 3 – Directors’ responsibilities continued

The Remuneration Committee meets at least once annually and the other committees at least three times annually. A chairman is elected at each meeting by the relevant committee. During the year the Remuneration Committee held one meeting and the other committees each held three meetings. A quorum was present at each meeting.

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

The EMT comprises the CEO of the UKPN Group and Directors for each of the distinct business areas, or Directorates. In order to assist the EMT in fulfilling their responsibilities, committees with delegated authority for defined matters have been established. The Senior Management Team within each Directorate has defined responsibilities which allow for effective operations to achieve the UKPN Group’s objectives. Lines of responsibility and levels of authority are formally defined.

Integrity of financial information

The consolidated financial statements of the UKPN Group and its subsidiaries are prepared by the central financial reporting team based on results submitted by each Directorate. Each Directorate is supported by an appropriately qualified finance team who provide advice to the EMT Directors and Managers and liaise with the central reporting team on such matters as the application of accounting policies, procedures and internal controls.

The role of the central financial reporting team includes liaising with the shareholders regarding such matters as accounting policies, planning for changes in reporting requirements and to ensure that these are communicated effectively to the Directorates. There is regular dialogue between the central financial reporting team and the finance teams supporting the Directorates to ensure there is appropriate understanding of these requirements.

The Directorates are accountable for the review and approval of the monthly management accounts prior to submission to the central financial reporting team who then undertake further reviews and challenge. The monthly accounts of each Directorate are reviewed during EMT meetings. Consolidated financial information is presented at UKPN Board meetings attended by the CEO and the Finance Director. The annual report and accounts of the UKPN Group are presented to the Audit Committee, or a subcommittee thereof, prior to approval by the UKPN Board. The annual report and accounts of the Group are approved by a subcommittee authorised by the Board. The results for the year to date of the UKPN Group are formally presented to the Directors at each meeting of the UKPN Board.

External audit

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

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

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

CORPORATE GOVERNANCE STATEMENT continued

Principle 3 – Directors' responsibilities continued

External audit

The Audit Committee reports its findings to the UKPN Board in respect of the effectiveness of the external audit process and significant issues considered in relation to financial statements and how these were addressed.

Independence and objectivity of external auditor

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

For each audit period a formal written statement is provided by the external auditor setting out all relationships between the external auditor and the UKPN Group. Any proposed appointment of ex-employees of the external audit firm to senior management positions with the UKPN Group is subject to consent by the Audit Committee. The lead external audit engagement partner is rotated at least every five years, the last rotation being for the 31 March 2017 year ended audit engagement.

Principle 4 – Opportunity and Risk

The UKPN Group's Corporate Governance Framework Policy, which outlines the governance structure within the UKPN Group, is supported by the Risk, Control and Compliance Policy and underlying procedures. The Risk, Control and Compliance Policy, in place throughout the reporting period, defines the framework in which the UKPN Group:

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

Internal control

The UKPN Board (through the Audit Committee) is responsible for the UKPN Group's system of internal control and for reviewing its effectiveness. The UKPN Group's system of internal control and the risk management process help to safeguard the UKPN Group's assets. However, the UKPN Board recognises that such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk identification and control

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

The role of the Directorate risk review meetings is to assess new risks, review existing risks and monitor control improvement actions. Each identified risk is defined and assessed by the risk owner. This includes an assessment of the likelihood of the risk occurring and the associated impact, key mitigating controls, and an assessment of the adequacy of those controls. Where appropriate control improvement actions are defined. Significant risks and delivery of control improvement actions are monitored and reported to the Executive and Senior Management Teams on a regular basis, and actively managed by the designated risk owners.

CORPORATE GOVERNANCE STATEMENT continued

Principle 4 – Opportunity and Risk continued

Internal control framework

Control procedures have been implemented throughout the UKPN Group and are designed to achieve complete and accurate accounting for financial transactions, to safeguard the UKPN Group's assets and for compliance with laws and regulations. These control procedures form the Integrated Management System; a controlled framework of policy and procedural documentation. Control procedures are subject to regular review and formal ratification and approval. As part of the Integrated Management System, procedural implementation and compliance is subject to regular monitoring.

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

Internal audit

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

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

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

Monitoring and corrective action

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

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

- First line of defence – management control. Management undertake monitoring of their processes to satisfy themselves that the defined controls operate economically, effectively and efficiently; and that key risks are identified and assessed;
- Second line of defence – oversight and challenge. There are designated functions and committees in place to test and challenge the effective operation of controls. These include central functions and committees established by the EMT; and
- Third line of defence – assurance. Assurance is provided by the Internal Audit function and external audits and accreditation exercises are conducted by third party assurance providers.

Identified control weaknesses and corrective actions are reported to the Executive and Senior Management Teams and monitored monthly. Significant weaknesses in internal control are reported to the EMT and, if appropriate, to the Audit Committee.

CORPORATE GOVERNANCE STATEMENT continued

Principle 4 – Opportunity and Risk continued

Effectiveness review of internal control

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

CK Infrastructure Holdings Limited and Power Assets Holdings Limited require that the UKPN Group provides an annual report on the quality of the internal control system covering key business processes and outlining, where necessary, material control weaknesses. In forming a view of the quality of the systems of internal control, the EMT consider: audit findings; compliance review findings; risks with controls assessed as sub-optimal; and the status of corrective actions related to these areas.

These assessments enable the UKPN Group to identify areas where attention is required to improve the system of internal control, business performance and operating effectiveness.

Principle 5 – Remuneration

The UKPN Group has formed a Remuneration Committee, whose principal responsibilities include making recommendations to the UKPN Board on the UKPN Group's policies and structure in relation to the remuneration of senior management and the employees of the UKPN Group by reference to corporate goals and objectives resolved by the UKPN Board from time to time. The Remuneration Committee is formed by members of the UKPN Board and meets on at least an annual basis.

The UKPN Group has clear remuneration structures that are designed to reward good performance, attract the best talent, and are aligned to the achievement of the UKPN Group's vision and values.

One of the key ways that employees are incentivised is through the Company Incentive Plan (employee bonus scheme), which is applicable to all the UKPN Group's employees. Sixty per cent of the Company Incentive Plan is based on the UKPN Group's achievement of key aspects of its vision, including safety, reliability, customer service and cost efficiency. The management population also has a target relating to employee engagement. The remaining forty per cent of the Company Incentive Plan is based on achievement of individual and team annual objectives which are designed to support the UKPN Group's vision.

The UKPN Group targets are shared by all employees, including the Executive and Senior management teams, in order to reinforce a common sense purpose across the UKPN Group. The balance for the EMT is seventy-five per cent on the UKPN Group's achievement and twenty-five percent on individual objectives. The Group also operates a long term incentive plan for its EMT to promote achievement of sustainable, good long term performance.

Principle 6 – Stakeholder Relationships and Engagement

The Group actively engages with its stakeholders on a regular basis in order to identify trends and developments, inform policies and procedures, and re-align its strategy.

The Group has identified the following as its key stakeholders, and has described below how it seeks to engage with them: employees, customers, suppliers, the community and its environment and the shareholders.

Employees

The Group recognises that its employees 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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

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 in which employees provide their views on key matters pertinent to the success of the Group and their own engagement. The results of this annual survey form part of the annual *Sunday Times Top 25 Best Companies To Work For*, in which the UKPN Group achieved tenth position nationally in 2019. The annual survey is supplemented by shorter monthly polls on samples of employees across the organisation.
- The EMT actively engage with employees face to face, via monthly roadshows to sites across the UKPN Group, in which the workforce hear about the UKPN Group's performance and are able to ask questions directly to the EMT.
- The UKPN Group issues communications to employees through a range of channels, including a monthly 'team brief' in which employees hear about the UKPN Group's achievement against its objectives, and view a video address from the CEO. Other communications include UKPN Group-wide magazine publications, intranet sites, emails and social media forums.
- Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees through dedicated employee engagement forums.
- Each employee undertakes performance reviews with their managers, in which their performance against their objectives is reviewed and discussed, and personal development opportunities and training identified.
- The UKPN Group has achieved accreditation to various bodies to promote the development of a skilled and diverse workforce, such as Investors in People, National Equality Standard and the Inclusive Top 50 UK Employers.

Customers

The Group 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 Group 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 Group 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 UKPN Group engages with community energy groups in its regions to understand how it can provide support to local energy projects

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

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

Suppliers

Good relationships with suppliers are key to delivering value efficiently and effectively.

The UKPN 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 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.

Community and Environment

The Group 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 Group's vision. The Group 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 UKPN Group regularly engages with local community groups, councils, businesses and customers through a programme of events and forums to obtain feedback for initiatives and commitments which form part of its business plan. .

The UKPN Group has launched a Green Action Plan in 2019, addressing areas where it impacts the environment, and which has defined clear objectives with deadlines to help play its part ensuring its activities are sustainable. These include:

- Raising awareness of environmental issues with employees;
- Modernising the Group's vehicle fleet;
- Reducing business travel by using other means, for example teleconferencing; and
- Energy efficiency modifications made to offices and substations.

Shareholders

The Group via its immediate parent UK Power Networks Holdings Limited is wholly owned by a consortium of three parties.

- CK Infrastructure Holdings Limited
- Power Assets Holdings Limited
- Li Ka-Shing Foundation Limited

The support and engagement of the Group's shareholders is vital to the success of the business in reaching its long term objectives.

The Group's shareholders are represented on the Board of Directors, and as such receive regular reporting on financial and operational matters, and are directly involved in strategic decision making.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 and Group will continue in business.

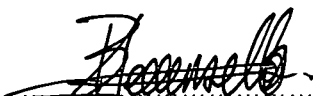
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements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

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

The Directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets and liabilities and financial position of the Company and Group and profit of the Group for the year ended 31 March 2020;
- the Strategic Report and the Directors' Report includes a true and fair view of the development and performance of the business and the financial position of the Group, together with a description of its principal risks and uncertainties; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board of Directors of UK Power Networks Services Holdings Limited on 4 August 2020:



Basil Scarsella
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of UK Power Networks Services Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice 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 consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 29 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 group and the parent 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 ('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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES HOLDINGS LIMITED continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 group's and the parent 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 group or the parent 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES HOLDINGS LIMITED continued

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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, ACA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

London, UK

4 August 2020

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2020**

Group

	<i>Note</i>	2020 £m	2019 £m
Turnover¹	3	163.4	170.6
Cost of sales		(55.0)	(63.5)
Gross profit		108.4	107.1
Other operating expenses		(59.1)	(56.8)
Operating profit	4	49.3	50.3
Share of joint ventures' operating loss		(0.7)	(0.2)
Finance costs (net)	5	(16.7)	(17.2)
Profit before taxation		31.9	32.9
Tax on profit	8	(9.3)	(7.1)
Profit for the financial year		22.6	25.8

¹ Turnover excludes the share of joint ventures' turnover of £2.2m (2019: £1.9m)

All results are derived from continuing operations.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020**

Group

	<i>Note</i>	2020 £m	2019 £m
Profit for the financial year		22.6	25.8
Cash flow hedges			
Gains arising during the year	21	8.4	5.0
Remeasurement of net defined benefit pension liability	25	4.9	2.5
		13.3	7.5
Tax relating to components of other comprehensive income		(2.1)	(1.3)
Other comprehensive income		11.2	6.2
Total comprehensive income		33.8	32.0
Profit for the year attributable to:			
Non-controlling interest		-	0.1
Equity shareholders of the Company		22.6	25.7
		22.6	25.8
Total comprehensive income for the year attributable to:			
Non-controlling interest		-	0.1
Equity shareholders of the Company		33.8	31.9
		33.8	32.0

CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET
AS AT 31 MARCH 2020

	<i>Note</i>	Group		Company	
		2020	2019	2020	2019
		£m	£m	£m	£m
Fixed assets					
Goodwill	9	77.8	78.9	-	-
Tangible fixed assets	10	272.0	278.2	-	-
Investments	11	0.1	0.1	539.4	539.4
Investment in joint ventures	12	0.1	0.8	-	-
		350.0	358.0	539.4	539.4
Current assets					
Stocks	13	6.0	7.9	-	-
Debtors					
- amounts falling due within one year	14	246.2	246.4	7.7	8.1
- amounts falling due after more than one year	14	55.3	35.4	52.6	35.4
Cash and cash equivalents		95.6	82.7	0.5	1.3
		403.1	372.4	60.8	44.8
Creditors: amounts falling due within one year	15	(96.1)	(85.3)	(67.1)	(60.2)
Net current assets / (liabilities)		307.0	287.1	(6.3)	(15.4)
Total assets less current liabilities		657.0	645.1	533.1	524.0
Creditors: amounts falling due after more than one year	16	(338.4)	(336.1)	(338.4)	(336.1)
Provisions for liabilities	20	(36.7)	(35.9)	-	-
Net assets		281.9	273.1	194.7	187.9


CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET

AS AT 31 MARCH 2020 continued

		Group		Company	
	<i>Note</i>	2020 £m	2019 £m	2020 £m	2019 £m
Capital and reserves					
Called up share capital	21	37.4	37.4	37.4	37.4
Share premium account	21	132.4	132.4	132.4	132.4
Hedging reserve	21	(2.5)	(9.6)	(2.5)	(9.6)
Profit and loss account	21	114.4	112.7	27.4	27.7
Shareholder's funds	21	281.7	272.9	194.7	187.9
Non-controlling interest	22	0.2	0.2	-	-
Total capital employed		281.9	273.1	194.7	187.9

The Company's profit for the financial year was £24.7m (2019: £11.7m) with other comprehensive income amounting to a gain of £7.1m (2019: gain of £4.1m). As permitted by Section 408 of the Companies Act 2006, the Company has not presented a separate profit and loss account and statement of comprehensive income.

The financial statements of UK Power Networks Services Holdings Limited (registered number 7306419), were approved by the Board of Directors and authorised for issue on 4 August 2020. They were signed on its behalf by:



Basil Scarsella
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020**

Group	Called up share capital £m	Share premium account £m	Profit and loss account £m	Hedging reserves¹ £m	Total £m	Non-con- trolling interest £m	Total £m
At 1 April 2018	37.4	132.4	103.9	(13.7)	260.0	0.2	260.2
Profit for the financial year	-	-	25.7	-	25.7	0.1	25.8
Cash flow hedges							
Gains arising during the year	-	-	-	5.0	5.0	-	5.0
Remeasurement of net defined benefit liability	-	-	2.5	-	2.5	-	2.5
Tax relating to items of other comprehensive income	-	-	(0.4)	(0.9)	(1.3)	-	(1.3)
Total comprehensive income	-	-	27.8	4.1	31.9	0.1	32.0
Equity dividends paid	-	-	(19.0)	-	(19.0)	(0.1)	(19.1)
At 31 March 2019	37.4	132.4	112.7	(9.6)	272.9	0.2	273.1
Profit for the financial year	-	-	22.6	-	22.6	-	22.6
Cash flow hedges							
Gains arising during the year	-	-	-	8.4	8.4	-	8.4
Remeasurement of net defined benefit liability	-	-	4.9	-	4.9	-	4.9
Tax relating to items of other comprehensive income	-	-	(0.8)	(1.3)	(2.1)	-	(2.1)
Total comprehensive income	-	-	26.7	7.1	33.8	-	33.8
Equity dividends paid	-	-	(25.0)	-	(25.0)	-	(25.0)
At 31 March 2020	37.4	132.4	114.4	(2.5)	281.7	0.2	281.9

¹ Hedging reserves comprise the cash flow hedge reserve and cost of hedging reserve. Refer to note 21 for further detail.

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020**

	Called-up share capital £m	Share premium account £m	Profit and loss account £m	Hedging reserves ¹ £m	Total £m
Company					
At 31 April 2018	37.4	132.4	35.0	(13.7)	191.1
Profit for the financial year	-	-	11.7	-	11.7
Cash flow hedges					
Gains arising during the year	-	-	-	5.0	5.0
Tax relating to items of other comprehensive income	-	-	-	(0.9)	(0.9)
Total comprehensive income	-	-	11.7	4.1	15.8
Equity dividends paid	-	-	(19.0)	-	(19.0)
At 31 March 2019	37.4	132.4	27.7	(9.6)	187.9
Profit for the financial year	-	-	24.7	-	24.7
Cash flow hedges					
Gains arising during the year	-	-	-	8.4	8.4
Tax relating to items of other comprehensive income	-	-	-	(1.3)	(1.3)
Total comprehensive income	-	-	24.7	7.1	31.8
Equity dividends paid	-	-	(25.0)	-	(25.0)
At 31 March 2020	37.4	132.4	27.4	(2.5)	194.7

¹ Hedging reserves comprise the cash flow hedge reserve and cost of hedging reserve. Refer to note 21 for further detail.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020**

	<i>Note</i>	2020 £m	2019 £m
Cash generated from operations	23	78.6	5.5
Corporation tax paid		(6.1)	(5.9)
Net cash flows from/(used in) operating activities		72.5	(0.4)
Cash flows from investing activities			
Proceeds from sale of tangible assets		1.3	0.6
Gross capital expenditure		(15.3)	(11.5)
Interest and dividends from investments		2.8	2.6
Net cash flows used in investing activities		(11.2)	(8.3)
Cash flows from financing activities			
Equity dividends paid		(25.0)	(19.0)
Interest paid		(23.4)	(19.4)
Dividends paid to non-controlling interests		-	(0.1)
Net cash flows used in financing activities		(48.4)	(38.5)
Net increase/(decrease) in cash and cash equivalents		12.9	(47.2)
Cash and cash equivalents at beginning of year		82.7	129.9
Cash and cash equivalents at end of year		95.6	82.7
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		50.6	81.5
Cash equivalents		45.0	1.2
Cash and cash equivalents		95.6	82.7

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies adopted by the Company and the Group are set out below. They have all been applied consistently throughout the current and preceding year.

General information and basis of accounting

The Company is a company 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 address of the Company's registered office is shown on page 1.

The principal activities of the Company and the Group and the nature of the Group's operations are set out in the Strategic Report on pages 2 to 10. The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in compliance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Group is pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. In these separate financial statements, exemptions have been taken in relation to presentation of a cash flow statement and disclosures relating to financial instruments and related parties. In addition, as permitted by the Company's Act 2006, the Company has not presented a separate profit and loss statement or statement of comprehensive income.

Basis of consolidation

The group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March each year.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have 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. Further detail is contained in the Strategic Report on pages 8 and 9.

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is estimated to be 80 years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

A review for impairment of goodwill is carried out annually. Impairment reviews comprise a comparison of the carrying amount of the goodwill with its recoverable amount (the higher of net realisable value and value in use). To the extent that the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the profit and loss account.

Joint ventures

In the Group financial statements, investments in joint ventures are accounted for using the equity method. Investments are initially recognised at the transaction price (including transaction costs) and are subsequently adjusted to reflect the Group's share of the profit or loss and other comprehensive income of the associate. Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

Investments

In the Company balance sheet investments in subsidiaries, joint ventures and other interests are measured at cost less impairment.

Tangible fixed assets

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

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

Network assets	–	30 to 50 years
Buildings	–	40 years
Fixtures and equipment	–	5 years
Vehicles	–	5 to 10 years

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

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

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 calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

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 Group'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 revalued fixed assets only where there is a commitment to dispose of the revalued 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.

Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards relating to the transaction 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.

NOTES TO THE FINANCIAL STATEMENTS continued

1. 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.

Leases

Rentals 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.

Pensions

The Group has obligations under defined benefit and defined contribution pension arrangements.

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. Remeasurements, 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.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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).

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Financial instruments

The Group has elected to apply Section 11.2c of FRS 102, which allows the recognition and measurement provisions of the international financial reporting standard IFRS 9 'Financial instruments' with the disclosure and presentation requirements of Sections 11 and 12 of FRS 102.

Financial assets and financial liabilities are initially recognised at fair value, when the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement is either at amortised cost or fair value depending on the classification of the instrument.

Amortised cost is calculated as:

The amount at which the financial asset or liability is measured at initial recognition;

Less: the principal repayments;

Plus: the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount. The effective interest rate exactly discounts estimated future cash flows through the expected life of the instrument back to the initial carrying amount recognised. Discounting is omitted where the effect of discounting is immaterial;

Less: any loss allowance in respect of financial assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is a quoted price in an active market. When quoted prices are unavailable, the price of a recent transaction for a similar asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of a similar asset on their own are not a good estimate of fair value, the fair value is estimated using a discounted cash flow approach.

Financial assets

After initial recognition at fair value the financial assets held by the Group are subsequently measured as follows:

Financial asset	Subsequent measurement
Fixed asset investments - unlisted	At cost less impairment
Trade and other receivables	At amortised cost less impairment
Derivatives not designated as hedging instruments	* At fair value through profit or loss (FVPL)
Derivatives designated as hedging instruments	* Hedge accounting at fair value

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

The impairment loss allowance on financial assets is calculated as the expected credit loss over the lifetime of the debt using the IFRS 9 simplified approach. The Group has established a provision matrix derived from historical credit loss experience adjusted for forward looking factors specific to the debtors and the economic environment.

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

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Financial liabilities and equity

Equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract which grants the holder a right to a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

After initial recognition at fair value the financial liabilities held by the Group are subsequently measured as follows:

Financial liability		Subsequent measurement
Borrowings, trade and other payables		At amortised cost using the effective interest rate method
Derivatives not designated as hedging instruments	*	At fair value through profit or loss
Derivatives designated as hedging instruments	*	Hedge accounting at fair value

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

Other than derivative financial liabilities there are no financial liabilities which are mandatorily required to be measured at fair value through profit or loss under IFRS 9. The Group has not elected to measure any financial liabilities at fair value through profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are only offset in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derecognition of financial instruments

A financial asset is derecognised when the right to receive cash flows from the asset have expired or the Group has transferred its right to receive cash flows from the asset, to a third party. A financial liability is derecognised when the Group's obligations are discharged, cancelled or expire.

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate and currency movements. The Group does not hold or issue derivative financial instruments for speculative purposes. Interest rate and cross currency swaps are entered into for the purpose of managing the interest rate and currency risk associated with the borrowing requirements of the Group. Amounts payable or receivable in respect of the swap instruments are recognised within net finance costs in the profit and loss account.

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Derivative financial instruments continued

Hedge accounting

The Group designates derivatives as cash flow hedges where the intention is to hedge highly probable forecast transactions. At the inception of the hedge relationship, the Group formally designates and documents the hedge relationship. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument;
- The effect of credit risk does not “dominate the value changes” that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually used to hedge that quantity of hedged item.

Note 19 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

In respect of cross currency swaps designated as effective cash flow hedges, the fair value changes arising from the currency basis spread are excluded from the hedge movement deferred to the cash flow hedge reserve and accumulate in a separate component of equity called the cost of hedging reserve.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS continued

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, 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 paragraphs consider 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 Group'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 Group'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.

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 pension schemes and the assumptions used to estimate the defined benefit obligation are set out in note 25. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2020.

	Change in assumption	Impact on scheme liabilities	
		UKPN Grp 2020 £m	UKPNPS 2020 £m
Discount rate	+/-0.50%	-6.6% to 7.6%	-13.5% to 16.1%
RPI inflation	+/-0.50%	6.6% to -5.8%	13.7% to -12.0%
Life expectancy	+/- 3yrs	15.2% to -15.1%	9.3% to -9.6%
Rate of salary increases	+/-0.50%	0.6% to -0.6%	4.1% to -3.7%

NOTES TO THE FINANCIAL STATEMENTS continued

3. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to continuing activities of construction, operation, maintenance and renewal of a number of private electricity networks, the provision of transport services to other companies within the UK Power Networks group and the invoice value of other goods and services provided.

4. Operating profit

This is stated after charging/(crediting):

	2020	2019
Group	£m	£m
Depreciation of tangible fixed assets (note 10)	20.8	19.8
Amortisation of goodwill (note 9)	1.1	1.1
Profit on disposal of tangible fixed assets	(0.6)	(0.3)
Operating lease rentals:		
Land and buildings	0.4	0.3
Other	0.4	0.5

The analysis of Auditor's remuneration is as follows:

	2020	2019
Group	£000	£000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts and consolidated financial statements	11.7	13.0
Fees payable to the Company's Auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	123.8	106.4
Total audit fees	135.5	119.4
Total non-audit fees	-	-
Total fees	135.5	119.4

The disclosures above are for the Group. The Company is not required in its individual financial statements to disclose information about fees for non-audit services provided to the Company because the consolidated financial statements disclose such fees on a consolidated basis.

NOTES TO THE FINANCIAL STATEMENTS continued

5. Finance costs (net)

Group

	2020 £m	2019 £m
Interest payable and similar expenses	(23.5)	(23.5)
Less: Investment income	2.8	2.6
Other finance income	4.0	3.7
	<u>(16.7)</u>	<u>(17.2)</u>
Investment income		
Income from fixed asset investments	1.4	1.4
Income from current asset investments	0.3	0.3
Interest receivable on loans to other group companies	1.1	0.9
	<u>2.8</u>	<u>2.6</u>
Interest payable and similar expenses		
Interest on USD bond	(12.7)	(12.6)
Interest on shareholder loans	(8.5)	(8.5)
Net interest on swap instruments	(2.3)	(2.4)
	<u>(23.5)</u>	<u>(23.5)</u>
Other finance (costs)/income		
Fair value gains/(losses) on financial instruments:		
Interest rate swaps not in hedge relationships	3.8	3.7
Ineffectiveness on cross currency swap	0.4	0.1
Change in fair value of cost of hedging	0.1	0.2
Exchange loss on USD bond hedged by cross currency swap	(11.6)	(17.5)
Exchange gain on cross currency swap	11.6	17.5
	<u>4.3</u>	<u>4.0</u>
Net fair value gain on derivative instruments		
	<u>(0.2)</u>	<u>(0.2)</u>
Net interest on defined benefit liability		
Other charges	(0.1)	(0.1)
	<u>4.0</u>	<u>3.7</u>

NOTES TO THE FINANCIAL STATEMENTS continued

6. Staff costs

The average monthly number of employees during the year was:

Group	2020 Number	2019 Number
Monthly average number of employees	283	257

Their aggregate remuneration comprised:

	2020 £m	2019 £m
Wages and salaries	18.6	16.9
Social security costs	2.4	2.1
Other pension costs	2.4	2.2
Severance	-	0.1
	23.4	21.3

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

7. Directors' remuneration and transactions

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

NOTES TO THE FINANCIAL STATEMENTS continued

8. Tax on profit on ordinary activities

Group

	2020	2019
	£m	£m
Current tax on profit		
UK corporation tax	6.9	6.9
Adjustments in respect of previous years	(0.2)	0.2
	<hr/>	<hr/>
Total current tax	6.7	7.1
	<hr/>	<hr/>
Deferred tax		
Origination and reversal of timing differences	(0.2)	-
Effect of increase in tax rate on opening liability ¹	2.8	-
	<hr/>	<hr/>
Total deferred tax	2.6	-
	<hr/>	<hr/>
Total tax charge for the year (excluding share of tax of joint ventures)	9.3	7.1
	<hr/>	<hr/>
Share of tax of joint ventures	-	-
	<hr/>	<hr/>
Total tax on profit	9.3	7.1
	<hr/>	<hr/>

Factors affecting tax charge for the year:

The total tax assessed for the year is higher (2019: higher) than the standard rate of 19% (2019: 19%) applied to profit before tax. The differences are reconciled below:

	2020	2019
	£m	£m
Group profit before tax	31.9	32.9
Less: share of joint ventures' loss before tax	0.7	0.2
	<hr/>	<hr/>
	32.6	33.1
	<hr/>	<hr/>
Corporation tax at standard rate	6.2	6.3
Effect of:		
Disallowed expenses and non taxable income	0.5	0.5
Deferred tax expense relating to changes in tax rates	2.8	0.1
Adjustments in respect of previous years	(0.2)	0.2
	<hr/>	<hr/>
Total tax charge for the year (excluding share of tax of joint ventures)	9.3	7.1
	<hr/>	<hr/>

¹ Increase in deferred tax rate from 17% to 19% discussed further below.

NOTES TO THE FINANCIAL STATEMENTS continued

8. Tax on profit on ordinary activities continued

Tax rate changes

The Finance Act 2016 enacted a reduction in the UK Corporation tax rate from 19% to 17% with effect from 1 April 2020. However, within the Finance Bill 2020 published on 19 March 2020, the rate from 1 April 2020 has now been enacted to remain at 19% rather than reducing it to 17%.

The current tax rate applied during the year was 19% (2019: 19%) and deferred tax was calculated at 19% (2019: 17%) based on the standard rate of corporation tax substantively enacted at the reporting date. Revaluing the opening deferred tax balance at 1 April 2019 from 17% to 19%, has increased the tax charge in the current year by £2.8m.

9. Goodwill

Group	Goodwill £m
Cost	
At 1 April 2019	89.0
At 31 March 2020	89.0
Amortisation	
At 1 April 2019	10.1
Charge for the year	1.1
At 31 March 2020	11.2
Net book value	
At 31 March 2020	77.8
At 31 March 2019	78.9

Goodwill arising from the acquisition of the business in October 2010 is being amortised on a straight-line basis over an estimated useful life of 80 years. A review for impairment of goodwill is carried out annually. There was no impairment loss recorded in the current year (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS continued

10. Tangible fixed assets

Group	Network £m	Non - Network land & buildings £m	Fixtures and equipment £m	Vehicles £m	Total £m
Cost					
At 1 April 2019	367.7	17.6	20.3	73.6	479.2
Additions	6.1	-	0.2	9.0	15.3
Disposals	(1.9)	-	(0.1)	(6.0)	(8.0)
At 31 March 2020	371.9	17.6	20.4	76.6	486.5
Depreciation					
At 1 April 2019	141.5	8.8	17.7	33.0	201.0
Charge for the year	10.2	0.5	0.3	9.8	20.8
Disposals	(1.8)	-	-	(5.5)	(7.3)
At 31 March 2020	149.9	9.3	18.0	37.3	214.5
Net book value					
At 31 March 2020	222.0	8.3	2.4	39.3	272.0
Net book value					
At 31 March 2019	226.2	8.8	2.6	40.6	278.2

Included within Network assets at 31 March 2020 are assets in the course of construction of £13.6m (2019: £11.0m).

The net book value of Non-Network land and buildings comprises:

	2020 £m	2019 £m
Freehold land	0.2	0.2
Freehold buildings	8.1	8.6
	8.3	8.8

The Company has no tangible fixed assets.

NOTES TO THE FINANCIAL STATEMENTS continued

11. Fixed asset investments

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Subsidiary undertakings	-	-	539.4	539.4
Other investments and loans	0.1	0.1	-	-
	<u>0.1</u>	<u>0.1</u>	<u>539.4</u>	<u>539.4</u>

Group investments

The Company and the Group have investments in the following subsidiaries and joint ventures:

Name	Principal activity	% Share
Subsidiaries		
UK Power Networks Services (Contracting) Limited ¹	Electricity distribution projects	100%
UK Power Networks Services (Enterprises) Limited ¹	Investments in commercial projects	100%
UK Power Networks Services (South East) Limited ¹	Holding company	100%
UK Power Networks (Transport) Limited ¹	Provision of transport services	100%
UK Power Networks Services (Development) Limited	Holding company	100%
UK Power Networks Services (Asset Management) Limited	Holding company	100%
UK Power Networks Services (Commercial) Limited	Electrical contracting	100%
UK Power Networks Services (Powerlink Holdings) Limited	Holding company	100%
UK Power Networks Services Powerlink Limited	Asset management	80%
Joint ventures		
Power Asset Development Co. Limited ("PADCo")	Asset management	50%
MUJV Limited	Utility infrastructure management	49.9%
Other investments		
City Greenwich Lewisham Rail UK plc	Asset management	8.0%

¹ Held directly by UK Power Networks Services Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS continued

11. Fixed asset investments continued

The joint venture MUJV Limited is registered at:

Aspire Business Centre
Ordnance Road
Tidworth
Wiltshire
SP9 7QD
United Kingdom

City Greenwich Lewisham Rail UK plc is registered at:

73 Norman Road
Greenwich
London
SE10 9QF
United Kingdom

All other entities listed above are registered at:

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

NOTES TO THE FINANCIAL STATEMENTS continued

12. Investments in joint ventures

	Group £m	Company £m
Share of net assets		
At 1 April 2019	0.8	-
Loss after tax	(0.7)	-
	<hr/>	<hr/>
Net book value at 31 March 2020	0.1	-
	<hr/>	<hr/>

The particulars of the joint ventures are listed in note 11.

Summarised financial information based on unaudited management accounts in respect of the Group's share of joint ventures is set out below:

	2020 £m	2019 £m
Group		
Turnover	2.2	1.9
Loss before tax	(0.7)	(0.2)
Taxation	-	-
Loss after tax	(0.7)	(0.2)
	<hr/>	<hr/>
Current assets	3.7	5.9
Liabilities due within one year	(3.6)	(5.1)
	<hr/>	<hr/>

13. Stocks

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Raw materials and consumables	0.9	0.8	-	-
Work in progress	5.1	7.1	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	6.0	7.9	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

There is no material difference between the balance sheet value of stocks and their replacement cost.

NOTES TO THE FINANCIAL STATEMENTS continued

14. Debtors

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	4.1	4.1	-	-
Amounts owed by related party undertakings (note 27)	2.6	2.6	2.6	2.6
Amounts owed by Group undertakings	234.2	232.2	-	-
Amounts owed by joint ventures	2.9	2.7	-	-
Other debtors	0.3	0.3	0.2	0.2
Prepayments and accrued income	0.6	4.5	-	-
Derivative assets	1.5	-	1.5	-
Corporation tax	-	-	3.4	3.1
Deferred tax asset	-	-	-	2.2
	246.2	246.4	7.7	8.1
Amounts falling due after more than one year:				
Prepayments and accrued income	-	0.1	-	0.1
Derivative financial assets	52.6	35.3	52.6	35.3
Pension scheme surplus (note 25)	2.7	-	-	-
	55.3	35.4	52.6	35.4
	301.5	281.8	60.3	43.5

Group

Amounts owed by Group undertakings due within one year include interest free trade balances of £3.2m, an interest free subordinated loan of £145.0m to UK Power Networks Holdings Limited and an interest free loan of £16.0m to UK Power Networks (Operations) Limited, all of which are repayable on demand. In addition, there is a short-term loan of £70.0m to UK Power Networks (Operations) Limited bearing interest at 0.6% per annum.

NOTES TO THE FINANCIAL STATEMENTS continued

14. Debtors continued

The movements in the Company's deferred tax asset are set out below

Company	Deferred Tax £m
At 1 April 2019	2.2
Charge to profit or loss	(0.9)
Charge to other comprehensive income	(1.3)
	<hr/>
At 31 March 2020	-
	<hr/> <hr/>

The Company's deferred tax asset is analysed as follows:

Company	2020 £m	2019 £m
Timing differences relating to derivative financial instruments	-	2.2
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS continued

15. Creditors: amounts falling due within one year

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Trade creditors	2.1	3.1	-	-
Borrowings - Group undertakings (note 17)	-	-	56.0	53.0
Amounts owed to Group undertakings	3.9	5.4	-	-
Amounts owed to joint ventures	43.5	42.7	-	-
Corporation tax	6.8	6.2	-	-
Other creditors	3.8	3.4	-	-
Other taxation and social security	4.2	1.9	-	-
Accruals and deferred income	28.4	22.6	7.7	7.2
Derivative liabilities	3.4	-	3.4	-
	96.1	85.3	67.1	60.2

Group

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

Amounts owed to joint ventures comprise deferred income arising from the contract with the joint venture MUJV Limited.

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

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Borrowings (note 17)	338.4	326.6	338.4	326.6
Derivative financial liabilities	-	9.5	-	9.5
	338.4	336.1	338.4	336.1

NOTES TO THE FINANCIAL STATEMENTS continued

17. Borrowings

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts falling due within one year				
Amounts owed to Group undertakings	-	-	56.0	53.0
Amounts falling due after more than one year				
Shareholder loans	85.0	85.0	85.0	85.0
USD 315m 5.0% bond due December 2021	203.0	202.8	203.0	202.8
Exchange loss adjustment on USD bond	50.4	38.8	50.4	38.8
	338.4	326.6	338.4	326.6
	338.4	326.6	394.4	379.6

Amounts owed to Group undertakings falling due within one year comprise a loan to the Company of £56.0m from UK Power Networks Services (Contracting) Limited bearing interest at 0.6%.

Shareholder loans are due to intermediate shareholder companies and comprise £34.0m due to CKI Number 1 Limited in July 2030, £34.0m due to Framework Investments Limited in June 2031 and £17.0m due to Eagle Frame Limited in June 2031. These amounts are drawn from a £1.5 billion shareholder loan facility and bear interest at 9.95%.

The US Dollar bond is a private placement of USD 315.0m due for repayment in December 2021 and bearing interest at 5.0% per annum. A cross currency swap provides protection against exchange rate and interest rate movements by exchanging the USD interest due and the USD principal with equivalent values in Sterling. The swaps exchange the 5.0% USD interest rate with a fixed sterling rate of 5.4%.

NOTES TO THE FINANCIAL STATEMENTS continued

18. Financial instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below.

Group	2020 £m	2019 £m
Financial assets		
Measured at fair value through profit or loss		
- Derivative financial assets (note 19)	1.5	3.7
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets (note 19)	52.6	31.6
Measured at amortised cost		
- Loans receivable from Group undertakings (note 14)	231.0	229.0
- Trade and other debtors (note 14) excluding prepayments and accrued income	10.2	10.2
- Amounts owed by joint ventures (note 14)	2.9	2.7
Equity instruments measured at cost less impairment		
- Fixed asset unlisted investments (note 11)	0.1	0.1
- Investment in joint ventures (note 12)	0.1	0.8
	298.4	278.1
Financial liabilities		
Measured at fair value through profit or loss		
- Derivative financial liabilities (note 19)	(3.4)	(9.5)
Measured at amortised cost and designated in an effective hedge relationship		
- * USD bond (note 17)	(253.4)	(241.6)
Measured at amortised cost		
- Shareholder loans (note 17)	(85.0)	(85.0)
- Trade and other creditors (note 15) excluding taxation and social security and accruals and deferred income	(9.8)	(11.9)
- Amounts owed to joint ventures (note 15)	(43.5)	(42.7)
	(395.1)	(390.7)

* The carrying value of the USD bond includes an exchange rate loss adjustment of £50.4m (2019: £38.8m). The exchange rate exposure on the bond is hedged by a cross currency swap (note 19).

NOTES TO THE FINANCIAL STATEMENTS continued

18. Financial instruments continued

The Group's income, expense, gains and losses in respect of financial assets are summarised below:

	Group	
	2020	2019
	£m	£m
Derivative financial assets measured at fair value through profit or loss		
Interest rate swaps not in hedge relationships		
- Net interest receivable	2.7	2.8
- Fair value losses	(2.4)	(1.8)
Derivative financial assets measured at fair value and designated in effective hedge relationships		
Cross currency swap designated as a cash flow hedge		
- Net interest receivable	1.6	1.5
- Fair value gains deferred to hedge reserve	9.5	5.8
- Fair value losses deferred to cost of hedging reserve	(1.1)	(0.8)
- Hedge ineffectiveness credited to profit or loss	0.4	0.1
- Exchange gains measured through profit or loss	11.6	17.5
- Change in fair value of cost of hedging through profit or loss	0.1	0.2
Debt instruments measured at amortised cost		
Interest receivable on loans from Group undertakings	1.1	0.9
	<hr/>	<hr/>
	23.5	26.2
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS continued

18. Financial instruments continued

The Group's income, expense, gains and losses in respect of financial liabilities are summarised below:

	2020 £m	2019 £m
Derivative financial liabilities measured at fair value through profit or loss		
Interest rate swaps not in hedge relationships		
- Net interest payable	(6.6)	(6.7)
- Fair value gains	6.2	5.5
Financial liabilities which are hedged items in effective hedge relationships		
USD bond hedged by cross currency swap		
- Interest payable	(12.7)	(12.6)
- Exchange losses through profit or loss	(11.6)	(17.5)
Financial liabilities measured at amortised cost		
Interest payable on shareholder loans	(8.5)	(8.5)
	<u>(33.2)</u>	<u>(39.8)</u>

19. Derivative financial instruments

	Due within one year		Due after one year	
	2020 £m	2019 £m	2020 £m	2019 £m
Derivative financial assets				
Cross currency swaps designated as effective cash flow hedges	-	-	52.6	31.6
Interest rate swaps not designated in hedging relationships	1.5	-	-	3.7
	<u>1.5</u>	<u>-</u>	<u>52.6</u>	<u>35.3</u>
Derivative financial liabilities				
Interest rate swaps not designated in hedging relationships	(3.4)	-	-	(9.5)
	<u>(1.9)</u>	<u>-</u>	<u>52.6</u>	<u>25.8</u>

Interest rate swaps and cross currency swaps are used to manage the interest rate risk and exchange rate risk on borrowings.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Derivative financial instruments continued

Cash flow hedge cross currency swap

	Average contract fixed interest rate		Notional Principal value		Fair value	
	2020	2019	2020	2019	2020	2019
Maturity of outstanding contracts	%	%	£m	£m	£m	£m
Receive fixed USD rate /						
pay fixed sterling rate						
Cross currency swap on USD bond						
1 to 2 years	5.4%	-	203.2	-	52.6	-
2 to 5 years	-	5.4%	-	203.2	-	31.6

The Company holds a USD 315.0m bond due for repayment in December 2021 bearing interest at 5.0%. A cross currency swap provides protection against exchange rate and interest rate movements by exchanging the USD interest payments and the USD principal with the equivalent values in Sterling. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the cross currency swap in December 2021. Interest is settled on a net basis semi-annually.

During the year net gains of £8.4m (2019: £5.0m) were recognised through other comprehensive income in the cash flow hedge reserve and cost of hedging reserve (refer to note 21 for further detail). In addition, hedge ineffectiveness of £0.4m (2019: £0.1m) was credited to profit or loss and costs of hedging resulted in a gain of £0.1m (2019: £0.2m) to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Derivative financial instruments continued

Non hedge interest rate swaps

	Average contract fixed interest rate		Notional Principal value		Fair value	
	2020	2019	2020	2019	2020	2019
	%	%	£m	£m	£m	£m
Receive fixed/pay floating						
Under 1 year	2.3%	-	190.0	-	1.5	-
1 to 2 years	-	2.3%	-	190.0	-	3.7
Receive floating/pay fixed						
Under 1 year	4.3%	-	190.0	-	(3.4)	-
1 to 2 years	-	4.4%	-	190.0	-	(9.5)

The Company holds swap contracts entered into as a pre-hedge to the issue of the US Dollar bond, swapping 6 month Libor to a fixed rate of 4.4% until July 2020 on a notional value of £190.0m. At the time of the bond issue in 2011 mirror swaps were transacted to offset the effect of the original swaps by exchanging a fixed rate of 2.3% with 6 month Libor. The ongoing net effect of both instruments is 2.0% fixed interest on a notional principal of £190.0m until July 2020. Interest is settled on a net basis semi-annually.

During the year fair value losses of £2.4m (2019: losses of £1.8m) were recognised on the fixed to floating mirror swaps and fair value gains of £6.2m (2019: gains of £5.5m) were recognised in profit or loss on the floating to fixed pre-hedge swaps.

NOTES TO THE FINANCIAL STATEMENTS continued

20. Provisions for liabilities

	Group	
	2020	2019
	£m	£m
Deferred tax liability	24.3	19.6
Other provisions	8.1	8.2
	32.4	27.8
Defined benefit retirement obligations		
UKPN Group of the ESPS (UKPN Group Scheme)	-	1.1
UK Power Networks Pension Scheme (UKPNPS)	4.3	7.0
	4.3	8.1
	36.7	35.9

Movements in the defined benefit pension schemes are detailed in note 25.

Movements in the deferred tax provision and other provisions are shown below:

Group	Deferred Tax £m	Other £m	Total £m
At 1 April 2019	19.6	8.2	27.8
Charge/(credit) to profit or loss	2.6	(0.1)	2.5
Charge to other comprehensive income	2.1	-	2.1
At 31 March 2020	24.3	8.1	32.4

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

NOTES TO THE FINANCIAL STATEMENTS continued

20. Provisions for liabilities continued

Deferred taxation is provided in the financial statements as follows:

Group	2020 £m	2019 £m
Accelerated capital allowances	24.7	23.3
Other timing differences	(0.4)	(3.7)
Provision for deferred tax	24.3	19.6

21. Share capital and reserves

Allotted, called up and fully paid

	2020 Number	2019 Number	2020 £m	2019 £m
Ordinary shares of £0.01 each	3,741,459,801	3,741,459,801	37.4	37.4

Reserves

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

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

The hedging reserves comprise the cash flow hedge reserve and the cost of hedging reserve which are discussed in more detail below.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts profit or loss or when the hedging relationship ends.

Cost of hedging reserve

The Group uses cross currency swaps to hedge the foreign currency risk on USD denominated bonds, within a designated cash flow hedge relationship. In the valuation of cross currency interest rate swaps, spreads are applied to cash flows in currencies with perceived higher credit risk or lower liquidity. These are referred to as "currency basis spreads". As they only exist in the hedging instrument (the cross currency swap), IFRS 9 does not allow inclusion of the currency basis spreads in the valuation of the hedged item (the foreign currency risk of the bond), in the assessment of hedge effectiveness. Due to this mismatch between the hedging instrument and the hedged item, fair value changes in these currency basis spreads lead to hedge ineffectiveness.

IFRS 9 allows for the fair value changes in the currency basis spreads to be recorded in a separate cost of hedging reserve, through other comprehensive income, to the extent those changes are aligned with the hedged item. Excluding these movements from the hedge relationship helps to increase hedge effectiveness and mitigate volatility in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS continued

21. Share capital and reserves continued

Reserves continued

Movements in the hedging reserves in the current and prior year are shown below:

Company and Group	Cash flow hedge reserve £m	Cost of hedging reserve £m	Hedging reserves £m
At 1 April 2018	(15.9)	2.2	(13.7)
Fair value gains/(losses) during the year	5.8	(0.8)	5.0
Tax relating to movements in hedging reserves	(1.0)	0.1	(0.9)
At 31 March 2019	(11.1)	1.5	(9.6)
Fair value gains/(losses) during the year	9.5	(1.1)	8.4
Tax relating to movements in hedging reserves	(1.5)	0.2	(1.3)
At 31 March 2020	(3.1)	0.6	(2.5)

22. Non-controlling interest

	£m
At 1 April 2019	0.2
Profit on ordinary activities after taxation	-
Dividends paid	-
At 31 March 2020	0.2

The non-controlling interest relates to the investment in UK Power Networks Services (Powerlink) Limited which is 20% owned by minority shareholders.

NOTES TO THE FINANCIAL STATEMENTS continued

23. Reconciliation of operating profit to operating cash flows

Group	2020 £m	2019 £m
Operating profit	49.3	50.3
<i>Adjustments for:</i>		
Depreciation and amortisation	21.9	20.9
Profit on disposal of tangible fixed assets	(0.6)	(0.3)
Pension adjustments	0.3	0.5
Operating cash flow before movement in working capital	70.9	71.4
Decrease in stocks	1.9	0.6
Decrease/(increase) in debtors	1.7	(61.6)
Increase/(decrease) in creditors	6.3	(4.4)
(Decrease)/increase in provisions	(0.1)	1.1
Pension deficit repair payments	(2.1)	(1.6)
Cash generated from operations	78.6	5.5

Reconciliation of net debt

	At 1 Apr 2019 £m	Cash flows £m	Fair value and exchange rate changes £m	Other non-cash changes £m	At 31 Mar 2020 £m
Cash and cash equivalents					
Cash at bank and in hand	81.5	(30.9)	-	-	50.6
Cash equivalents	1.2	43.8	-	-	45.0
	82.7	12.9	-	-	95.6
Borrowings					
Debt due after more than one year	(326.6)	-	(11.6)	(0.2)	(338.4)
Net debt	(243.9)	12.9	(11.6)	(0.2)	(242.8)

NOTES TO THE FINANCIAL STATEMENTS continued

24. Financial commitments

Capital commitments entered into by the Group but not provided for amount to £27.0m (2019: £27.9m).

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

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

	Land and buildings 2020 £m	Other 2020 £m	Land and buildings 2019 £m	Other 2019 £m
Group				
- within one year	0.6	0.4	0.4	0.4
- between one and five years	1.6	0.6	1.0	0.7
- after five years	0.1	-	0.2	-
	2.3	1.0	1.6	1.1

25. Pension commitments

Defined contribution pension scheme

The Group contributes to a defined contribution pension scheme, the UK Power Networks Personal Pension Plan. This was introduced in 2011 following the closure of the UK Power Networks 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. During the year the Group made contributions to the scheme amounting to £0.8m (2019: £0.7m).

The Company contributes to two funded defined benefit pension schemes operated by the UK Power Networks 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. The new contribution rates are considered sufficient to eliminate the funding deficit over the next six 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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. Pension commitments continued

The principal financial assumptions (% per annum) used to calculate scheme liabilities under FRS 102 were:

	2020	2019
	%	%
Discount rate		
- UKPN Group	2.6	2.5
- UKPNPS	2.5	2.5
Rate of increase in RPI		
- UKPN Group	2.5	3.2
- UKPNPS	2.1	3.1
Rate of increase in CPI		
- UKPN Group	1.9	2.1
- UKPNPS	1.6	2.0
Rate of increase in salaries		
- UKPN Group	3.0	3.7
- UKPNPS	2.6	3.6
Rate of pension increases in payments		
- Pensions in excess of GMP (UKPN Group)	2.5	3.2
- Post 88 GMP (UKPN Group)	1.7	1.9
- RPI up to 5% per annum (UKPNPS)	2.1	3.0
- RPI up to 2.5% per annum (UKPNPS)	1.6	2.1
- Post 88 GMP (UKPNPS)	1.5	1.8
Rate of pension increases in deferment		
- UKPN Group	2.5	3.2
- CPI up to 5% per annum (UKPNPS)	1.6	2.0
- CPI up to 2.5% per annum (UKPNPS)	1.6	2.0

NOTES TO THE FINANCIAL STATEMENTS continued

25. Pension commitments continued

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

UKPN Group	2020 Years	2019 Years
Life expectancy for male currently aged 60	26	26
Life expectancy for female currently aged 60	29	28
Life expectancy at 60 for male currently aged 40	28	28
Life expectancy at 60 for female currently aged 40	30	30
	<hr/>	<hr/>
UKPNPS	2020 years	2019 Years
Life expectancy for male currently aged 65	22	22
Life expectancy for female currently aged 65	25	24
Life expectancy at 65 for male currently aged 45	24	23
Life expectancy at 65 for female currently aged 45	26	26
	<hr/>	<hr/>

The assumptions disclosed in the preceding tables are governed by FRS 102 and do not reflect the assumptions used by the independent actuary in the triennial valuations which determine the contribution rate for future periods.

The amount recognised in the balance sheet in respect of the Company's defined benefit retirement benefit plan is as follows:

Group	UKPN Grp	UKPNPS	Total	Total
	2020	2020	2020	2019
	£m	£m	£m	£m
Fair value of scheme assets	65.0	27.5	92.5	92.6
Present value of defined benefit obligations	(62.3)	(31.8)	(94.1)	(100.7)
	<hr/>	<hr/>	<hr/>	<hr/>
Net surplus/(deficit) recognised on balance sheet	2.7	(4.3)	(1.6)	(8.1)
	<hr/>	<hr/>	<hr/>	<hr/>

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 14).

NOTES TO THE FINANCIAL STATEMENTS continued

25. Pension commitments continued

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

	UKPN Grp	UKPNPS	Total	Total
	2020	2020	2020	2019
Group	£m	£m	£m	£m
Current service cost	(0.8)	(1.1)	(1.9)	(1.5)
Reduction in scheme liabilities due to plan amendment	0.3	-	0.3	-
Net interest cost	-	(0.2)	(0.2)	(0.2)
Recognised in profit or loss	(0.5)	(1.3)	(1.8)	(1.7)
Recognised in other comprehensive income	2.5	2.4	4.9	2.5
	2.0	1.1	3.1	0.8

Of the charge for the period a net expense of £1.6m (2019: £1.5m) has been included in staff costs and a net expense of £0.2m (2019: £0.2m) included within net finance costs.

During the 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 £0.3m 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	UKPNPS	Total	Total
	2020	2020	2020	2019
Group	£m	£m	£m	£m
At 1 April	(66.5)	(34.2)	(100.7)	(98.4)
Current service cost	(0.8)	(1.1)	(1.9)	(1.5)
Reduction in scheme liabilities due to plan amendments	0.3	-	0.3	-
Interest cost	(1.7)	(0.9)	(2.6)	(2.6)
Actuarial gain/(loss)	3.5	4.6	8.1	(1.0)
Benefits paid/(received)	2.9	(0.2)	2.7	2.8
At 31 March	(62.3)	(31.8)	(94.1)	(100.7)

The actuarial gain (2019: loss) includes a net transfer in of scheme liabilities amounting to £1.7m (2019: £0.3m transfer in) as a result of a review of the allocation of the scheme liabilities across the UK Power Networks Group.

NOTES TO THE FINANCIAL STATEMENTS continued

25. Pension commitments continued

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

Group	UKPN Grp 2020 £m	UKPNPS 2020 £m	Total 2020 £m	Total 2019 £m
At 1 April	65.4	27.2	92.6	86.9
Interest income	1.7	0.7	2.4	2.4
Return on plan assets (excluding amounts included in net interest cost)	(1.0)	(2.2)	(3.2)	3.5
Contributions by employer	0.5	0.8	1.3	1.0
Deficit payments	1.3	0.8	2.1	1.6
Benefits (paid)/received	(2.9)	0.2	(2.7)	(2.8)
At 31 March	65.0	27.5	92.5	92.6

The actuarial gain includes a net transfer in of scheme assets amounting to £2.0m (2019: £0.1m transfer in) as a result of a review of the allocation of the scheme assets across the UK Power Networks Group.

The fair value of scheme assets is analysed as follows:

Group	UKPN Grp 2020 £m	UKPNPS 2020 £m	Total 2020 £m	Total 2019 £m
Equities	16.9	11.3	28.2	28.1
Liability-driven investments	23.2	9.5	32.7	29.9
Corporate bonds	4.2	3.0	7.2	2.6
Multi credit funds	4.8	-	4.8	5.5
Property	-	2.2	2.2	2.2
Hedge funds	-	1.4	1.4	1.3
Macro funds	2.5	-	2.5	6.7
Multi Asset funds	13.2	-	13.2	15.9
Cash	0.2	0.1	0.3	0.4
	65.0	27.5	92.5	92.6

NOTES TO THE FINANCIAL STATEMENTS continued

26. Contingent liabilities and other obligations not provided for

Through the ordinary course of business the Group is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any these proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial position.

The Group has received certain claims against the Group in respect of work performed to date. The Group takes legal advice as to the likelihood of success of such claims and actions and no provision is made where the Directors consider, based on that advice that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made. The Group has given performance guarantees in respect of its own contracts amounting to £15.3m (2019: £15.1m). The guarantees are in the form of letters of credit or performance bonds issued by third party financial institutions.

27. Related parties

There have been no transactions with Directors in the year (2019: none).

Amounts owed by shareholder companies relating to legal expenses incurred when the group was acquired are as follows:

	2020	2019
Group and Company	£000	£000
CKI Number 1 Limited	1,024	1,024
Devin International Limited	1,024	1,024
Eagle Insight International Limited	512	512
	<u>2,560</u>	<u>2,560</u>

This amount is presented within debtors in note 14.

Loans due to shareholders are disclosed in note 17. The total interest expense charged to the profit and loss account in respect of shareholders' loans was £8.5m (2019: £8.5m). Interest accrues on the shareholders' loans at a fixed rate of 9.95% per annum, and is payable semi-annually in arrears. The interest payable at 31 March 2020 of £3.6m (2019: £3.5m) is presented within accruals and deferred income (note 15).

Joint ventures

The Group's joint ventures are set out in note 12. During the year the Group made sales in the ordinary course of business to joint ventures of £11.6m (2019: £11.1m). In addition the Group recognised management fee income from MUJV Limited of £2.2m (2019: £1.5m). Balances with joint ventures are shown separately within debtors (note 14) and creditors (note 15).

The Group is exempt from disclosing transactions with other entities that are wholly owned within the UK Power Networks Group, as it is wholly owned by UK Power Networks Holdings Limited, which prepares publicly available consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS continued

28. Subsequent events

Response to the COVID-19 pandemic

On 23 March 2020 the UK Government declared a national lockdown due to the uncontrolled and rapid spread of the COVID-19 virus. This followed confirmation on 11 March 2020 by the World Health Organisation that the virus was officially a pandemic. The Group's response to the pandemic from the reporting date at 31 March 2020 until the date of authorisation of the financial statements on 4 August 2020 has focused first and foremost on the safety and wellbeing of its employees and its customers, while continuing to provide reliable electricity supplies and service to customers.

In the initial phase of the lockdown, some operational work was paused primarily at the client's request, and some office-based staff worked from home where possible. Relevant policies were established or updated in accordance with Government guidelines and there were daily communications with all employees. A recovery phase was initiated during May on a prioritised basis, to resume work that had been paused during March and April, and to support employees in returning to the workplace over a phased period.

The financial statements for the year ended 31 March 2020 have not been adjusted to reflect any post balance sheet impact of the pandemic which is considered to be a non-adjusting subsequent event. Whilst there is uncertainty in predicting the overall impact of COVID-19, the Group's forecast modelling has shown that the Group will remain profitable over the next 12 months under all reasonable scenarios, and there is considerable headroom in lending facilities and covenants. The Directors' current assessment, as disclosed in the Going Concern and viability statement on pages 8 and 9, is that the pandemic is a temporary disruption and is not expected to have a material effect on the long term financial position and prospects of the Group.

29. Parent undertaking and controlling parties

The Company's immediate parent is UK Power Networks Holdings 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
United Kingdom

UK Power Networks Holdings Limited is the parent of both the smallest and largest group in which the Company's financial statements are consolidated. Copies of the financial statements of UK Power Networks Holdings Limited may be obtained from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX. 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; and
- 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.