UK POWER NETWORKS SERVICES HOLDINGS LIMITED

Registered Number 7306419

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2023

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Neil Douglas McGee
Basil Scarsella
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STRATEGIC REPORT

About us

UK Power Network Services Holdings Limited (the "Company") and its subsidiaries (together the "Group") develops, delivers and manages private energy networks, providing solutions to help customers manage their electricity infrastructure. The Group's activities within the unregulated utility network sector include:

- constructing and delivering complex high voltage electrical infrastructure;
- operating and maintaining electrical distribution networks for key infrastructure in the UK; and
- providing tailored end to end solutions to help clients decarbonise their electrical infrastructure, reduce costs and improve the resilience of their energy networks. With its expertise in distributed energy solutions and power distribution the Group is ideally placed to develop strategies to optimise existing assets and integrate new technologies.

The portfolio includes a range of high-profile clients from both the public and private sector including four of London's airports (Heathrow, Gatwick, Stansted and London City), High Speed 1 (the Channel Tunnel rail link from Folkestone to London), Network Rail, London Underground, Southern Water, Aspire (Ministry of Defence) and Canary Wharf.

The business seeks to develop new opportunities within target markets such as rail, airports, defence and nuclear and assist clients in achieving their net zero carbon ambition. The Group's principal objectives are 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 4 to 6.

The Company is wholly owned by UK Power Networks Holdings Limited which heads the UK Power Networks Group ("the UKPN Group" or "UK Power Networks" or "UK Power Networks Holdings Limited and its subsidiaries") 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.

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

The range of technical and engineering solutions offered by the Group include the following:

Design and build, Management of electricity networks
- Delivery of new networks may include initial assessment of the optimal technology mix, network planning, and all stages of design through to building, testing and commissioning.
- Asset management plans may include operation, maintenance, fault repair, conditions assessment and asset replacement programmes to optimise the client's electricity network.

STRATEGIC REPORT continued

Improving network resilience:
- Building microgrids and private electricity networks to reduce the risk of unexpected power outages or poor power quality.
- Integrating energy storage systems, uninterruptible power supplies and renewable energy to further increase resilience.

Reducing energy costs, Achieving sustainability ambitions, Developing an energy infrastructure strategy
- Working with businesses to understand their energy situation and analysing potential cost savings from energy efficiency measures and installation of renewable generation.
- End to end solutions that can integrate on site generation, energy storage, smart charging and control systems.

Electrification of vehicle fleets
- Helping clients develop a vehicle electrification strategy and integrate vehicle charging infrastructure from initial feasibility studies through to design, build, smart operation and ongoing maintenance.

Connecting to the electricity network
- As an Independent Connection Provider ("ICP") the Group can offer certain connections services as an alternative to the DNO or other competing ICPs.

Our vision and strategy

The Group's vision and values sets the direction and guides the decisions which are taken within the business. Our vision is to be a leading performer in the electrical infrastructure industry through being:

Category	Mechanism
An employer of choice;	Motivating and engaging employees to give their best for clients, go the extra mile and get home safely every day.
A respected and trusted corporate citizen	Minimising disruption and inconvenience to those affected by the Group's activities and ensuring we have zero public safety incidents.
Sustainably cost-efficient	Applying a value engineering approach to our activities, minimising the costs to clients, and looking for opportunities to apply continuous improvement techniques and opportunities to outperform.
Enabling the net zero transition for all	Solving energy challenges through innovative solutions, enabling clients to take advantage of the energy transition and decarbonise their energy networks.

The Group delivers high performance underpinned by our values which are embedded in our culture:
- **Integrity** – deliver what has been agreed and build trust and confidence by being honest to ourselves, our colleagues, our partners and our customers.
- **Continuous improvement** – commitment to learning, development, innovation and achievement.
- **Diversity and inclusiveness** – recognise and encourage the value which difference and constructive challenge can bring.
- **Respect** – treat colleagues and customers in a way which they would want to be treated.
- **Responsibility** – act in an ethical, safe and socially / environmentally aware manner.
- **Unity** - we are stronger together and this comes from a shared vision, a common purpose, supportive and collaborative working.

The Group's vision and values are discussed further on page 16.

Review of the business

Performance for the year ended 31 March 2023

Turnover increased from £154.1m in the prior year to £187.5m for the year ended 31 March 2023 mainly due to higher work volumes relating to new business. Turnover on the Group's long term infrastructure management projects has increased in line with expectations. Earnings before interest, taxation, depreciation and amortisation ("EBITDA") increased from £74.6m to £82.1m reflecting the increase in turnover partially offset by the cost of higher work volumes and inflationary pressures.

Profit after tax increased from £20.8m to £38.6m due to a combination of higher EBITDA, lower finance costs and a lower tax charge. Refinancing a 5% USD bond with loan notes at 2.7% interest, towards the end of the prior year, has resulted in a reduction in net finance costs of £6.4m in the current year. Despite higher profits, the tax charge has reduced by £3.6m, as the prior year included a one-off deferred tax increase following the enactment of the corporation tax rate change from 19% to 25%.

Compared to the prior year net cash generated from operations has reduced from £63.0m to £40.4m. The impact of higher EBITDA in the current year was more than offset by lower inflows from working capital mainly relating to the timing of receipts within Group debtors.

Capital expenditure during the year amounted to £16.4m (2022: £17.5m) of which £8.5m (2022: £6.9m) relates to investment in electrical infrastructure and £6.1m (2022: £10.4m) to vehicle purchases by the Group's transport business.

Key performance indicators

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, and are set out in the table below.

	Year ended 31 March 2023	Year ended 31 March 2022
Non-financial key performance indicators		
Lost time incidents [1]	**nil**	nil
Customer satisfaction ratings [2]	**85%**	82%
Financial key performance indicators		
Turnover (£m)	**187.5**	154.1
EBITDA [3] (£m)	**82.1**	74.6
Profit after tax (£m)	**38.6**	20.8
Net cash generated from operations (£m)	**40.4**	63.0
EBITDA interest coverage ratio [4]	**7.0x**	4.3x
Capital expenditure (£m)	**16.4**	17.5

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

2 Benchmark of customer satisfaction established by an external agency.

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.

Key performance indicators continued

Non-financial key performance indicators

Safety

The Group's highest 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 undertaken for all operational staff.

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. The Group has achieved more than seven years without a single lost time injury to its staff or contractors.

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 remained above 80% for the past five years.

Financial key performance indicators

EBITDA

EBITDA excludes the effect of interest, taxation, depreciation and amortisation from earnings and reflects 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 2023 £m	Year ended 31 March 2022 £m
Operating profit	**60.3**	52.5
Depreciation of tangible fixed assets	**20.7**	21.0
Amortisation of goodwill	**1.1**	1.1
EBITDA	**82.1**	74.6

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.

Financial key performance indicators continued

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 2023 £m	Year ended 31 March 2022 £m
EBITDA (as calculated on page 5)	**82.1**	74.6
Underlying finance cost		
Net finance costs (note 5)	**11.4**	17.8
Less: Net loss related to derivative instruments (note 5)	**-**	(0.4)
Less: Net interest income related to defined benefit pensions (note 5)	**0.4**	0.1
Less: Net interest cost related to defined benefit pensions (note 5)	**(0.1)**	(0.3)
	11.7	17.2
Interest cover ratio (EBITDA / Underlying finance cost)	**7.0**	4.3

The underlying finance cost excludes the net loss related to changes in fair value of derivative instruments and interest on defined benefit pensions 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. Improved EBITDA and lower finance costs have resulted in a higher interest cover ratio in the current year.

Principal risks and uncertainties
The Group's principal risks and uncertainties, and a summary of actions to mitigate them, are set out in the following pages. These risks are broadly in line with the prior year, other than the introduction of a new risk relating to supply chain capacity and long-lead times. These risks represent those considered material to the Group, there may be other risks, unknown or currently considered immaterial which could become material.

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.	The Group aims to create and foster a culture in which safety is the highest priority in the minds of everyone who works for and on behalf of the Group. Safety measures include: • A health and safety strategy and action plan which sets out the policies and procedures of the Group. • Task risk assessments and on-site inspections to ensure that safety procedures are followed. • A range of "Stay Safe" training programmes aimed at staff, contractors and members of the public, to promote safety and increase awareness of the dangers of working with electricity. • Active monitoring, investigation and reporting of safety incidents, including near misses, to the Safety, Health and Environmental Committee which reviews the completion of follow up actions to improve safety procedures. • Communication of incidents and lessons learnt through monthly safety messages to staff. • Innovative renewal of health and safety messaging to keep safety fresh and front of mind across the organisation. • Control and monitoring of the health and safety practices of contractors to see that the Group's safety procedures are understood and followed. The Group maintains accreditation to 45001 (Health & Safety Management).
Inadequate response to major adverse events An inadequate response to a major event could result in a failure in the Group's performance (e.g. power outages at key facilities, safety incidents, or poor customer service) resulting in significant financial and reputational damage.	Senior Management addresses this risk in three main forums: the Organisational Resilience Leadership team, the Incident Leadership team and the Strategic Operational team. Mitigating measures include: • Business Continuity Plans and policies and procedures giving clear guidance of actions to be taken, roles and responsibilities (Organisational resilience is rated 4/5 by the Emergency Planning College). • Scenario planning to stress test the business continuity plans for each business unit. • Regular communication from the CEO keeping employees informed of the response plan, procedures and changing risks.

STRATEGIC REPORT continued

Risk	Mitigation
Inadequate response to major adverse events continued	• Monitoring by senior management of key performance areas which could be impacted by the event e.g. network safety and performance, customer satisfaction levels, employee health and absenteeism, PPE allocation, adherence to new policies and procedures, financial impacts. • Review and reprioritisation of work on network projects as required, in response to the changing risks. This includes recovery plans to monitor work back-logs against strategic targets and resume work as quickly as possible if projects are impacted by the event. • The Group has a well developed plan for dealing with storms and other major weather events setting out roles, responsibilities and co-ordination processes for employees.
Failure of network assets There are significant risks associated with network assets where failure of asset management procedures, systems or equipment could result in a major outage, major fine or a serious injury/fatality. 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.	The reliability of the networks managed by the Group is closely monitored 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. The results of Inspection and Maintenance programmes and other asset risk assessments are reported to senior management on a monthly basis and feed into long term asset management plans. The UKPN Group maintains accreditations in 55001 (Asset Management), 9001 (Quality) and 14001 (Environment).
Funding and liquidity risk The Group's financing requirements are partially met through bonds or loan notes. 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.	• 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. • 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.

Risk	Mitigation
Funding and liquidity risk continued Risk of not achieving the output and cost efficiency targets agreed on long term contracts. An increase in costs due to higher levels of inflation and supply chain disruption.	• Monthly review of progress on long term contracts and monitoring of actual versus planned expenditure. • Close collaboration and mitigation planning with suppliers during the Brexit transition, has maintained supply chain resilience. This focus and monitoring has continued in the environment of supply chain shortages of key components and logistical challenges. • The strategic planning cycle includes bottom up budgeting as well as top down target setting with specific actions to deliver on agreed cost targets. The saving plans of each business unit are monitored by senior management on a monthly basis. Management actively manages costs to limit the impacts of inflation. Efficiency targets are cascaded down to operational teams to drive accountability for performance
Supply Chain Capacity and Long Lead Times Supply chain performance pressures have increased globally due to inflation, the energy crisis, people shortages and net zero commitments. This is resulting in increased risks of price fluctuations, extended lead times for critical materials, insolvency of key suppliers and scarcity of a skilled contractor workforce. If these challenges are not managed effectively, it may impact UK Power Networks ability to deliver against its targets.	The UKPN Group has well established processes for governing contract management and supplier relationships, as well as for continued monitoring of key contractors' financial and stability indicators. Management reviews these processes to have sufficient agility to respond to the increasing pressures. Long term integrated management plans are devised and routinely reviewed to enable forward ordering of materials to manage long lead times. The UKPN Group closely monitors supplier performance using leading key risk indicators to assess trends in the quality and timely delivery of materials against its Key Material Stock Policy. The UKPN Group continually assesses the supply chain for limited suppliers of critical materials, mitigation plans are established where dual sourcing cannot be ascertained.
Major Failure or Cyber security breach of IT Systems: A failure or cyber security breach of core IT systems could have a considerable impact on business operations. 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.	In response to the conflict between Russia and Ukraine, the UK Government warned of heightened cyber threats. The UK National Cyber Security Centre (NCSC) published cyber guidance and advised UK organisations to take action. The UKPN Group meets these requirements and has put in place additional measures to manage the risk.

STRATEGIC REPORT continued

Risk	Mitigation
Major Failure or Cyber security breach of IT Systems continued	A Cyber Security Improvement Programme operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation. The UKPN Group focuses its activities across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactively testing resilience. All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation. The UKPN Group operates a training programme to see that 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.

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 subcommittee 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 2023 comprise loan notes of £200.0m (2022: £200.0m) and drawings of £85.0m (2022: £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 shareholder loans are due for repayment in 2041 and bear interest at 9.95%. A USD bond carrying interest at 5% matured in December 2021 and was replaced by £200.0m in loan notes at a lower fixed interest rate of 2.7% maturing in 2041.

The Directors believe the Group has sufficient resources to service its assets and liabilities for the foreseeable future. Cash generated from operations for the year amounted to £40.4m (2022: £63.0m). The net cash outflow from investing activities was £12.8m (2022: £15.1m) and the net cash outflow from financing activities was £39.0m (2022: £39.6m). The latter included a dividend payment of £25.0m (2022: £16.0m).

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

When appropriate, the Treasury department uses interest rate swaps and cross currency swaps to manage the interest rate risk and exchange rate risk on the Group'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.

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. A defined contribution pension scheme, introduced in 2011, is open to all new employees. There is automatic enrolment to the scheme in the first month of employment but employees have the choice to opt out if they wish to.

The Group's defined benefit pension obligation at 31 March 2023, accounted for under FRS 102, amounts to a net surplus of £5.8m (2022: £6.6m). This comprises a surplus of £10.0m (2022: surplus of £12.6m) in the UKPN Group scheme and a deficit of £4.2m (2022: deficit of £6.0m) in the UKPNPS scheme.

The sensitivity of the valuation to changes in discount rate and other financial assumptions used to estimate the defined benefit obligation is shown on page 44 and further detail on the assumptions is provided in note 23 to the financial statements.

Taxation

The Company 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 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 2023 the Group's net deferred tax liability was £28.4m (2022: £30.5m).

Factors likely to affect future development and performance

The Directors intend to develop the business in a manner that concentrates on the Group's core skills of developing and 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.

The Group is able to provide a range of customised energy solutions, from the design and build phase, through to connection, operation and maintenance, which optimise existing assets and integrate new technologies to improve the sustainability, cost efficiency and resilience of the client's electricity network. There are growth opportunities in the following areas:

Low carbon transition
The low carbon economy and new electricity distribution models are changing the shape of electricity networks. Electric vehicles, renewable energy sources and new ways of storing energy are all part of this revolution. The Group offers end to end solutions that can integrate on site generation, energy storage, smart-charging and control systems. Low carbon technologies recommended by the Group include Solar Photovoltaic ("PV") panels, energy efficiency measures such as LED lighting, Combined Heat and Power units, Smart Electric Vehicle charging solutions and Air Source heat pumps.

Network resilience
Solutions to improve the reliability of electricity supplies to critical infrastructure include the construction of microgrids and private electricity networks, and the integration of energy storage systems, uninterruptible power supplies ("UPS") and renewable energy to further increase resilience.

Network automation
The Group is one of the largest providers of network automation and SCADA in the UK. SCADA (supervisory control and data acquisition) is a system of software and hardware that provides visibility and control over the live status of the electricity network and the ability to rapidly respond to faults. This brings significant benefits, as networks become more complex and decentralised.

Going concern

The business activities of the Group and Company, together with details of their performance and position, risk management policies and future development are set out in the preceding paragraphs of this Strategic Report.

The Directors have performed an assessment of going concern relating to the Company and the Group based on detailed cash flow forecasts for a period of at least 12 months from the date of these financial statements, as well as taking into consideration the following factors:

- The Group continues to perform well and is profitable, with strong underlying cash flows and a steady, predictable stream of revenues from its long term contracts;
- Existing cash resources of £54.4m and the headroom available under a long term shareholder loan facility of £1.5 billion (2022: £1.5 billion) with drawings to date of £85.0m due for repayment in 2041.

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Company and the Group. These include higher than expected inflation costs, higher levels of bad debt and a reduction in new business opportunities due to the adverse economic climate and unexpected expenditure in response to safety incidents or network failure.

Given the significant amount of liquidity available to the Company and the Group at 31 March 2023, the forecasts under all reasonable scenarios show that there is significant headroom in respect of available liquidity and compliance with financial covenants. Stress testing has been performed and indicates that the level of decline in the Company and the Group's financial performance to result in a financial covenant breach is considered remote. Accordingly, the Directors are satisfied it is appropriate to adopt the going concern basis of accounting in the preparation of these financial statements.

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 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 11.

STRATEGIC REPORT continued

The Group actively engages with its stakeholders on a regular basis. The Group has identified its key stakeholders as: employees, customers, suppliers, the communities affected by the Group's operations, 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 21 to 24.

As described on page 3, 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:

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Basil Scarsella
Director

14 August 2023
Newington House
237 Southwark Bridge Road
London
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DIRECTORS' REPORT

The Directors present their annual report on the audited financial statements of UK Power Networks Services Holdings Limited (the "Company") and its subsidiary undertakings (together the "Group") for the year ended 31 March 2023.

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 (2022: £16.0m).

Political contributions

No political donations were made during the year (2022: £nil).

Directors

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

Andrew John Hunter (Chairman)
Hing Lam Kam
Neil Douglas McGee
Basil Scarsella
Charles Chao Chung Tsai
Duncan Nicholas Macrae
Loi Shun Chan
Kee Ham Chan
Chi Tin Wan (resigned 1 July 2023)
Edmond Wai Leung Ho (appointed 14 April 2022)
Simon Ka Keung Man (appointed 14 April 2022)
Jenny Yu (appointed 1 July 2023)

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 that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

DIRECTORS' REPORT continued

Employee engagement

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. Activities undertaken to encourage employee engagement are discussed further on page 22.

Business relationships

The Group has identified its key stakeholders as: employees, customers, suppliers, the communities affected by the Group's operations, 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 21 to 24.

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

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

Approved by the Board and signed on its behalf by:

....

Basil Scarsella
Director

14 August 2023
Newington House
237 Southwark Bridge Road
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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 manage and deliver safe, sustainable, and profitable high voltage electrical infrastructure. The Board has articulated the vision and values to which the Group aspires in fulfilling its purpose and these are set out on page 3.

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 Officer ("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 (as disclosed in note 26 to the financial statements). 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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 2 – Board composition continued

The positions of the Chairman of the UKPN 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 subcommittees 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 seven meetings of the UKPN Board were held during the year with seven to eleven members of the Company's board present at each meeting.

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

In order to assist the UKPN Board in fulfilling its oversight responsibilities, six 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 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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 3 – Directors' responsibilities continued

- 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 strategy and for developing policies and procedures to identify, manage and mitigate risks across the business.

- The *Environmental, Social and Governance (ESG) Committee* assists the UKPN Board in seeing that the UKPN Group has a suitable and sufficient strategy in place to deliver its key ESG based commitments. The Committee also provides oversight of the future development of strategy and policy as the external ESG environment evolves, and reports performance against ESG targets on a consolidated basis.

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 Risk Management and Compliance, Audit and Treasury Committees each held three meetings. A quorum was present at each meeting.

Each committee's constitution and terms of reference are reviewed annually. 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. The Group forms one of the directorates of the UKPN Group. In order to assist the EMT in fulfilling their responsibilities, management 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 see 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, supported by finance partners, 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 year to date 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

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 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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 3 – Directors' responsibilities continued

External audit continued

At the completion of the annual external audit the Audit Committee reviews with management and the external auditor the annual financial statements and the 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.

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 Group. Any proposed appointment of ex-employees of the external audit firm to senior management positions with the Group is subject to consent by the Audit Committee. The lead external audit partner changed during the year in accordance with a five year rotation schedule.

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.

Risk identification and 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.

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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 4 – Opportunity and Risk continued

Risk identification and internal control continued

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.

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 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.

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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 4 – Opportunity and Risk continued

Monitoring and corrective action continued

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.

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.

The shareholder companies, CK Infrastructure Holdings Limited and Power Assets Holdings Limited, require that the Group conducts a bi-annual Internal Control Self-Assessment 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 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 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 of the Group's employees. Sixty per cent of the Company Incentive Plan is based on the 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 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 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 communities affected by the Group's operations and shareholders.

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

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

- A comprehensive annual employee engagement survey by an external survey provider "Best Companies" in which employees provide their views on key matters pertinent to the success of the Group and their own engagement. The UKPN Group has featured on the *Best Companies "Top 25 Best Big Companies To Work For"* list for nine consecutive years, achieving its highest ever position of second place in the last two years.

- The UKPN Group issues communications to employees through a range of channels, including a monthly 'team brief' in which employees hear about the Group's achievement against its objectives, and view a video address from the CEO. Other communications include monthly visits by the EMT to sites across the UKPN Group, UKPN Group-wide magazine publications, intranet sites, emails and social media forums. Questions and feedback from employees are actively encouraged by management.

- Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees through dedicated employee engagement forums.

- The values of Equality, Diversity and Inclusion ("EDI") are key considerations in the UKPN Group's recruitment, training and communication programmes. A range of training is provided to employees to increase awareness and promote an inclusive culture, such as inclusive behaviour training. Through various forums, employees are asked to share their views on diversity and inclusiveness in the work place and make recommendations for improvement. For example a dedicated EmPower Community acts as a platform for employees to discuss EDI issues and raise suggestions. A Steering Committee made up of senior managers meets quarterly to support and monitor the UKPN Group's Diversity and Inclusion strategy and initiatives.

- The UKPN Group is National Equality Standard ("NES") accredited and in the top 10 of Inclusive Top 50 Employers in the UK, reflecting its intent and commitment toward becoming a truly diverse and inclusive workplace. The UKPN Group's business plan includes a focus on improving equality of employment access, reducing the gender pay gap, increasing BAME applications for early career roles working closely with local schools and developing a work experience programme aimed at disadvantaged or under privileged groups.

- Each employee undertakes performance reviews with their managers, in which their performance against specific objectives is reviewed and discussed, and personal development opportunities and training identified.

- The UKPN Group holds an "Investors in People" platinum accreditation which recognises its commitment to excellence in people management, an achievement obtained by only 2% of companies of similar size globally.

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

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. This rating has remained above 80% for the past five years.

The information obtained from the above initiatives is used to further improve the services delivered by the Group.

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:

- Published guidance to suppliers, both current and prospective, on how to operate in accordance with the UKPN 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.
- Assessment of suppliers through a pre-qualification platform Achilles Utilities Vendor Database ("UVDB"). As an industry-recognised risk management framework, Achilles UVDB provides a fair, open and transparent means of supplier selection for potential tender opportunities.
- The UKPN 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 Logistics team works closely with suppliers to forecast demand and maintain high inbound performance levels. The Group's materials contracts are long term enabling suppliers to invest in manufacturing equipment and work in partnership with the Group.
- The UKPN Group has formed an alliance model with key strategic partners to promote closer working relationships and common practices on shared projects.

The Community and the 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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

The environment is of key importance to the Group's stakeholders. The UKPN Group has set ambitious targets to be the most socially and economically responsible in its sector and is committed to playing its part in limiting climate change. More details on the UKPN Group's action plan to reduce its impact on the environment in relation to carbon emissions, waste, water usage, air and noise pollution, visual amenity and biodiversity can be found at:

https://www.ukpowernetworks.co.uk/about-us/environment-and-sustainability

Shareholders

The Group via its immediate parent UK Power Networks Holdings Limited is wholly owned by a consortium of three parties (as disclosed in note 26). 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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 2023;
- 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 14 August 2023:

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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 2023 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the 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 26.

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 (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

We have nothing to report in this regard.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities including those that are specific to the group's business sector.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud continued
We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

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

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

As a result of performing the above, we identified the greatest potential for fraud in the presumed risk of revenue recognition, specifically that the revenue is not accurately recorded in line with the stage of completion of the projects. Our specific procedures performed to address this risk included testing, on a sample basis, third party evidence to determine whether revenue had been recognised accurately.

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

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

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 have 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.

Marianne Milnes

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Marianne Milnes, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 August 2023

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2023

Group	Note	2023 £m	2022 £m
Turnover[1]	3	**187.5**	**154.1**
Cost of sales		**(67.7)**	**(44.0)**
Gross profit		**119.8**	**110.1**
Other operating expenses		**(59.5)**	**(57.6)**
Operating profit	4	**60.3**	**52.5**
Finance costs (net)	5	**(11.4)**	**(17.8)**
Profit before taxation		**48.9**	**34.7**
Tax on profit	8	**(10.3)**	**(13.9)**
Profit for the financial year		**38.6**	**20.8**

[1] Turnover excludes the share of joint ventures' turnover of £2.2m (2022: £2.1m)

All results are derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

Group

	Note	**2023 £m**	2022 £m
Profit for the financial year		**38.6**	20.8
Cash flow hedges			
Gains arising during the year		**-**	0.4
Remeasurement (losses)/gains on defined benefit schemes	*23*	**(4.0)**	14.8
		(4.0)	15.2
Tax relating to components of other comprehensive income		**0.9**	(3.2)
Other comprehensive (loss)/income		**(3.1)**	12.0
Total comprehensive income		**35.5**	32.8
Profit for the year attributable to:			
Equity shareholders of the Company		**38.6**	20.8
		38.6	20.8
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**35.5**	32.8
		35.5	32.8

CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET

AS AT 31 MARCH 2023

		Group		Company	
		2023	2022	**2023**	2022
	Note	**£m**	£m	**£m**	£m
Fixed assets					
Goodwill	*9*	**74.5**	75.6	**-**	-
Tangible fixed assets	*10*	**262.4**	267.2	**-**	-
Investments	*11*	**-**	0.1	**539.4**	539.4
Investment in joint ventures	*12*	**0.2**	0.2	**-**	-
		337.1	343.1	**539.4**	539.4
Current assets					
Stocks	*13*	**7.8**	3.9	**-**	-
Debtors					
- amounts falling due within one year	*14*	**216.7**	174.5	**5.1**	5.4
- amounts falling due after more than one year	*14*	**10.1**	12.8	**0.1**	0.1
Cash and cash equivalents		**54.4**	73.9	**0.4**	0.2
		289.0	265.1	**5.6**	5.7
Creditors: amounts falling due within one year	*15*	**(124.3)**	(111.7)	**(62.3)**	(63.8)
Net current assets/(liabilities)		**164.7**	153.4	**(56.7)**	(58.1)
Total assets less current liabilities		**501.8**	496.5	**482.7**	481.3
Creditors: amounts falling due after more than than one year	*16*	**(284.2)**	(284.2)	**(284.2)**	(284.2)
Provisions for liabilities	*19*	**(36.4)**	(41.6)	**-**	-
Net assets		**181.2**	170.7	**198.5**	197.1

CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET

AS AT 31 MARCH 2023 continued

		Group		Company	
	Note	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Capital and reserves					
Called up share capital	*20*	**37.4**	37.4	**37.4**	37.4
Share premium account	*20*	**132.4**	132.4	**132.4**	132.4
Hedging reserve	*20*	**-**	-	**-**	-
Profit and loss account	*20*	**11.4**	0.9	**28.7**	27.3
Shareholder's funds	*20*	**181.2**	170.7	**198.5**	197.1
Non-controlling interest		**-**	-	**-**	-
Total capital employed		**181.2**	170.7	**198.5**	197.1

The Company's profit for the financial year was £26.4m (2022: £18.3m) with other comprehensive income amounting to £nil (2022: gain of £0.3m). 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 14 August 2023. They were signed on its behalf by:

....

Basil Scarsella
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023

Group	Called up share capital £m	Share premium account £m	Profit and loss account £m	Hedging reserves [1] £m	Total £m	Non-controlling interest £m	Total £m
At 1 April 2021	37.4	132.4	(15.6)	(0.3)	**153.9**	0.2	**154.1**
Profit for the financial year	-	-	20.8	-	**20.8**	-	**20.8**
Cash flow hedges							
Gains arising during the year	-	-	-	0.4	**0.4**	-	**0.4**
Remeasurement gains on defined benefit schemes	-	-	14.8	-	**14.8**	-	**14.8**
Tax relating to items of other comprehensive income	-	-	(3.1)	(0.1)	**(3.2)**	-	**(3.2)**
Total comprehensive income	-	-	32.5	0.3	**32.8**	-	**32.8**
Purchase of non-controlling interest [2]	-	-	-	-	**-**	(0.2)	**(0.2)**
Equity dividends paid	-	-	(16.0)	-	**(16.0)**	-	**(16.0)**
At 31 March 2022	37.4	132.4	0.9	-	**170.7**	-	**170.7**
Profit for the financial year	-	-	38.6	-	**38.6**	-	**38.6**
Cash flow hedges							
Gains arising during the year year	-	-	-	-	**-**	-	**-**
Remeasurement losses on defined benefit schemes	-	-	(4.0)	-	**(4.0)**	-	**(4.0)**
Tax relating to items of other comprehensive income	-	-	0.9	-	**0.9**	-	**0.9**
Total comprehensive income	-	-	35.5	-	**35.5**	-	**35.5**
Equity dividends paid	-	-	(25.0)	-	**(25.0)**	-	**(25.0)**
At 31 March 2023	**37.4**	**132.4**	**11.4**	**-**	**181.2**	**-**	**181.2**

1 Prior year movements in the hedging reserve relate to the cross currency hedge of a USD bond which matured in December 2021.

2 Relating to the purchase of the 20% non-controlling interest in UK Power Networks Services Powerlink Limited in the prior year at a net book value of £0.2m.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023

Company	Called-up share capital £m	Share premium account £m	Profit and loss account £m	Hedging reserve[1] £m	Total £m
At 1 April 2021	37.4	132.4	25.0	(0.3)	**194.5**
Profit for the financial year	-	-	18.3	-	**18.3**
Cash flow hedges					
Gains arising during the year	-	-	-	0.4	**0.4**
Tax relating to items of other comprehensive income	-	-	-	(0.1)	**(0.1)**
Total comprehensive income	-	-	18.3	0.3	**18.6**
Equity dividends paid	-	-	(16.0)	-	**(16.0)**
At 31 March 2022	37.4	132.4	27.3	-	**197.1**
Profit for the financial year	-	-	26.4	-	**26.4**
Total comprehensive income	-	-	26.4	-	**26.4**
Equity dividends paid	-	-	(25.0)	-	**(25.0)**
At 31 March 2023	**37.4**	**132.4**	**28.7**	**-**	**198.5**

[1] Prior year movements in the hedging reserve relate to the cross currency hedge of a USD bond which matured in December 2021.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Cash generated from operations	*21*	**40.4**	63.0
Corporation tax paid		**(8.1)**	(7.7)
Net cash flows from operating activities		**32.3**	55.3
Cash flows from investing activities			
Proceeds from sale of tangible assets		**1.3**	1.1
Gross capital expenditure		**(16.4)**	(17.5)
Interest and dividends from investments		**2.3**	1.5
Purchase of non controlling interest in UK Power Networks Services (Powerlink) Ltd		**-**	(0.2)
Net cash flows used in investing activities		**(12.8)**	(15.1)
Cash flows from financing activities			
Equity dividends paid		**(25.0)**	(16.0)
Interest paid		**(14.0)**	(19.6)
Repayment of USD bond		**-**	(203.2)
Exchange difference settled on USD bond		**-**	(34.9)
Exchange difference settled on USD cross currency swap		**-**	34.9
Proceeds from long-term borrowings		**-**	199.2
Net cash flows used in financing activities		**(39.0)**	(39.6)
Net (decrease)/increase in cash and cash equivalents		**(19.5)**	0.6
Cash and cash equivalents at beginning of year		**73.9**	73.3
Cash and cash equivalents at end of year		**54.4**	73.9

Reconciliation to cash at bank and in hand		
Cash at bank and in hand	**14.4**	6.9
Cash equivalents [1]	**40.0**	67.0
Cash and cash equivalents	**54.4**	73.9

1 Cash equivalents are short-term deposits with banks with maturities of less than 3 months.

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 2006.

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 13. 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 business activities of the Group and Company, together with details of their performance and position, risk management policies and future development are set out in the preceding paragraphs of this Strategic Report.

The Directors have performed an assessment of going concern relating to the Company and the Group based on detailed cash flow forecasts for a period of at least 12 months from the date of these financial statements, as well as taking into consideration the following factors:

- The Group continues to perform well and is profitable, with strong underlying cash flows and a steady, predictable stream of revenues from its long term contracts;
- Existing cash resources of £54.4m and the headroom available under a long term shareholder loan facility of £1.5 billion (2022: £1.5 billion) with drawings to date of £85.0m due for repayment in 2041.

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Company and the Group. These include higher than expected inflation costs, higher levels of bad debt and a reduction in new business opportunities due to the adverse economic climate and unexpected expenditure in response to safety incidents or network failure.

1. Accounting policies continued

Given the significant amount of liquidity available to the Company and the Group at 31 March 2023, the forecasts under all reasonable scenarios show that there is significant headroom in respect of available liquidity and compliance with financial covenants. Stress testing has been performed and indicates that the level of decline in the Company and the Group's financial performance to result in a financial covenant breach is considered remote. Accordingly, the Directors are satisfied it is appropriate to adopt the going concern basis of accounting in the preparation of these financial statements.

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.

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).

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.

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 derocognised 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.

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.

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 23. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2023.

	Change in assumption	**Impact on scheme liabilities**	
		UKPN Grp 2023 £m	**UKPNPS 2023 £m**
Discount rate	**+/-0.50%**	-5.7% to 6.1%	-11.4% to 13.0%
RPI inflation	**+/-0.50%**	5.2% to -4.9%	9.8% to -9.4%
Life expectancy	**+/- 3yrs**	12.6% to -13.4%	9.4% to -10.1%
Rate of salary increases	**+/-0.50%**	0.4% to -0.4%	5.0% to -4.8%

At 31 March 2023 the Group's share of scheme liabilities was valued at £55.0m (2022: £64.6m) for the UKPN Group scheme and £27.4m (2022: £41.8m) for the UKPNPS Scheme, in accordance with FRS 102 (as disclosed in note 23)

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):

Group	**2023 £m**	2022 £m
Depreciation of tangible fixed assets (note 10)	**20.7**	21.0
Amortisation of goodwill (note 9)	**1.1**	1.1
Profit on disposal of tangible fixed assets	**(0.8)**	(0.7)
Operating lease rentals:		
Land and buildings	**0.6**	0.5

The analysis of Auditor's remuneration is as follows:

Group	**2023 £000**	2022 £000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts and consolidated financial statements	**13.4**	10.8
Fees payable to the Company's Auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	**75.7**	109.0
Total audit fees	**89.1**	119.8
Total non-audit fees	**-**	-
Total fees	**89.1**	119.8

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.

5. Finance costs (net)

Group

	2023 £m	2022 £m
Interest payable and similar expenses	**(13.9)**	(18.6)
Less: Investment income	**2.7**	1.6
Other finance costs	**(0.2)**	(0.8)
	(11.4)	(17.8)
Investment income		
Income from fixed asset investments	**0.2**	1.3
Income from current asset investments	**2.0**	0.1
Interest receivable on loans to other group companies	**0.1**	0.1
Net interest income on defined benefit pension surplus	**0.4**	0.1
	2.7	1.6
Interest payable and similar expenses		
Interest on USD Bond	**-**	(8.3)
Interest on Loan Notes	**(5.4)**	(2.2)
Interest on Shareholder Loans	**(8.5)**	(8.5)
Net interest on swap instruments	**-**	0.4
	(13.9)	(18.6)
Other finance costs		
Fair value gains losses on financial instruments:		
Change in fair value of cost of hedging	**-**	(0.4)
Exchange loss on USD bond hedged by cross currency swap	**-**	(9.6)
Exchange gain on cross currency swap	**-**	9.6
Net fair value loss on derivative instruments	**-**	(0.4)
Net interest cost on defined benefit pension deficit	**(0.1)**	(0.3)
Other charges	**(0.1)**	(0.1)
	(0.2)	(0.8)

6. Staff costs

The average monthly number of employees during the year was:

Group	2023 Number	2022 Number
Monthly average number of employees	**281**	274

Their aggregate remuneration comprised:

	2023 £m	2022 £m
Wages and salaries	**21.2**	19.4
Social security costs	**2.9**	2.5
Other pension costs	**2.8**	2.8
	26.9	24.7

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.

8. Taxation

Group

	2023	2022
Current tax on profit	**£m**	£m
UK corporation tax	**11.0**	7.3
Adjustments in respect of previous years	**0.5**	-
Total current tax	**11.5**	7.3
Deferred tax		
Origination and reversal of timing differences	**(0.7)**	(0.5)
Effect of increase in tax rate on opening liability [1]	**-**	7.1
Adjustments in respect of previous years	**(0.5)**	-
Total deferred tax	**(1.2)**	6.6
Total tax charge for the year (excluding share of tax of joint ventures)	**10.3**	13.9
Share of tax of joint ventures	**-**	-
Total tax on profit	**10.3**	13.9

[1] Impact of increase in deferred tax from 19% to 25% discussed further below.

The total tax assessed for the year is higher than the standard rate of corporation tax in the UK applied to profit before tax. The differences are reconciled below:

	2023	2022
	£m	£m
Group profit before tax	**48.9**	34.7
Less: share of joint ventures' profit before tax	**-**	-
	48.9	34.7
Corporation tax at standard rate	**9.3**	6.6
Effect of:		
Disallowed expenses and non taxable income	**1.2**	0.2
Deferred tax expense relating to changes in tax rates	**(0.2)**	7.1
Adjustments in respect of previous years	**-**	-
Total tax charge for the year (excluding share of tax of joint ventures)	**10.3**	13.9

NOTES TO THE FINANCIAL STATEMENTS continued

8. Taxation

Tax rate changes
The current tax rate applied during the year was 19% (2022: 19%) and deferred tax was calculated at 25% (2022: 25%) based on the standard rate of corporation tax substantively enacted at the reporting date.

The standard rate of corporation tax increased from 19% to 25% with effect from 1 April 2023, as substantively enacted in the Finance Bill 2021 on 24 May 2021. Revaluing the Company's long term deferred tax liabilities at 25% increased the deferred tax charge in the prior year by £7.1m. The rate increase had no impact on current tax in the current year or the prior year.

9. Goodwill

Group

	Goodwill £m
Cost	
At 1 April 2022	89.0
At 31 March 2023	**89.0**
Amortisation	
At 1 April 2022	13.4
Charge for the year	1.1
At 31 March 2023	**14.5**
Net book value	
At 31 March 2023	**74.5**
At 31 March 2022	75.6

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 (2022: £nil).

NOTES TO THE FINANCIAL STATEMENTS continued

10. Tangible fixed assets

Group	Network	Non - Network land & buildings	Fixtures and equipment	Vehicles	**Total**
	£m	£m	£m	£m	**£m**
Cost					
At 1 April 2022	383.0	17.6	20.6	89.9	**511.1**
Additions	8.5	-	1.8	6.1	**16.4**
Disposals	(0.7)	-	-	(5.2)	**(5.9)**
At 31 March 2023	**390.8**	**17.6**	**22.4**	**90.8**	**521.6**
Depreciation					
At 1 April 2022	167.8	10.2	18.5	47.4	**243.9**
Charge for the year	10.0	0.4	0.5	9.8	**20.7**
Disposals	(0.6)	-	-	(4.8)	**(5.4)**
At 31 March 2023	**177.2**	**10.6**	**19.0**	**52.4**	**259.2**
Net book value					
At 31 March 2023	**213.6**	**7.0**	**3.4**	**38.4**	**262.4**
Net book value					
At 31 March 2022	215.2	7.4	2.1	42.5	267.2

Included within Network assets at 31 March 2023 are assets in the course of construction of £29.5m (2022: £23.4m).

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

	2023	2022
	£m	£m
Freehold land	**0.2**	0.2
Freehold buildings	**6.8**	7.2
	7.0	7.4

The Company has no tangible fixed assets.

11. Fixed asset investments

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Subsidiary undertakings	**-**	-	**539.4**	539.4
Other investments and loans [1]	**-**	0.1	**-**	-
	-	0.1	**539.4**	539.4

[1] The carrying value of other investments and loans has reduced by £120,000 to reflect the impairment of the 8% investment in City Greenwich Lewisham Rail Link plc which is under voluntary liquidation following completion of its contracts.

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%
Energy Infrastructure Networks Limited [1]	Dormant	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	Non trading	100%
Power Asset Development Co. Limited ("PADCo")	Non trading	100%
Joint ventures		
MUJV Limited	Utility infrastructure management	49.9%
Other investments		
City Greenwich Lewisham Rail Link plc	Asset management	8.0%

[1] Held directly by UK Power Networks Services Holdings Limited

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 Link plc is registered at:

Cannon Place
78 Cannon Street
London
EC4N 6AF
United Kingdom

All other entities listed above are registered at:

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

The following subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 March 2023:

Subsidiary	Company number
UK Power Networks Services (Enterprises) Limited	2611182
UK Power Networks Services (South East) Limited	2366867
UK Power Networks Services (Development) Limited	3189877
UK Power Networks Services (Asset Management) Limited	3003570
UK Power Networks Services (Powerlink Holdings) Limited	2340675
UK Power Networks Services (Powerlink) Limited	3221818
Power Asset Development Company Limited	2340677

NOTES TO THE FINANCIAL STATEMENTS continued

12. Investments in joint ventures

	Group £m	Company £m
Share of net assets		
At 1 April 2022	**0.2**	-
Profit after tax	**-**	-
Net book value at 31 March 2023	**0.2**	-

MUJV Ltd
The Group holds a 49.9% interest in MUJV Ltd as part of a jointly controlled utility infrastructure management project.

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

	2023 £m	2022 £m
Group		
Turnover	**2.2**	2.1
Profit before tax	**-**	-
Taxation	**-**	-
Profit after tax	**-**	-
Current assets	**2.3**	1.9
Liabilities due within one year	**(2.1)**	(1.7)

NOTES TO THE FINANCIAL STATEMENTS continued

13. Stocks

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Raw materials and consumables	**0.5**	0.3	**-**	-
Work in progress	**7.3**	3.6	**-**	-
	7.8	3.9	**-**	-

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

14. Debtors

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade debtors	**3.8**	4.2	**-**	-
Amounts owed by related party undertakings (note 25)	**2.6**	2.6	**2.6**	2.6
Amounts owed by Group undertakings	**205.9**	163.7	**-**	-
Amounts owed by joint ventures	**2.9**	2.8	**-**	-
Other debtors	**0.5**	0.5	**0.3**	0.3
Prepayments and accrued income	**1.0**	0.7	**-**	-
Corporation tax	**-**	-	**2.2**	2.5
	216.7	174.5	**5.1**	5.4
Amounts falling due after more than one year:				
Prepayments and accrued income	**0.1**	0.2	**0.1**	0.1
Surplus in the UKPN Group defined benefit pension scheme (note 23)	**10.0**	12.6	**-**	-
	10.1	12.8	**0.1**	0.1
	226.8	187.3	**5.2**	5.5

Group
Amounts owed by Group undertakings due within one year comprise interest free trade balances of £3.9m and an interest free subordinated loan of £145.0m to UK Power Networks Holdings Limited, both of which are repayable on demand and a loan to London Power Networks of £57.0m bearing interest of 4.53% per annum.

15. Creditors: amounts falling due within one year

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Trade creditors	**2.8**	2.2	**-**	-
Borrowings - (note 17)	**-**	-	**56.5**	58.0
Amounts owed to Group undertakings	**2.2**	2.2	**-**	-
Amounts owed to joint ventures	**44.1**	43.2	**-**	-
Corporation tax	**9.8**	6.4	**-**	-
Other creditors	**3.1**	2.9	**-**	-
Other taxation and social security	**3.3**	4.0	**-**	-
Accruals	**25.1**	25.7	**5.8**	5.8
Deferred income	**33.9**	25.1	**-**	-
	124.3	111.7	**62.3**	63.8

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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Borrowings (note 17)	**284.2**	284.2	**284.2**	284.2

17. Borrowings

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Amounts falling due within one year				
Amounts owed to Group undertakings	**-**	-	**56.5**	58.0
	-	-	**56.5**	58.0
Amounts falling due after more than one year				
Shareholder loans	**85.0**	85.0	**85.0**	85.0
£100m 2.667% Loan Notes due October 2041	**99.6**	99.6	**99.6**	99.6
£100m 2.664% Loan Notes due October 2041	**99.6**	99.6	**99.6**	99.6
	284.2	284.2	**284.2**	284.2
	284.2	284.2	**340.7**	342.2

Amounts owed to Group undertakings falling due within one year comprise a loan to the Company of £56.5m from UK Power Networks Services (Contracting) Limited bearing interest at 4.56%.

Shareholder loans are due to intermediate shareholder companies and comprise £34.0m due to CKI Number 1 Limited in June 2041, £34.0m due to Framework Investments Limited in June 2041 and £17.0m due to Eagle Frame Limited in June 2041. These amounts are drawn from a £1.5 billion shareholder loan facility and bear interest at 9.95%.

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	**2023**	2022
	£m	£m
Financial assets		
Measured at amortised cost		
- Loans receivable from Group undertakings (note 14)	**202.0**	158.0
- Trade and other debtors (note 14) excluding prepayments and accrued income	**10.8**	13.0
- Amounts owed by joint ventures (note 14)	**2.9**	2.8
Equity instruments measured at cost less impairment		
- Fixed asset unlisted investments (note 11)	**-**	0.1
- Investment in joint ventures (note 12)	**0.2**	0.2
	215.9	174.1

Financial liabilities		
Measured at amortised cost		
- Loan Notes (note 17)	**(199.2)**	(199.2)
- Shareholder loans (note 17)	**(85.0)**	(85.0)
- Trade and other creditors (note 15) excluding taxation and social security and accruals and deferred income	**(8.1)**	(7.3)
- Amounts owed to joint ventures (note 15)	**(44.1)**	(43.2)
	(336.4)	(334.7)

18. Financial instruments continued

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

	Group	
	2023	2022
	£m	£m
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	-	0.4
- Fair value gains deferred to cash flow hedge reserve	-	1.0
- Fair value losses deferred to cost of hedging reserve	-	(0.6)
- Hedge ineffectiveness charged to profit or loss	-	-
- Exchange gains measured through profit or loss	-	9.6
- Change in fair value of cost of hedging through profit or loss	-	(0.4)
Debt instruments measured at amortised cost		
Interest receivable on loans from Group undertakings	**0.1**	0.1
	0.1	10.1

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

	2023	2022
	£m	£m
Financial liabilities which are hedged items in effective hedge relationships		
USD bond hedged by cross currency swap		
- Interest payable	-	(8.3)
- Exchange losses through profit or loss	-	(9.6)
Financial liabilities measured at amortised cost		
Interest payable on shareholder loans	**(8.5)**	(8.5)
Interest payable on Loan Notes	**(5.4)**	(2.2)
	(13.9)	(28.6)

NOTES TO THE FINANCIAL STATEMENTS continued

19. Provisions for liabilities

	Group	
	2023	2022
	£m	£m
Deferred tax liability	**28.4**	30.5
Other provisions	**3.8**	5.1
	32.2	35.6
Defined benefit retirement obligations		
Deficit in the UKPNPS defined benefit pension scheme	**4.2**	6.0
	4.2	6.0
	36.4	41.6

Movements in the defined benefit pension schemes are detailed in note 23.

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

Group

	Deferred Tax	Other	**Total**
	£m	£m	**£m**
At 31 March 2022	30.5	5.1	**35.6**
Credit to profit or loss	(1.2)	(1.3)	**(2.5)**
Credit to other comprehensive income	(0.9)	-	**(0.9)**
At 31 March 2023	**28.4**	**3.8**	**32.2**

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

19. Provisions for liabilities continued

Deferred taxation is provided in the financial statements as follows:

Group	2023 £m	2022 £m
Accelerated capital allowances	**27.0**	29.0
Other timing differences	**1.4**	1.5
Provision for deferred tax	**28.4**	30.5

20. Share capital and reserves

Allotted, called up and fully paid

	2023 Number	2022 Number	2023 £m	2022 £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 reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective as 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.

NOTES TO THE FINANCIAL STATEMENTS continued

21. Reconciliation of operating profit to operating cash flows

Group	**2023 £m**	2022 £m
Operating profit	**60.3**	52.5
Adjustments for:		
Depreciation and amortisation	**21.8**	22.1
Profit on disposal of tangible fixed assets	**(0.8)**	(0.7)
Pension adjustment	**0.1**	0.3
Operating cash flow before movement in working capital	**81.4**	74.2
Increase in stocks	**(3.9)**	(0.6)
Increase in debtors	**(42.0)**	(17.7)
Increase in creditors	**9.2**	13.6
Decrease in provisions	**(1.3)**	(3.5)
Pension deficit repair payments	**(3.0)**	(3.0)
Cash generated from operations	**40.4**	63.0

Reconciliation of net debt

	At 1 April 2022 £m	**Cash flows £m**	**At 31 March 2023 £m**
Cash and cash equivalents			
Cash at bank and in hand	**6.9**	**7.5**	**14.4**
Cash equivalents	**67.0**	**(27.0)**	**40.0**
	73.9	**(19.5)**	**54.4**
Borrowings			
Debt due within one year	**-**	**-**	**-**
Debt due after more than one year	**(284.2)**	**-**	**(284.2)**
	(284.2)	**-**	**(284.2)**
Net debt	**(210.3)**	**(19.5)**	**(229.8)**

22. Financial commitments

Capital commitments entered into by the Group but not provided for amount to £62.5m (2022: £71.9m). 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 2023 £m	Land and buildings 2022 £m
Group		
- within one year	**0.6**	0.6
- between one and five years	**1.5**	1.8
- after five years	**0.9**	1.2
	3.0	**3.6**

23. 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 Group's defined benefit schemes to new members. There is automatic enrolment for new employees in the first month of employment with the choice to opt out if they do not wish to participate in the scheme

Employees may choose a contribution rate of between 3% and 10% of their salary. As the employer, the Group pays into the plan at twice the rate of the employee's contribution up to a maximum of 10% of the salary. During the year the Group made contributions to the scheme amounting to £1.1m (2022: £0.9m).

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

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

The UK Power Networks Pension Scheme (UKPNPS)
The UKPNPS was formed from a number of legacy arrangements with membership dating back to 1994. It has been closed to new members since 2011.

Funding levels are monitored regularly 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, resulting from the triennial valuation as at 31 March 2022, was agreed on 27 February 2023 for the UKPN Group scheme and 5 April 2023 for the UKPNPS scheme. In relation to the UKPN Group scheme, the current rate of deficit repair contributions was sufficient to clear the funding deficit by 1 March 2023, removing the need for ongoing deficit repair. However deficit repair contributions will continue to the UKPNPS, with the aim of eliminating the scheme's funding shortfall over the next five years. These contributions are set at £1.5m per annum from 1 January 2023 to 29 February 2028 increasing annually by CPI inflation.

NOTES TO THE FINANCIAL STATEMENTS continued

23. Pension commitments continued

A valuation under FRS 102 at the balance sheet date was provided by actuaries using rolled forward member data from the 31 March 2022 triennial valuation and reflecting updated financial and demographic assumptions. These assumptions are governed by FRS 102 and do not reflect the assumptions used by the independent actuary in the triennial funding valuations described above.

The defined benefit scheme assets and liabilities are assigned to participating entities using an allocation methodology based on employment records and attribution portions agreed with the industry regulator Ofgem.

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

	2023	2022
	%	%
Discount rate		
- UKPN Group	**4.8**	2.8
- UKPNPS	**4.6**	2.7
Rate of increase in RPI		
- UKPN Group	**3.0**	3.4
- UKPNPS	**2.8**	3.0
Rate of increase in CPI		
- UKPN Group	**2.7**	3.0
- UKPNPS	**2.3**	2.4
Rate of increase in salaries		
- UKPN Group	**3.5**	3.9
- UKPNPS	**3.3**	3.5
Rate of pension increases in payments		
- Pensions in excess of GMP (UKPN Group)	**3.1**	3.4
- Post 88 GMP (UKPN Group)	**2.1**	2.4
- RPI up to 5% per annum (UKPNPS)	**2.7**	2.9
- RPI up to 2.5% per annum (UKPNPS)	**1.9**	2.1
- Post 88 GMP (UKPNPS)	**1.9**	2.0
Rate of pension increases in deferment		
- UKPN Group	**3.1**	3.4
- CPI up to 5% per annum (UKPNPS)	**2.3**	2.4
- CPI up to 2.5% per annum (UKPNPS)	**2.3**	2.4

23. Pension commitments continued

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

UKPN Group	2023 years	2022 years
Life expectancy for male currently aged 60	26	26
Life expectancy for female currently aged 60	29	29
Life expectancy at 60 for male currently aged 40	27	28
Life expectancy at 60 for female currently aged 40	30	31

UKPNPS	2023 years	2022 years
Life expectancy for male currently aged 65	22	23
Life expectancy for female currently aged 65	25	25
Life expectancy at 65 for male currently aged 45	24	24
Life expectancy at 65 for female currently aged 45	26	26

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
	2023 £m	2023 £m	2023 £m	2022 £m
Fair value of scheme assets	65.0	23.2	88.2	113.0
Present value of defined benefit obligations	(55.0)	(27.4)	(82.4)	(106.4)
Net surplus/(deficit) recognised on balance sheet	10.0	(4.2)	5.8	6.6

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).

23. 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:

Group	UKPN Grp 2023 £m	UKPNPS 2023 £m	Total 2023 £m	Total 2022 £m
Current service cost	**(0.6)**	**(1.1)**	**(1.7)**	(2.0)
Past service credit related to enhanced early retirement offer	**-**	**-**	**-**	0.1
Net interest income/(cost)	**0.4**	**(0.1)**	**0.3**	(0.2)
Recognised in profit or loss	**(0.2)**	**(1.2)**	**(1.4)**	(2.1)
Recognised in other comprehensive income	**(4.2)**	**0.2**	**(4.0)**	14.8
	(4.4)	**(1.0)**	**(5.4)**	12.7

Of the charge for the period a net expense of £1.7m (2022: £1.9m) has been included in staff costs and net income of £0.3m (2022: expense of £0.2m) included within net finance costs.

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

Group	UKPN Grp 2023 £m	UKPNPS 2023 £m	Total 2023 £m	Total 2022 £m
At 1 April	**(64.6)**	**(41.8)**	**(106.4)**	(115.8)
Current service cost	**(0.6)**	**(1.1)**	**(1.7)**	(2.0)
Past service credit related to enhanced early retirement offer	**-**	**-**	**-**	0.1
Interest cost	**(1.8)**	**(1.1)**	**(2.9)**	(2.4)
Actuarial gain	**8.6**	**16.6**	**25.2**	10.5
Benefits paid	**3.4**	**-**	**3.4**	3.2
At 31 March	**(55.0)**	**(27.4)**	**(82.4)**	(106.4)

The actuarial gain (2022: gain) includes a net transfer in of scheme liabilities amounting to £2.5m (2022: £1.8m transfer in) as a result of a review of the allocation of the scheme liabilities across the UK Power Networks Group.

23. Pension commitments continued

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

Group	UKPN Grp 2023 £m	UKPNPS 2023 £m	Total 2023 £m	Total 2022 £m
At 1 April	**77.2**	**35.8**	**113.0**	105.1
Interest income	**2.2**	**1.0**	**3.2**	2.2
Return on plan assets (excluding amounts included in net interest cost)	**(12.8)**	**(16.4)**	**(29.2)**	4.3
Contributions by employer	**0.5**	**1.1**	**1.6**	1.6
Deficit payments	**1.3**	**1.7**	**3.0**	3.0
Benefits paid	**(3.4)**	**-**	**(3.4)**	(3.2)
At 31 March	**65.0**	**23.2**	**88.2**	113.0

The return on plan assets (excluding amounts included in net interest cost) includes a net transfer in of scheme assets amounting to £3.7m (2022: £1.8m 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 2023 £m	UKPNPS 2023 £m	Total 2023 £m	Total 2022 £m
Equities	**4.4**	**4.3**	**8.7**	20.2
Liability-driven investments	**43.5**	**13.3**	**56.8**	68.0
Credit funds	**3.5**	**1.0**	**4.5**	8.4
Hedge funds	**-**	**1.5**	**1.5**	2.3
Alternatives [1]	**12.7**	**2.9**	**15.6**	12.9
Cash and net current assets	**0.9**	**0.2**	**1.1**	1.2
	65.0	**23.2**	**88.2**	113.0

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

24. 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 £17.5m (2022: £17.4m). The guarantees are in the form of letters of credit or performance bonds issued by third party financial institutions.

25. Related parties

There have been no transactions with Directors in the year (2022: none).

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

Group and Company	**2023 £000**	2022 £000
CKI Number 1 Limited	**1,024**	1,024
Devin International Limited	**1,024**	1,024
Eagle Insight International Limited	**512**	512
	2,560	2,560

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 (2022: £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 2023 of £3.5m (2022: £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 £11.7m (2022: £12.8m). In addition the Group recognised management fee income from MUJV Limited of £1.5m (2023: £1.3m). 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.

26. 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:

- **CK Infrastructure Holdings Limited (40% shareholding)** incorporated in Bermuda;
- **Power Assets Holdings Limited (40% shareholding)** incorporated in Hong Kong; and
- **CK Asset Holdings Limited (20% shareholding)** incorporated in the Cayman Islands.

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