

Registration number: 2228168

UK Power Networks Services (Contracting) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2018



UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

COMPANY INFORMATION

Directors Andrew John Hunter
 Basil Scarsella
 Loi Shun Chan

Company Secretary Andrew Pace

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

The Directors present their Strategic Report for the year ended 31 March 2018.

Principal activity

The principal activity of UK Power Networks Services (Contracting) Limited (the "Company") is to manage high voltage electrical networks for owners of major infrastructure.

Ownership

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

Review of the business

The results for the year amounted to a profit before taxation of £43,378,000 (2017: £40,335,000) and a profit after taxation of £35,503,000 (2017: £34,014,000). Dividends of £36,000,000 were paid during the year (2017: £29,200,000).

Key performance indicators (KPI's)

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

	2018	2017
Financial performance		
Tangible fixed assets (£ 000)	229,428	237,414
Operating costs (£ 000)	33,697	33,020

Non-financial performance

Lost time incidents (LTIs)

LTIs - Injuries at work resulting in lost time of one day or more	-	-
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Financial performance indicators represent the key financial metrics that reflect the financial health of the business. The tangible fixed asset value represents the Company's investment (after depreciation), in the electrical infrastructure managed under long term contracts for airport and rail customers. During the year depreciation of £10,077,000 exceeded capital expenditure of £2,139,000 which together with disposals of £48,000 resulted in a decrease of £7,986,000 in the net book value of tangible fixed assets. Operating costs have risen with inflation by £677,000.

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

Principal risks and uncertainties

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

Health and safety

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

Network assets

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

Information Technology (IT)

A cyber security breach or failure of the Group's core systems, applications or associated IT processes could have a significant impact on the Company. Business operations could be affected and if the breach or failure is related to control systems, the Company's ability to operate the electrical infrastructure could be impacted. Data breaches could result in legislative non-compliance with resulting financial penalties and reputational damage.

There are a variety of mechanisms in place to minimise these risks. The Group has an embedded risk awareness culture to understand and manage significant business risks. The risk management framework sets out policies, procedures and responsibilities designed to assess, mitigate, monitor and report risks. A subcommittee of the Board, the Risk Management and Compliance committee, oversees the risk management function and makes annual assessments of changes to significant risks and the effectiveness of the risk management processes.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The Group observes formal risk management policies and procedures and promotes a robust control environment at all levels of the organisation, to manage financial risk.

The key financial risk is that the proceeds from financial assets are not sufficient to fund financial obligations as they fall due. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet, the most relevant financial risks are credit and liquidity risk.

The Company's exposure to credit and liquidity risk is reduced as it is a wholly owned subsidiary of the UK Power Networks Holdings Group of companies. The Company's principal financial assets are cash, trade debtors and amounts owed from Group companies. Credit risk is mitigated by the nature of the debtor balances owed with these being due from entities of strong financial standing. Liquidity risk is mitigated by the financial support given by UK Power Networks Services Holdings Limited, the immediate parent.

Future developments

The Directors expect the Company to maintain a consistent level of performance in the future.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

Going concern

In considering the going concern basis in preparing the Annual Report and Financial Statements, the Directors have regard to the following: the Company's existing long term contracts are profitable and provide a steady and predictable stream of revenues and cash flows; and the Company has considerable cash reserves and no external debt.

The Company's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Company has adequate resources to continue operating for the foreseeable future. Therefore the Directors continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 31 July 2018 and signed on its behalf by:



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Basil Scarsella
Director

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

The Directors present their Annual Report including the Audited Financial Statements of the Company for the year ended 31 March 2018.

Details of the Company's risk management objective and policies, future developments and going concern are included in the Strategic Report and form part of this report by cross reference.

Political contributions

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

Directors of the Company

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

Andrew John Hunter

Basil Scarsella

Loi Shun Chan

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

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

Employment of disabled persons

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

Employee involvement

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

Disclosure of information to Auditor

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

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

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

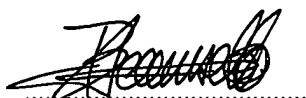
UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

Auditor

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

Approved by the Board on 31 July 2018 and signed on its behalf by:

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

Basil Scarsella
Director

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of UK Power Networks Services (Contracting) Limited (the "Company") for the year ended 31 March 2018, which comprise:

- the Profit and Loss Account;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 20 including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

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

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

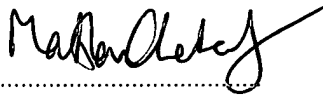
In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.



Makhan Chahal ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London

United Kingdom

31 July 2018

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £ 000	2017 £ 000
Turnover	4	75,983	72,079
Operating expenses		<u>(33,697)</u>	<u>(33,020)</u>
Operating profit	5	42,286	39,059
Finance costs (net)	6	<u>1,092</u>	<u>1,276</u>
Profit before tax		43,378	40,335
Taxation	9	<u>(7,875)</u>	<u>(6,321)</u>
Profit for the year		<u>35,503</u>	<u>34,014</u>

The above results were derived from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	2018 £ 000	2017 £ 000
Profit for the year	35,503	34,014
Remeasurement of net defined benefit liability	<u>1,105</u>	<u>(3,008)</u>
Total comprehensive income for the year	<u>36,608</u>	<u>31,006</u>

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

The notes on pages 14 to 31 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

BALANCE SHEET AS AT 31 MARCH 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Tangible assets	10	229,428	237,414
Current assets			
Stocks	11	640	456
Debtors falling due within one year	12	84,117	123,031
Debtors falling due after more than one year	12	-	8,477
Cash at bank and in hand		85,166	34,385
		<u>169,923</u>	<u>166,349</u>
Creditors: Amounts falling due within one year	13	<u>(156,049)</u>	<u>(160,053)</u>
Net current assets		<u>13,874</u>	<u>6,296</u>
Total assets less current liabilities		<u>243,302</u>	<u>243,710</u>
Provisions for liabilities	14	<u>(28,164)</u>	<u>(29,180)</u>
Net assets		<u>215,138</u>	<u>214,530</u>
Capital and reserves			
Called up share capital	16	10,100	10,100
Profit and loss account	16	205,038	204,430
Total shareholders' funds		<u>215,138</u>	<u>214,530</u>

The financial statements of UK Power Networks Services (Contracting) Limited, registered number 2228168, were approved by the Board of Directors and authorised for issue on 31 July 2018. They were signed on its behalf by:



Basil Scarsella
Director

The notes on pages 14 to 31 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2016	<u>10,100</u>	<u>202,624</u>	<u>212,724</u>
Profit for the year	-	34,014	34,014
Remeasurement of defined benefit pension liability	-	(3,008)	(3,008)
Total comprehensive income	-	31,006	31,006
Dividends	-	(29,200)	(29,200)
At 31 March 2017	<u>10,100</u>	<u>204,430</u>	<u>214,530</u>

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2017	<u>10,100</u>	<u>204,430</u>	<u>214,530</u>
Profit for the year	-	35,503	35,503
Remeasurement of defined benefit pension liability	-	1,105	1,105
Total comprehensive income	-	36,608	36,608
Dividends	-	(36,000)	(36,000)
At 31 March 2018	<u>10,100</u>	<u>205,038</u>	<u>215,138</u>

The notes on pages 14 to 31 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1 General information

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

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

The address of its registered office is:

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

2 Accounting policies

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

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (FRC).

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

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

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

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

Going concern

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

2 Accounting policies (continued)

Tangible assets

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

Depreciation

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

Asset class	Depreciation rate
Furniture, fixtures and equipment	5 years
Vehicles	5 to 10 years
Network assets	30 to 50 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.

Revenue recognition

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

Contract revenue recognition

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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

Provisions

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

Leases

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

Tax

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

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

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

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

2 Accounting policies (continued)

Employee benefits

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

Defined benefit

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

The defined benefit schemes are funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. Formal actuarial valuations are undertaken by independent qualified actuaries at least triennially. Actuaries also provide valuations at each balance sheet date using a roll forward of member data from the most recent triennial valuation and reflecting updated financial and demographic assumptions. Pension scheme assets are measured at fair value and liabilities are measured using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities.

Defined contribution

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

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following represent the critical judgements and key sources of estimation uncertainty that may have a significant effect on the amounts recognised in the financial statements.

Critical judgements in applying the Company's accounting policies

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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

Key sources of estimation uncertainty

Valuation of defined benefit obligation

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

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

Details of the defined benefit schemes and the assumptions used to estimate the defined benefit obligation are set out in note 15. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2018.

		Impact on scheme liabilities	
Change in assumption		UKPN Grp	UKPNPS
		2018	2018
		£m	£m
Discount rate	+/- 0.50%	-7.6% to +8.2%	-15.8% to +18.5%
RPI inflation	+/- 0.50%	+7.7% to -7.2%	+14.4% to -12.6%
Life expectancy	+/- 3 years	+14.7% to -14.7%	+11.7% to -11.7%
Rate of salary increases	+/- 0.50%	+0.9% to -0.9%	+4.8% to -4.3%

4 Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of managing various electricity distribution systems.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

5 Operating profit

Arrived at after charging:

	2018 £ 000	2017 £ 000
Depreciation expense	10,077	10,041
Operating lease expense - property	174	175
Operating lease expense - other	229	198
Loss on disposal of tangible assets	<u>48</u>	<u>1,368</u>

Auditor's remuneration

The amount payable to Deloitte LLP was £23,500 (2017: £23,200) in respect of audit services and £Nil (2017: £Nil) in respect of non-audit services. Auditor's remuneration was borne in both years by another group company.

6 Finance costs (net)

	2018 £ 000	2017 £ 000
Interest receivable and similar income		
Interest receivable on loans to Group undertakings	1,242	1,354
Interest payable and similar charges		
Net interest on defined benefit pension liabilities	<u>(150)</u>	<u>(78)</u>
	<u>(150)</u>	<u>(78)</u>
	<u>1,092</u>	<u>1,276</u>

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

7 Staff costs

The aggregate payroll costs were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	6,542	6,465
Social security costs	799	763
Other pension costs	1,023	823
Redundancy costs	279	90
	<u>8,643</u>	<u>8,141</u>

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

	2018 Number	2017 Number
Average monthly number of employees	<u>99</u>	<u>97</u>

8 Directors' remuneration

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

9 Taxation

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

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	8,334	8,396
Adjustments in respect of prior years	10	(122)
Total current taxation	8,344	8,274
Deferred taxation		
Origination and reversal of timing differences	(464)	(658)
Effect of decrease in tax rate on opening liability	-	(1,389)
Adjustments in respect of prior years	(5)	94
Total deferred taxation	(469)	(1,953)
Total tax charge	7,875	6,321

The Finance (No. 2) Act 2015 enacted reductions in the UK Corporation tax rate from 20% to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. A further reduction to 17%, effective from 1 April 2020, was enacted in the Finance Act 2016.

The current tax rate applied during the year was 19% (2017: 20%) and deferred tax was calculated at 17% (2017: 17%) based on the standard rate of corporation tax substantively enacted at the reporting date.

The total tax assessed for the year was lower than the standard rate of 19% (2017: 20%) applied to profit before tax. The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	43,378	40,335
Corporation tax at standard rate	8,242	8,067
Income not taxable in determining taxable profit	(430)	(452)
Expenses not deductible for tax purposes	3	7
Deferred tax expense/(credit) relating to changes in tax rates	55	(1,273)
Adjustments to current tax in respect of prior years	10	(122)
Adjustments to deferred tax in respect of prior years	(5)	94
Total tax charge	7,875	6,321

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

10 Tangible assets

	Network £ 000	Non-network land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost				
At 1 April 2017	358,915	65	12,766	371,746
Additions	2,139	-	-	2,139
Disposals	(244)	-	(4)	(248)
At 31 March 2018	360,810	65	12,762	373,637
Depreciation				
At 1 April 2017	121,574	12	12,746	134,332
Charge for the year	10,064	8	5	10,077
Eliminated on disposal	(196)	-	(4)	(200)
At 31 March 2018	131,442	20	12,747	144,209
Net book value				
At 31 March 2018	229,368	45	15	229,428
At 31 March 2017	237,341	53	20	237,414

Included within tangible assets as at 31 March 2018 are assets in the course of construction of £5,294,000 (2017: £5,235,000). Approximately £2,080,000 of the prior year assets under construction were completed during the current year (2017: £1,131,000).

11 Stocks

	2018 £ 000	2017 £ 000
Work in progress	640	456

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

12 Debtors

	2018	2017
	£ 000	£ 000
Amounts falling due within one year:		
Trade debtors	405	1,214
Amounts owed by Group undertakings	79,248	121,728
Other debtors	12	5
Prepayments and accrued income	<u>4,452</u>	<u>84</u>
	84,117	123,031
Amounts falling due after more than one year:		
Prepayments and accrued income	<u>-</u>	<u>8,477</u>
	<u>84,117</u>	<u>131,508</u>

Amounts owed by Group undertakings falling due within one year include £49,000,000 loaned to UK Power Networks Services Holdings Ltd and £30,000,000 loaned to UK Power Networks (Transport) Ltd at an interest rate of 0.8% per annum.

13 Creditors

	2018	2017
	£ 000	£ 000
Amounts falling due within one year:		
Trade creditors	148	135
Amounts due to Group undertakings	137,348	136,545
Corporation tax	6,058	5,892
Social security and other taxes	2,886	1,855
Other payables	33	10
Accruals and deferred income	<u>9,576</u>	<u>15,616</u>
	<u>156,049</u>	<u>160,053</u>

Amounts due to Group undertakings include an interest free loan from UK Power Networks Services (South East) Limited of £135,000,000 which is repayable on demand.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

14 Provisions for liabilities

	2018 £ 000	2017 £ 000
Deferred tax liability	21,614	21,857
Other provisions	1,990	1,255
	<u>23,604</u>	<u>23,112</u>
Defined benefit retirement obligations		
UKPN Group of the ESPS (UKPN Group Scheme)	1,447	2,495
UK Power Networks Pension Scheme (UKPNPS)	3,113	3,573
	<u>4,560</u>	<u>6,068</u>
	<u>28,164</u>	<u>29,180</u>

Movements in the defined benefit pension schemes are detailed in note 15.

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

	Deferred tax £ 000	Other provisions £ 000	Total £ 000
At 1 April 2017	21,857	1,255	23,112
(Credited)/charged to profit and loss account	(469)	735	266
Charged to other comprehensive income	226	-	226
At 31 March 2018	<u>21,614</u>	<u>1,990</u>	<u>23,604</u>

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

Analysis of deferred tax

	2018 £ 000	2017 £ 000
Differences between accumulated depreciation and amortisation and capital allowances	22,478	23,031
Other timing differences	(864)	(1,174)
Net deferred tax liability	<u>21,614</u>	<u>21,857</u>

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

15 Pension commitments

Defined contribution pension scheme

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

Employees can opt for a contribution rate of between 3% and 5% of their salary with the employer making double this contribution. The Company made contributions to the scheme of £223,000 (2017: £167,000) during the year.

Defined benefit pension schemes

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

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

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

The UK Power Networks Pension Scheme (UKPNPS)

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

15 Pension commitments (continued)

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

	2018 %	2017 %
UKPN Group key financial assumptions		
Discount rate	2.7	2.5
Future salary increases	3.6	3.6
RPI inflation	3.1	3.1
CPI inflation	2.0	2.0
Pension increases in deferment	3.1	3.1
Pension increases in payment		
- pensions in excess of GMP	3.1	3.1
- post-88 GMP	1.8	1.8

	2018 %	2017 %
UKPNPS key financial assumptions		
Discount rate	2.6	2.5
Future salary increases	3.5	3.6
RPI inflation	3.0	3.1
CPI inflation	1.9	2.0
Pension increases in deferment		
- CPI up to 5% per annum	1.9	2.0
- CPI up to 2.5% per annum	1.9	2.0
Pension increases in payment		
- RPI up to 5% per annum	2.9	3.0
- RPI up to 2.5% per annum	2.1	2.1
- post-88 GMP	1.7	1.8

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

15 Pension commitments (continued)

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

	2018	2017
	Years	Years
UKPN Group life expectancy assumptions		
Current male pensioner aged 60	27	27
Current female pensioner aged 60	29	29
Future male pensioner from age 60 retiring in 2038	29	29
Future female pensioner from age 60 retiring in 2038	31	31

	2018	2017
	Years	Years
UKPNPS life expectancy assumptions		
Current male pensioner aged 65	23	23
Current female pensioner aged 65	25	25
Future male pensioner from age 65 retiring in 2038	25	25
Future female pensioner from age 65 retiring in 2038	27	27

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

	UKPN Grp	UKPNPS	Total	Total
	2018	2018	2018	2017
	£ 000	£ 000	£ 000	£ 000
Fair value of scheme assets	22,065	10,227	32,292	33,587
Present value of defined benefit obligation	(23,512)	(13,340)	(36,852)	(39,655)
Defined benefit pension scheme deficit	(1,447)	(3,113)	(4,560)	(6,068)

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

15 Pension commitments (continued)

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

	UKPN Grp 2018 £ 000	UKPNPS 2018 £ 000	Total 2018 £ 000	Total 2017 £ 000
Current service cost	(270)	(530)	(800)	(655)
Net interest cost	<u>(55)</u>	<u>(95)</u>	<u>(150)</u>	<u>(78)</u>
	(325)	(625)	(950)	(733)
Recognised in other comprehensive income	<u>715</u>	<u>616</u>	<u>1,331</u>	<u>(3,589)</u>
	<u>390</u>	<u>(9)</u>	<u>381</u>	<u>(4,322)</u>

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

	UKPN Grp 2018 £ 000	UKPNPS 2018 £ 000	Total 2018 £ 000	Total 2017 £ 000
At 1 April	(26,181)	(13,474)	(39,655)	(29,719)
Current service cost	(270)	(530)	(800)	(655)
Interest cost	(644)	(348)	(992)	(1,017)
Actuarial gains/(losses)	2,507	1,138	3,645	(9,020)
Benefits paid/(received)	<u>1,076</u>	<u>(126)</u>	<u>950</u>	<u>756</u>
At 31 March	<u>(23,512)</u>	<u>(13,340)</u>	<u>(36,852)</u>	<u>(39,655)</u>

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

15 Pension commitments (continued)

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

	UKPN Grp 2018 £ 000	UKPNPS 2018 £ 000	Total 2018 £ 000	Total 2017 £ 000
At 1 April	23,686	9,901	33,587	26,824
Interest income	589	253	842	939
Return on plan assets (excluding amounts included in net interest cost)	(1,792)	(522)	(2,314)	5,431
Contributions by employer	203	308	511	556
Deficit payments	455	161	616	593
Benefits (paid)/received	(1,076)	126	(950)	(756)
At 31 March	22,065	10,227	32,292	33,587

The fair value of scheme assets is analysed as follows:

	UKPN Grp 2018 £ 000	UKPNPS 2018 £ 000	Total 2018 £ 000	Total 2017 £ 000
Equities	4,616	4,457	9,073	8,989
Liability driven investments	6,817	3,175	9,992	13,063
Corporate bonds	26	977	1,003	1,108
Multi credit funds	1,911	-	1,911	1,905
Property	-	916	916	569
Hedge funds	-	580	580	569
Macro funds	2,614	-	2,614	2,720
Multi asset funds	5,984	-	5,984	4,063
Other	97	122	219	601
	22,065	10,227	32,292	33,587

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

16 Called up share capital and reserves

	2018 £ 000	2017 £ 000
Allotted, called up and fully paid		
10,100,000 ordinary shares of £1 each	<u>10,100</u>	<u>10,100</u>

Reserves

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

17 Obligations under leases and hire purchase contracts

Operating leases

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

	2018 £ 000	2017 £ 000
Land and buildings		
- Within one year	174	174
- Between one and five years	<u>225</u>	<u>302</u>
	<u>399</u>	<u>476</u>
Vehicles		
- Within one year	203	229
- Between one and five years	357	459
- Over five years	<u>16</u>	<u>26</u>
	<u>576</u>	<u>714</u>

18 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £28,754,000 (2017: £35,093,000)

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

19 Related party transactions

The Company has taken an exemption under FRS 102 (section 33 2.2) not to disclose transactions with other wholly owned members of the Group. The Company qualifies for this exemption on the basis that it is a wholly owned subsidiary of a parent which prepares publicly available consolidated financial statements intended to give a true and fair view of the financial position and results of the group, and the Company is included within the consolidation. No other related party transactions were entered into during the current or prior year.

During the year the Company made sales in the ordinary course of business of £Nil (2017: £567,000) to MUJV Limited, a 50% controlled joint venture of the Group. Trade receivables presented in note 12 include amounts due from MUJV Limited amounting to £174,000 (2017: £75,000).

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

20 Parent and ultimate parent undertaking

The Company's immediate parent is UK Power Networks Services 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

UK Power Networks Services Holdings Limited is the parent of the smallest group in which the Company's financial statements are consolidated.

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

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

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

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

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