

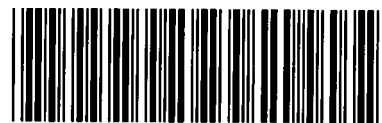
Registration number: 2228168

UK Power Networks Services (Contracting) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2022

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UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

CONTENTS

	Page
Company Information	1
Strategic Report	2 to 9
Directors' Report	10 to 11
Statement of Directors' Responsibilities	12
Independent Auditor's Report	13 to 17
Profit and Loss Account	18
Statement of Comprehensive Income	18
Balance Sheet	19
Statement of Changes in Equity	20
Notes to the Financial Statements	21 to 40

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
 1 New Street Square
 London
 EC4A 3HQ
 United Kingdom

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

The Directors present their Strategic Report for the year ended 31 March 2022.

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 up by UK Power Networks Holdings Limited, ("the Group") which owns and operates electricity distribution networks in London, the South East and East of England serving over eight million connected homes and businesses.

Review of the business

The results for the year amounted to a profit before taxation of £46,569,000 (2021: £49,074,000) and a profit after taxation of £31,074,000 (2021: £39,844,000). Dividends of £34,000,000 were paid during the year (2021: £163,300,000).

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. These include:

	2022	2021
Financial performance		
Tangible fixed assets (£ 000)	215,186	218,375
Operating costs (£ 000)	34,826	34,666
Non-financial performance		
Lost time incidents (LTIs)		
LTIs - Injuries at work resulting in lost time of one day or more	-	-

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. The reduction in the net book value during the year reflects capital expenditure of £6,955,000 offset by depreciation of £9,913,000 and a disposal net book value of £231,000.

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 is regularly ongoing for all operational staff. 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 2022

Principal risks and uncertainties

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

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

Health and safety

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

The Group aims to create and foster a culture in which safety is the highest priority in the minds of all of its employees and maintains accreditation to 45001 (Health & Safety Management). The Company actively monitors, measures and investigates safety incidents including near misses, and seeks to learn from each one.

Network assets

There are significant risks associated with electrical infrastructure where failure of asset management procedures, systems or equipment could result in a major outage, major fine or a serious injury/fatality. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company. Continuity and quality of supply are important customer requirements and poor performance in these areas can result in financial penalties.

Network performance is closely monitored by the Company and is a priority for investment. The Company strives to continually innovate to improve the ways in which it identifies and manages the risk of outages or other client network issues. The Group maintains accreditations in 55001 (Asset Management), 9001 (Quality) and 14001 (Environment).

Information Technology (IT)

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 Company's ability to operate the electrical infrastructure could be impacted. Data breaches could result in legal or regulatory non-compliance with resulting financial penalties and reputational damage.

The Company benefits from the Group's Cyber Security Improvement Programme which operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation. Activities are focused across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactive testing of resilience. All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation. The Group operates a training programme to see that all its staff are aware of cyber risks and know how to minimise and manage those risks, as well as how to respond in the event of a suspected breach.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

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 and cash equivalents, 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. In addition, the liquidity risk is mitigated by the strong financial standing of the Group which operates pooled treasury arrangements that the Company can access via intercompany loans.

Future developments

The Directors expect the Company to maintain a consistent level of performance on its existing long term contracts and to bid for major new projects to add its portfolio, concentrating on its core skills of developing and managing electricity infrastructure.

The Company 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. The Company expects to play a key role in helping clients decarbonise their electricity networks through integration of on site generation, energy storage, electric vehicle charging infrastructure and control systems.

Section 172 (1) statement

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

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

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

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

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

Section 172 (1) statement continued

b) The interests of the Company's employees

The Group recognises that its employees (including the employees of the Company) are fundamental to the achievement of its objectives and to its longer term success, and has articulated being an Employer of Choice as one of the three pillars to its vision. A diverse workforce, with a range of backgrounds, abilities, skills and experience, is considered to be vital to achieving the best outcomes.

The Group places considerable value on the engagement and involvement of its workforce (including the Company's employees), through a variety of activities and initiatives, for example:

- 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 Group has featured on the Best Companies "Top 25 Best Big Companies To Work For" list for eight consecutive years, achieving its highest ever position of second place in the last national survey published in March 2022. Also as part of the Best Companies awards, the Group was ranked #1 Best Big Company to work for in London and achieved second place in the Utilities sector Top 10 list.
- The Group issues communications to employees through a range of channels including Group-wide magazine publications, intranet sites, emails and social media forums. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees through dedicated employee engagement forums.
- The values of Equality, Diversity and Inclusion (EDI) are key considerations in the 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 Group's Diversity and Inclusion strategy and initiatives.
- The 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 Group's plans include 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 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.
- The Group's caring approach for its employees won it the title of Employer of the Year at the Utility Week Awards 2021, held in March 2022. Judges praised the way the Group had invested in employees, protected their well being during the COVID-19 pandemic and championed equality, diversity and inclusion.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

Section 172 (1) statement continued

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

Customers

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

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

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

Suppliers

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

Section 172 (1) statement continued

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

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

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

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

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

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

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

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

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

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

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

Section 172 (1) statement continued

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

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

Through open discussion, the vision and values are reviewed internally, and from time to time are modified to reflect the changing environment in which the Group operates. This is done through feedback from the annual employee survey, engagement with trade unions, and regular senior leadership forums. The vision will evolve following such stakeholder engagement and feedback, to include a fourth pillar "enabling the net zero transition for all".

Going concern

The Company's business activities together with details of its performance and position, its 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 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 Company is a wholly owned subsidiary of the UK Power Networks Group which has a strong financial position including access to committed financing facilities. The Company operates under the Group's pooled treasury arrangements and has no external debt.
- The Company's existing long term contracts are profitable and provide a steady and predictable stream of revenues and cash flows;
- The Company is expected to continue to generate positive cash flows and remain profitable under all reasonable scenarios in the foreseeable future.
- There are significant growth opportunities in the electrical infrastructure market due to the low carbon transition.

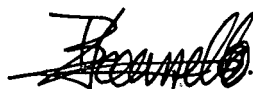
The Company has net current liabilities of £84,048,000 at 31 March 2022 which arise primarily from an overdraft position of £63,017,000 against the pooled cash treasury arrangements of the Group and a long-standing loan of £135,000,000 due to a fellow subsidiary within the Group (see note 13 to the financial statements). The Directors are confident that the Company has sufficient resources to meet its obligations as they fall due, based on continued access to funding from within the Group.

The Director's are therefore satisfied that, taking into account reasonably possible changes in trading performance, the Company has adequate resources to continue operating for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the financial statements.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022

Approved by the Board on 16 August 2022 and signed on its behalf by:

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

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 2022

The Directors present their Annual Report including the Audited Financial Statements of the Company for the year ended 31 March 2022. Details of the Company's risk management objectives and policies, future developments, the Section 172 (1) statement on the duties of directors and the going concern statement are included in the Strategic Report and form part of this report by cross reference.

Political contributions

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

Director 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.


Auditor

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022

Approved by the Board on 16 August 2022 and signed on its behalf by:

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

Basil Scarsella
Director

UK POWER NETWORKS SERVICES (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 of UK Power Networks Services (Contracting) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

Basis for opinion

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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

Conclusions relating to going concern

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

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

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

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, 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 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 is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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



.....
Makhan Chahal (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

London
United Kingdom

16 August 2022

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £ 000	2021 £ 000
Turnover	4	81,161	83,204
Operating expenses		<u>(34,826)</u>	<u>(34,666)</u>
Operating profit	5	46,335	48,538
Finance income (net)	6	<u>234</u>	<u>536</u>
Profit before tax		46,569	49,074
Taxation	9	<u>(15,495)</u>	<u>(9,230)</u>
Profit for the year		<u>31,074</u>	<u>39,844</u>

The above results were derived from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2022

	2022 £ 000	2021 £ 000
Profit for the year	31,074	39,844
Remeasurement gains/(losses) on defined benefit pension schemes	<u>4,830</u>	<u>(3,978)</u>
Total comprehensive income for the year	<u>35,904</u>	<u>35,866</u>

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

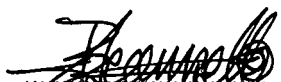
The notes on pages 21 to 40 form an integral part of these financial statements.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

BALANCE SHEET AS AT 31 MARCH 2022

	Note	2022 £ 000	2021 £ 000
Fixed assets			
Tangible assets	10	215,186	218,375
Current assets			
Stocks	11	319	314
Debtors falling due within one year	12	82,181	62,645
Debtors falling due after more than one year	12	4,690	1,184
Cash equivalents		<u>67,000</u>	<u>55,000</u>
		154,190	119,143
Creditors: Amounts falling due within one year	13	<u>(238,238)</u>	<u>(212,061)</u>
Net current liabilities		<u>(84,048)</u>	<u>(92,918)</u>
Total assets less current liabilities		131,138	125,457
Provisions for liabilities	14	<u>(32,770)</u>	<u>(28,993)</u>
Net assets		<u>98,368</u>	<u>96,464</u>
Capital and reserves			
Called up share capital	16	10,100	10,100
Profit and loss account	16	<u>88,268</u>	<u>86,364</u>
Total shareholders' funds		<u>98,368</u>	<u>96,464</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 16 August 2022. They were signed on its behalf by:



 Basil Scarsella
 Director

The notes on pages 21 to 40 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 2022

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2020	<u>10,100</u>	<u>213,798</u>	<u>223,898</u>
Profit for the year	-	39,844	39,844
Remeasurement losses on defined benefit pension schemes	-	<u>(3,978)</u>	<u>(3,978)</u>
Total comprehensive income	-	35,866	35,866
Dividends	-	<u>(163,300)</u>	<u>(163,300)</u>
At 31 March 2021	<u>10,100</u>	<u>86,364</u>	<u>96,464</u>

	Called up share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 April 2021	<u>10,100</u>	<u>86,364</u>	<u>96,464</u>
Profit for the year	-	31,074	31,074
Remeasurement gains on defined benefit pension schemes	-	<u>4,830</u>	<u>4,830</u>
Total comprehensive income	-	35,904	35,904
Dividends	-	<u>(34,000)</u>	<u>(34,000)</u>
At 31 March 2022	<u>10,100</u>	<u>88,268</u>	<u>98,368</u>

The notes on pages 21 to 40 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 2022

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 9.

The address of its registered office is:

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

2 Accounting policies

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

Basis of accounting

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

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

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

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

2 Accounting policies (continued)

Going concern

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

Tangible assets

Tangible assets are stated at historical cost, net of depreciation and provision for impairment. The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

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

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

2 Accounting policies (continued)

Contract revenue recognition

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

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

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

Stocks

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

Provisions

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

Leases

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

2 Accounting policies (continued)

Tax

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

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.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

2 Accounting policies (continued)

Employee benefits continued

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.

Key Sources of estimation uncertainty

Valuation of defined benefit obligation

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

Estimated future cash flows are discounted at a rate set by reference to market yields on high quality corporate bonds. Advice is sought from the actuary to determine a discount rate which falls within the norms of wider market practice.

Details of the defined benefit schemes and the assumptions used to estimate the defined benefit obligation are set out in note 15. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2022.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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

Valuation of defined benefit obligation continued

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 2022.

		Impact on scheme liabilities	
		UKPN Grp 2022	UKPNPS 2022
	Change in assumption		
Discount rate	+/- 0.50%	-7.1% to 7.6%	-13.9% to 16.3%
RPI inflation	+/- 0.50%	6.7% to -6.4%	12.0% to -11.2%
Life expectancy	+/- 3 years	15.7% to -15.4%	10.4% to -10.2%
Rate of salary increases	+/- 0.50%	0.6% to -0.6%	4.1% to -3.8%

At 31 March 2022 scheme liabilities were valued at £24,082,000 (2021: £25,208,000) for the UKPN Group scheme and £18,411,000 (2021: £20,260,000) for the UKPNPS Scheme, in accordance with FRS 102 (as disclosed in note 15).

4 Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of managing high voltage electrical networks for owners of major infrastructure.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

5 Operating profit

Arrived at after charging:

	2022 £ 000	2021 £ 000
Depreciation expense	9,913	10,670
Operating lease expense - property	433	485
Operating lease expense - other	255	166
Loss on disposal of tangible assets	<u>231</u>	<u>894</u>

The amount payable to Deloitte LLP was £25,600 (2021: 24,900) in respect of audit services and £Nil (2021: £Nil) in respect of non-audit services. Auditor's remuneration was borne in both years by another group company.

6 Finance costs (net)

	2022 £ 000	2021 £ 000
Interest receivable and similar income		
Interest receivable on loans to Group undertakings	282	423
Other interest receivable and similar income	65	106
Net interest income on defined benefit pension surplus	<u>34</u>	<u>36</u>
	<u>381</u>	<u>565</u>
Interest payable and similar charges		
Interest payable on loans from Group undertakings	(27)	-
Net interest on defined benefit pension deficit	<u>(120)</u>	<u>(29)</u>
	<u>(147)</u>	<u>(29)</u>
	<u>234</u>	<u>536</u>

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

7 Staff costs

The aggregate payroll costs were as follows:

	2022	2021
	£ 000	£ 000
Wages and salaries	8,961	9,182
Social security costs	1,167	1,142
Other pension costs	1,352	1,111
	<u>11,480</u>	<u>11,435</u>

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

	2022	2021
	Number	Number
Average monthly number of employees	<u>130</u>	<u>141</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 2022

9 Taxation

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

	2022 £ 000	2021 £ 000
Current taxation		
UK corporation tax	9,437	10,169
Adjustments in respect of prior years	(7)	196
Total current taxation	9,430	10,365
Deferred taxation		
Origination and reversal of timing differences	(984)	(1,002)
Effect of increase in tax rate on opening liability ¹	7,042	-
Adjustments in respect of prior years	7	(133)
Total deferred taxation	6,065	(1,135)
Total tax charge	15,495	9,230

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

The total tax assessed for the year was higher (2021: lower) than the standard rate of 19% (2021: 19%) applied to profit before tax. The differences are reconciled below:

	2022 £ 000	2021 £ 000
Profit before tax	46,569	49,074
Corporation tax at standard rate	8,848	9,324
Income not taxable in determining taxable profit	(160)	(160)
Expenses not deductible for tax purposes	-	3
Deferred tax expense relating to changes in tax rates or laws	6,807	-
Adjustments to current tax in respect of prior years	(7)	196
Adjustments to deferred tax in respect of prior years	7	(133)
Total tax charge	15,495	9,230

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

9 Taxation (continued)

Tax rate changes

The current tax rate applied during the year was 19% (2021: 19%) and deferred tax was calculated at 25% (2021: 19%) based on the standard rate of corporation tax substantively enacted at the reporting date.

The standard rate of corporation tax is set to increase from 19% to 25% with effect from 1 April 2023, as substantively enacted in the Finance Bill 2021 on 24 May 2021. Revaluing the opening deferred tax balance at 25% has increased the tax charge in the current year by £7,042,000.

10 Tangible assets

	Network £ 000	Non-network land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost				
At 1 April 2021	378,093	65	12,733	390,891
Additions	6,955	-	-	6,955
Disposals	(2,036)	-	(90)	(2,126)
At 31 March 2022	383,012	65	12,643	395,720
Depreciation				
At 1 April 2021	159,742	45	12,729	172,516
Charge for the year	9,905	8	-	9,913
Eliminated on disposal	(1,805)	-	(90)	(1,895)
At 31 March 2022	167,842	53	12,639	180,534
Net book value				
At 31 March 2022	215,170	12	4	215,186
At 31 March 2021	218,351	20	4	218,375

Included within network assets as at 31 March 2022 are assets in the course of construction of £23,359,000 (2021: £19,395,000). Approximately £2,990,000 of the prior year assets under construction were completed during the current year (2021: £2,145,000).

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

11 Stocks

	2022	2021
	£ 000	£ 000
Work in progress	<u>319</u>	<u>314</u>

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

12 Debtors

	Note	2022	2021
		£ 000	£ 000
Amounts falling due within one year:			
Trade debtors		1,508	310
Amounts owed by Group undertakings		80,095	62,060
Other debtors		229	1
Prepayments and accrued income		<u>349</u>	<u>274</u>
		<u>82,181</u>	<u>62,645</u>
Amounts falling due after more than one year:			
Surplus in the UKPN Group defined benefit pension scheme	15	<u>4,690</u>	<u>1,184</u>

Amounts owed by Group undertakings falling due within one year include short-term loans of £58,000,000 to UK Power Networks Services Holdings Ltd and £9,000,000 to UK Power Networks (Transport) Ltd, bearing interest at 0.9% per annum and £13,000,000 to Easter Power Networks plc, bearing interest at 1.0%.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

13 Creditors

	2022 £ 000	2021 £ 000
Amounts falling due within one year:		
Bank overdrafts	63,017	45,693
Trade creditors	110	68
Amounts due to Group undertakings	137,293	137,097
Corporation tax	7,366	8,016
Social security and other taxes	2,687	2,386
Other payables	12	21
Accruals and deferred income	27,753	18,780
	238,238	212,061

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.

14 Provisions for liabilities

	Note	2022 £ 000	2021 £ 000
Provision for deferred tax		28,627	21,349
Other provisions		1,500	1,500
		30,127	22,849
Defined benefit retirement obligations			
Deficit in the UKPNPS defined benefit pension scheme	15	2,643	6,144
		32,770	28,993

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

14 Provisions for liabilities (continued)

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

	Deferred tax £ 000	Other provisions £ 000	Total £ 000
At 1 April 2021	21,349	1,500	22,849
Charged to profit and loss account	6,065	-	6,065
Charged to other comprehensive income	1,213	-	1,213
At 31 March 2022	<u>28,627</u>	<u>1,500</u>	<u>30,127</u>

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

Analysis of deferred tax

	2022 £ 000	2021 £ 000
Differences between accumulated depreciation and capital allowances	28,136	22,308
Other timing differences	<u>491</u>	<u>(959)</u>
Net deferred tax liability	<u>28,627</u>	<u>21,349</u>

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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 10% of their salary. As the employer, UK Power Networks pays twice the contribution up to a maximum of 10% of the salary. The Company made contributions to the scheme of £424,000 (2021: £465,000) during the year.

Defined benefit pension schemes

Defined benefit pension schemes

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

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

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

The UK Power Networks Pension Scheme (UKPNPS)

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

Funding levels are monitored annually and a funding schedule is formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The latest funding schedule, based on the triennial valuation as at 31 March 2019, became effective from 25 June 2020. This set revised employer contribution rates with effect from 1 January 2021 and these contribution rates are considered sufficient to eliminate funding deficits over the next four years.

A valuation under FRS 102 at the balance sheet date was provided by actuaries using rolled forward member data from the 31 March 2019 triennial valuation and reflecting updated financial and demographic assumptions. The defined benefit scheme assets and liabilities are assigned to participating entities using an allocation methodology based on employment records.

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

15 Pension commitments (continued)

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

	2022 %	2021 %
UKPN Group key financial assumptions		
Discount rate	2.8	2.1
Future salary increases	3.9	3.5
RPI inflation	3.4	3.0
CPI inflation	3.0	2.6
Pension increases in deferment	3.4	3.0
Pension increases in payment		
- pensions in excess of GMP	3.4	3.0
- post-88 GMP	2.4	2.2

	2022 %	2021 %
UKPNPS key financial assumptions		
Discount rate	2.7	2.1
Future salary increases	3.5	3.3
RPI inflation	3.0	2.8
CPI inflation	2.4	2.3
Pension increases in deferment		
- CPI up to 5% per annum	2.4	2.3
- CPI up to 2.5% per annum	2.4	2.3
Pension increases in payment		
- RPI up to 5% per annum	2.9	2.7
- RPI up to 2.5% per annum	2.1	2.0
- post-88 GMP	2.0	2.0

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

15 Pension commitments (continued)

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

	2022 Years	2021 Years
UKPN Group life expectancy assumptions		
Life expectancy for male currently aged 60	26	26
Life expectancy for female currently aged 60	29	29
Life expectancy at 60 for male currently aged 40	28	28
Life expectancy at 60 for female currently aged 40	<u>31</u>	<u>30</u>

	2022 Years	2021 Years
UKPNPS life expectancy assumptions		
Life expectancy for male currently aged 65	23	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	<u>26</u>	<u>26</u>

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

	UKPN Grp 2022 £ 000	UKPNPS 2022 £ 000	Total 2022 £ 000	Total 2021 £ 000
Fair value of scheme assets	28,772	15,768	44,540	40,508
Present value of defined benefit obligation	<u>(24,082)</u>	<u>(18,411)</u>	<u>(42,493)</u>	<u>(45,468)</u>
Defined benefit pension scheme surplus/(deficit)	<u>4,690</u>	<u>(2,643)</u>	<u>2,047</u>	<u>(4,960)</u>

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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 2022 £ 000	UKPNPS 2022 £ 000	Total 2022 £ 000	Total 2021 £ 000
Current service cost	(226)	(749)	(975)	(646)
Past service credit related to enhanced early retirement offer	21	26	47	-
Net interest income/(cost)	34	(120)	(86)	7
	(171)	(843)	(1,014)	(639)
Recognised in other comprehensive income	2,977	3,067	6,044	(4,911)
	<u>2,806</u>	<u>2,224</u>	<u>5,030</u>	<u>(5,550)</u>

In June 2021 the Group made a written, time-bound offer to eligible employees that they would be granted enhanced commutation terms, enhanced early retirement terms and a bridging pension option if they applied to the company to retire on a date no later than 31 March 2022 and the employer granted the application. Some changes to the rules of the schemes were required to allow the bridging pension option to be offered. The take up of the offer has reduced scheme liabilities calculated under FRS 102 by £21,000 in the UKPN Group scheme and £26,000 in the UKPNPS scheme. This has been recognised through profit or loss as a past service credit.

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

	UKPN Grp 2022 £ 000	UKPNPS 2022 £ 000	Total 2022 £ 000	Total 2021 £ 000
At 1 April	(25,208)	(20,260)	(45,468)	(37,140)
Current service cost	(226)	(749)	(975)	(646)
Past service credit relating to enhanced early retirement offer	21	26	47	-
Interest cost	(504)	(420)	(924)	(921)
Actuarial gains/(losses)	665	2,992	3,657	(7,853)
Benefits paid	1,170	-	1,170	1,092
At 31 March	<u>(24,082)</u>	<u>(18,411)</u>	<u>(42,493)</u>	<u>(45,468)</u>

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

15 Pension commitments (continued)

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

	UKPN Grp 2022 £ 000	UKPNPS 2022 £ 000	Total 2022 £ 000	Total 2021 £ 000
At 1 April	26,392	14,116	40,508	36,361
Interest income	538	300	838	928
Return on plan assets (excluding amounts included in net interest cost)	2,312	75	2,387	2,942
Contributions by employer	204	602	806	595
Deficit payments	496	675	1,171	774
Benefits paid	(1,170)	-	(1,170)	(1,092)
At 31 March	28,772	15,768	44,540	40,508

The fair value of scheme assets is analysed as follows:

	UKPN Grp 2022 £ 000	UKPNPS 2022 £ 000	Total 2022 £ 000	Total 2021 £ 000
Equities	2,363	6,137	8,500	12,002
Liability driven investments	20,904	5,256	26,160	15,356
Credit funds	1,737	1,641	3,378	6,433
Hedge funds	-	1,003	1,003	2,593
Alternatives ¹	3,480	1,580	5,060	2,961
Cash and net current assets	288	151	439	1,163
	28,772	15,768	44,540	40,508

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

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

16 Called up share capital and reserves

	2022 £ 000	2021 £ 000
Share capital: 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 benefit pension liability, net of dividends paid.

17 Obligations under leases and hire purchase contracts

Operating leases

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

	2022 £ 000	2021 £ 000
Land and buildings		
- Within one year	545	433
- Between one and five years	1,517	863
- Over five years	<u>1,166</u>	<u>-</u>
	<u>3,228</u>	<u>1,296</u>
Vehicles		
- Within one year	350	255
- Between one and five years	582	438
- Over five years	<u>14</u>	<u>-</u>
	<u>946</u>	<u>693</u>

18 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £59,833,000 (2021: £47,995,000)

UK POWER NETWORKS SERVICES (CONTRACTING) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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.

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:

- **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.

The 20% share now held by CK Asset Holdings Limited was previously owned by Li Ka-Shing Foundation Limited incorporated in Hong Kong. The transfer of ownership took place on 21 May 2021.

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