

Registration number: 3870728

# UK Power Networks (Operations) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2018



## **UK POWER NETWORKS (OPERATIONS) LIMITED**

### **CONTENTS**

	<b>Page</b>
Company Information	1
Strategic Report	2 to 5
Directors' Report	6 to 7
Statement of Directors' Responsibilities	8
Independent Auditor's Report	9 to 11
Profit and Loss Account	12
Statement of Comprehensive Income	12
Balance Sheet	13
Statement of Changes in Equity	14
Notes to the Financial Statements	15 to 28

## UK POWER NETWORKS (OPERATIONS) LIMITED

### COMPANY INFORMATION

**Directors** Andrew John Hunter  
Neil Douglas McGee  
Basil Scarsella  
Loi Shun Chan  
Kee Ham 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 (OPERATIONS) 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 (Operations) Limited (the "Company") is utility infrastructure management for the UK Power Networks group ("the Group") which owns and operates electricity distribution networks in London, the South East and the East of England serving over eight million customers. The Company provides a network maintenance, inspection and renewal programme for the Group's three licensed distribution network operators (DNOs): Eastern Power Networks plc (EPN); London Power Networks plc (LPN); and South Eastern Power Networks plc (SPN). The costs of the Company's activities are recharged to the distribution companies on a proportionate basis.

#### Review of the business

The results for the year amounted to a profit before taxation of £4.5m (2017: £23.6m) and a profit after taxation of £4.2m (2017: £18.9m). No dividends were paid during the year (2017: £Nil).

#### Key performance indicators (KPIs)

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:

	2018	2017
<b>Financial performance</b>		
Turnover (£m)	991.7	955.8
EBITDA (Profit before interest, tax and depreciation) (£m)	4.2	23.1
<b>Non-financial performance</b>		
<b>Customer minutes lost (CMLs) *</b>		
CMLs per customer - EPN	42.0	39.2
CMLs per customer - LPN	16.7	19.8
CMLs per customer - SPN	37.6	35.1
<b>Customer interruptions (CIs) *</b>		
CIs per 100 customers - EPN	48.6	49.4
CIs per 100 customers - LPN	14.2	17.2
CIs per 100 customers - SPN	46.7	47.7
<b>Lost time incidents (LTIs)</b>		
LTIs - Injuries at work resulting in lost time of one day or more	<u>3.0</u>	<u>5.0</u>

\* The CMLs and CIs disclosed above exclude the impact of exceptional weather events (as defined by Ofgem) and are provisional, pending Ofgem's annual review. The comparatives have been restated to reflect any changes resulting from Ofgem's prior year assessment.

## UK POWER NETWORKS (OPERATIONS) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

#### Key performance indicators (KPIs) continued

##### Financial performance

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

Turnover increased by £35.9m to £991.7m in the year due to higher volumes of work on the networks.

EBITDA excludes the effect of interest, taxation, depreciation and amortisation from earnings and is therefore a relevant measure for monitoring business operational performance. The Company has no depreciation or amortisation. Therefore EBITDA is equivalent to the operating profit of £4.2m (2017: £23.1m) presented in the profit and loss statement.

EBITDA reduced by 18.9m to £4.2m in the year due to an increase in operating costs of £54.8m exceeding the increase in turnover. The higher operating costs reflect higher work volumes and the effect of provision movements relating to public liability and employer claims. Prior year operating costs were reduced by provision releases of £14.0m compared to provisions raised in the current year of £4.1m.

##### Non-financial performance

The principal non-financial key performance indicators focus on network safety and performance.

##### *Safety*

The Group's top priority is the safety of employees, contractors and the general public. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign is ongoing for all operational staff.

Lost time incidents (LTIs), defined as the number of injuries to employees or contractors which result in lost time of one day or more, is a key safety measure. During the financial year the Company recorded 3 LTIs compared to 5 LTIs in the prior year.

##### *Network performance*

The principal measures used to assess network performance are customer minutes lost (CMLs) and customer interruptions (CIs). CMLs are the average length of time customers are without power for three minutes or longer and represent availability of supply. CIs, the number of interruptions per 100 customers, are an indicator of network reliability. The performance of each DNO during the year is shown in the KPI table on the previous page. There have been improvements in all areas compared to the prior year apart from an increase in CMLs in EPN and SPN. Each DNO remains ahead of targets set by Ofgem.

## UK POWER NETWORKS (OPERATIONS) 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 a potential prosecution or a fine and have an adverse impact on the reputation of the Company.

##### *Regulation*

The electricity industry is subject to extensive regulatory obligations with which the regulated business must comply. Non-compliances can result in financial penalties and have a negative reputational impact.

##### *Network assets*

There are significant risks associated with network assets where failure could result in a loss of supply of electricity to customers. Customer service and continuity/quality of supply are important regulatory 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 Company's core systems, applications or associated IT processes could have a significant impact in a number of areas. Business operations could be affected and if the breach or failure is related to control systems, the Company's ability to operate the network could be impacted. Data breaches could result in legal or regulatory 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. Credit risk is mitigated by the nature of the debtor balances owed with these being due from other Group companies of strong financial standing. In addition, the liquidity risk is mitigated by the strong financial standing of the parent company UK Power Holdings Limited.

## UK POWER NETWORKS (OPERATIONS) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

#### **Future developments**

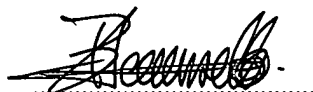
The Directors aim to improve on network performance and customer service, whilst maintaining cost efficiencies. The Company invests in research and development activities, focusing on improving the technical performance of network assets and working towards achieving national carbon reduction targets.

#### **Going concern**

The Company's ability to continue as a going concern is assessed in conjunction with that of the Group as it is dependent upon the ability of other companies within the Group to settle their trading debts with the Company. The Company's forecasts and projections, taking into account reasonably possible changes in the trading performance of other Group companies, demonstrate that the Company will be able to operate within its current level of credit facilities.

The Directors are satisfied that the Company has adequate resources to continue operating for the foreseeable future and therefore 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:



Basil Scarsella  
**Director**

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

## **UK POWER NETWORKS (OPERATIONS) 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 objectives 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

Neil Douglas McGee

Basil Scarsella

Loi Shun Chan

Kee Ham 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.



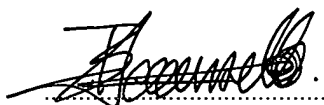
**UK POWER NETWORKS (OPERATIONS) LIMITED**

**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 2006.

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', is written over a horizontal dotted line.

Basil Scarsella  
Director

## **UK POWER NETWORKS (OPERATIONS) 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 (OPERATIONS) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) 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 (Operations) 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 (OPERATIONS) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) 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 8, 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](http://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 (OPERATIONS) LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) 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.

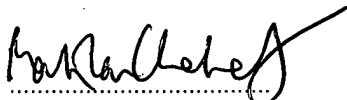
In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

**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 (OPERATIONS) LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £ m	2017 £ m
Turnover	4	991.7	955.8
Cost of sales		<u>(718.0)</u>	<u>(670.5)</u>
Gross profit		273.7	285.3
Other operating expenses		<u>(269.5)</u>	<u>(262.2)</u>
Operating profit	5	4.2	23.1
Interest receivable and similar income	6	1.2	0.9
Interest payable and similar charges	7	<u>(0.9)</u>	<u>(0.4)</u>
Profit before tax		4.5	23.6
Taxation	10	<u>(0.3)</u>	<u>(4.7)</u>
Profit for the year		<u>4.2</u>	<u>18.9</u>

The above results were derived from continuing operations.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	2018 £ m	2017 £ m
Profit for the year	<u>4.2</u>	<u>18.9</u>
Total comprehensive income for the year	<u>4.2</u>	<u>18.9</u>

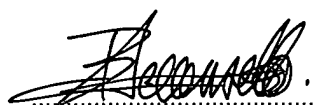
The notes on pages 15 to 28 form an integral part of these financial statements.

# UK POWER NETWORKS (OPERATIONS) LIMITED

## BALANCE SHEET AS AT 31 MARCH 2018

	Note	2018 £ m	2017 £ m
<b>Fixed assets</b>			
Tangible assets	11	-	-
<b>Current assets</b>			
Stocks	12	32.1	30.6
Debtors falling due within one year	13	274.5	328.9
Cash at bank and in hand		43.0	-
		<u>349.6</u>	<u>359.5</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(295.0)</u>	<u>(313.2)</u>
<b>Net current assets</b>		<u>54.6</u>	<u>46.3</u>
<b>Total assets less current liabilities</b>		<u>54.6</u>	<u>46.3</u>
<b>Provisions for liabilities</b>	16	<u>(30.9)</u>	<u>(26.8)</u>
<b>Net assets</b>		<u>23.7</u>	<u>19.5</u>
<b>Capital and reserves</b>			
Called up share capital	17	2.0	2.0
Share premium account	17	-	28.0
Profit and loss account	17	21.7	(10.5)
<b>Total shareholders' funds</b>		<u>23.7</u>	<u>19.5</u>

The financial statements of UK Power Networks (Operations) Limited, registered number 3870728, 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 15 to 28 form an integral part of these financial statements.

**UK POWER NETWORKS (OPERATIONS) LIMITED**

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

	Share capital £ m	Share premium account £ m	Profit and loss account £ m	Total £ m
At 1 April 2016	2.0	28.0	(29.4)	0.6
Profit for the year	-	-	18.9	18.9
Total comprehensive income	-	-	18.9	18.9
At 31 March 2017	2.0	28.0	(10.5)	19.5

	Share capital £ m	Share premium account £ m	Profit and loss account £ m	Total £ m
At 1 April 2017	2.0	28.0	(10.5)	19.5
Profit for the year	-	-	4.2	4.2
Total comprehensive income	-	-	4.2	4.2
Cancellation of share premium account	-	(28.0)	28.0	-
At 31 March 2018	2.0	-	21.7	23.7

The notes on pages 15 to 28 form an integral part of these financial statements.



## **UK POWER NETWORKS (OPERATIONS) LIMITED**

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

#### **1 General information**

UK Power Networks (Operations) 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 5.

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 (OPERATIONS) LIMITED

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

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

##### Depreciation

Depreciation is provided on all tangible 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:

<b>Asset class</b>	<b>Depreciation rate</b>
Furniture, fixtures and equipment	5 years

##### Hire purchase and leasing

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term even if payments are not made on such a basis.

##### Research and development

Expenditure on research is written off to the profit and loss account in the year in which it is incurred.

##### Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:-

- Raw materials and consumables: purchase cost on average cost basis.
- Work in progress: cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal. Provisions are made for obsolete, slow moving or defective items where appropriate.

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 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.

##### 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).

##### Employee benefits

The Company contributes to a defined contribution pension scheme on behalf of employees. 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.

Contributions are also made to two defined benefit pension schemes, the obligation for which is accounted for under FRS 102 within the Group's distribution companies. The contributions payable are charged to the profit and loss account of the Company and then recharged to the distribution companies. Full disclosures relating to the defined benefit pension obligation are made within the financial statements of the distribution companies.

## **UK POWER NETWORKS (OPERATIONS) LIMITED**

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

#### **2 Accounting policies (continued)**

##### **Tax**

The tax expense for the period comprises current and deferred tax.

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.

#### **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.

In the Directors' opinion there are no critical judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in these financial statements.

#### **4 Turnover**

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activities of network maintenance, inspection, and renewal for the electricity distribution networks of the Group.

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 5 Operating profit

Operating profit is arrived at after charging:

	2018 £ m	2017 £ m
Research and development costs	7.4	7.8
Operating lease expense - property	4.5	4.0
Operating lease expense - vehicles	<u>13.2</u>	<u>11.9</u>

	2018 £ 000	2017 £ 000
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#### Analysis of Auditor's remuneration

##### Audit fees

Audit of financial statements	<u>47.5</u>	<u>47.0</u>
Total audit fees	<u>47.5</u>	<u>47.0</u>

##### Non-audit fees

Other assurance services	149.0	198.0
Other services	<u>-</u>	<u>5.0</u>
Total non-audit fees	<u>149.0</u>	<u>203.0</u>
	<u>196.5</u>	<u>250.0</u>

Non-audit fees relate to work done for the benefit of other Group companies and form part of the recharges to those Group companies.

#### 6 Other interest receivable and similar income

	2018 £ m	2017 £ m
Interest receivable on loans to Group undertakings	1.2	0.7
Other interest receivable	<u>-</u>	<u>0.2</u>
	<u>1.2</u>	<u>0.9</u>

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 7 Interest payable and similar charges

	2018 £ m	2017 £ m
Interest payable on loans from Group undertakings	0.6	0.4
Losses on forward exchange contracts	0.3	-
	<u>0.9</u>	<u>0.4</u>

#### 8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018 £ m	2017 £ m
Wages and salaries	281.9	255.8
Social security costs	35.8	32.8
Pension costs	40.0	39.2
Redundancy costs	0.8	1.1
	<u>358.5</u>	<u>328.9</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>5,143</u>	<u>4,852</u>

The disclosure above excludes costs of £9.9m (2017: £8.9m) relating to a monthly average of 227 (2017: 188) agency staff who do not hold service contracts with the Company. The staff costs of the Company are recharged to the electricity distribution companies on a proportionate basis.

The Company's employees may participate in a defined contribution retirement benefit scheme introduced by the Group in 2011. Members can opt for a contribution rate of between 3% to 5% of their salary with the Company making double this contribution. This accounts for £6.4m (2017: £4.9m) of the pension costs presented in the table above.

The remaining pension cost represents the Company's contributions, on behalf of its employees, to the Group's two defined benefit schemes: the UK Power Networks Group of the Electricity Supply Scheme (UKPN Group Scheme) and the UK Power Networks Pension Scheme (UKPNPS). Both defined benefit schemes are closed to new members. The defined benefit obligation, in respect of the Company's employees, is accounted for under FRS 102 within the Group's distribution companies and therefore no further disclosures are required in these financial statements.

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018 £ m	2017 £ m
Emoluments	1.7	1.7
Amounts receivable under long-term incentive plans	0.3	0.4
Company contributions to money purchase pension schemes	-	-
	<u>2.0</u>	<u>2.1</u>

During the year the number of directors who were members of a money purchase scheme were as follows:

	2018 Number	2017 Number
Accruing benefits under money purchase pension scheme	<u>1</u>	<u>1</u>

In respect of the highest paid director:

	2018 £ m	2017 £ m
Emoluments	1.7	1.7
Amounts receivable under long-term incentive schemes	0.3	0.4
Company contributions to money purchase pension schemes	<u>-</u>	<u>-</u>

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 10 Taxation

Tax charged to the profit and loss account

	2018 £ m	2017 £ m
<b>Current taxation</b>		
UK corporation tax	0.8	4.0
Adjustments in respect of prior years	<u>(1.0)</u>	<u>(0.4)</u>
Total current taxation	<u>(0.2)</u>	<u>3.6</u>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	0.2	0.7
Effect of decrease in tax rate on opening liability	-	0.2
Adjustments in respect of prior years	<u>0.3</u>	<u>0.2</u>
Total deferred taxation	<u>0.5</u>	<u>1.1</u>
Total tax charge	<u><u>0.3</u></u>	<u><u>4.7</u></u>

The total tax assessed for the year reconciles to the standard rate of 19% (2017: 20%) applied to profit before tax, as follows:

	2018 £ m	2017 £ m
Profit before tax	<u>4.5</u>	<u>23.6</u>
Corporation tax at standard rate	0.9	4.7
Expenses not deductible for tax purposes	0.1	0.2
Adjustments to deferred tax in respect of prior years	0.3	0.2
Adjustments to current tax in respect of prior years	<u>(1.0)</u>	<u>(0.4)</u>
Total tax charge	<u><u>0.3</u></u>	<u><u>4.7</u></u>

#### Tax rate changes

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.



# UK POWER NETWORKS (OPERATIONS) LIMITED

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

### 11 Tangible assets

	Furniture, fixtures and equipment £ m	Total £ m
<b>Cost</b>		
At 1 April 2017	81.0	81.0
<b>At 31 March 2018</b>	<b>81.0</b>	<b>81.0</b>
<b>Depreciation</b>		
At 1 April 2017	81.0	81.0
<b>At 31 March 2018</b>	<b>81.0</b>	<b>81.0</b>
<b>Net book value</b>		
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>
At 31 March 2017	-	-

### 12 Stocks

	2018 £ m	2017 £ m
Raw materials and consumables	26.8	23.9
Work in progress	5.3	6.7
	<b>32.1</b>	<b>30.6</b>

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 13 Debtors

	2018 £ m	2017 £ m
<b>Amounts falling due within one year:</b>		
Trade debtors	11.3	9.1
Amounts recoverable on long term contracts	2.5	1.4
Amounts owed by Group undertakings	206.2	263.1
Other debtors	37.8	40.4
Deferred tax asset	1.3	1.8
Prepayments and accrued income	15.4	13.1
	<u>274.5</u>	<u>328.9</u>

Amounts owed by Group undertakings are interest free trade balances and loans of £164.0m to UK Power Networks Holdings Limited and £21.5m to London Power Networks plc charging interest at 0.8% per annum.

#### Deferred tax

The movement in the deferred tax asset in the year is as follows:

	Deferred tax £ m
At 1 April 2017	1.8
Charged to profit and loss account	<u>(0.5)</u>
At 31 March 2018	<u>1.3</u>

#### Analysis of deferred tax

	2018 £ m	2017 £ m
Differences between accumulated depreciation and amortisation and capital allowances	0.3	0.4
Other timing differences	1.0	1.4
Deferred tax asset	<u>1.3</u>	<u>1.8</u>

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 14 Creditors

	2018 £ m	2017 £ m
<b>Amounts falling due within one year:</b>		
Bank overdraft	-	1.0
Payments received on account	54.7	51.1
Trade creditors	35.1	36.2
Amounts owed to Group undertakings	32.4	31.6
Social security and other taxes	12.2	12.1
Other creditors	24.8	19.5
Accruals and deferred income	127.4	151.8
Corporation tax	8.1	9.9
Fair value of forward foreign currency contracts (note 15)	0.3	-
	<u>295.0</u>	<u>313.2</u>

Amounts owed to Group undertakings comprise interest free trade balances of £5.3m, £11.1m borrowed from UK Power Networks Holdings Ltd at an interest rate of 2.45% and an interest free loan of £16.0m from UK Power Networks Services (South East) Ltd, all of which are repayable on demand.

In the prior year preference shares with a book value of £200 were included within other creditors. Details of the preference shares are as follows:

	31 March 2018 £	31 March 2017 £
300 H preference shares of £0.333 each	-	100
300 I preference shares of £0.333 each	-	100
	<u>-</u>	<u>200</u>

The preference shares carried an entitlement to cumulative preferential dividends of the following amounts:

H preference shares 75% of the profit after tax every financial year\*

I preference shares 25% of the profit after tax every financial year\*

\*in this calculation, profit after tax was limited to £10m.

The holder of the preference shares, UK Power Networks Holdings Limited, has in previous years waived the right to the cumulative preferential dividends. In April 2017 the Directors of the Company passed a resolution in accordance with Chapter 2 of Part 13 of the Companies Act 2006 to cancel the preference shares. The reduction in share capital of £200 was credited to the profit and loss account.

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 15 Derivative instruments

##### Forward foreign currency contracts

	Average contract exchange rate		Notional principal value		Fair value	
	2018 Rate	2017 Rate	2018 £ m	2017 £ m	2018 £ m	2017 £ m
<b>Maturity of outstanding contracts</b>						
<b>Buy Euros</b>						
Less than 1 year	1.116	-	<u>20.2</u>	<u>-</u>	<u>0.3</u>	<u>-</u>

At the balance sheet date the Company held forward foreign currency contracts worth 22.5m Euros to hedge the exchange rate exposure on Euro denominated equipment purchases. Hedge accounting was not adopted for these transactions.

#### 16 Provisions for liabilities

	Other provisions £ m
At 1 April 2017	26.8
Charged to profit and loss account	<u>4.1</u>
At 31 March 2018	<u>30.9</u>

Provisions for public liability and employer liability claims against the Company amount to £23.6m (2017: £22.4m). The timing of the payments is uncertain but it is expected that the majority of this expenditure will be incurred within three years of the balance sheet date.

Other legal and constructive obligations of £7.3m (2017: £4.4m) are expected to become payable within the next two years.

## UK POWER NETWORKS (OPERATIONS) LIMITED

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

#### 17 Called up share capital and reserves

	2018 £ m	2017 £ m
Allotted, called up and fully paid		
2,000,002 ordinary shares at £1 each	<u>2.0</u>	<u>2.0</u>

#### Reserves

The share premium reserve represents the premium arising on issue of equity shares, net of issue expenses. In April 2017 the Directors of the Company passed a resolution in accordance with Chapter 2 of Part 13 of the Companies Act 2006 to cancel the share premium account. The reduction in share capital of £28,000,000 was credited to the profit and loss account.

The profit and loss account represents cumulative profits or losses net of dividends paid.

#### 18 Obligations under leases and hire purchase contracts

##### Operating leases

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

	2018 £ m	2017 £ m
<b>Land and buildings</b>		
- within one year	3.5	4.5
- between one and five years	7.8	8.6
- after five years	<u>14.0</u>	<u>13.8</u>
	<u>25.3</u>	<u>26.9</u>
<b>Vehicles</b>		
- within one year	13.9	13.2
- between one and five years	30.7	32.9
- after five years	<u>3.5</u>	<u>5.3</u>
	<u>48.1</u>	<u>51.4</u>

## **UK POWER NETWORKS (OPERATIONS) 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 year or prior period.

#### **20 Parent and ultimate parent undertaking**

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

Newington House  
237 Southwark Bridge Road  
London  
SE1 6NP

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

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

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

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