

Registration number: 3870728

# UK Power Networks (Operations) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2020



## UK POWER NETWORKS (OPERATIONS) LIMITED

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**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  
1 New Street Square  
London  
EC4A 3HQ  
United Kingdom

## UK POWER NETWORKS (OPERATIONS) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

The Directors present their Strategic Report for the year ended 31 March 2020.

#### **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 homes and businesses. 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 £7.6m (2019: £5.2m) and a profit after taxation of £6.8m (2019: £4.6m). No dividends were paid during the year (2019: £nil).

#### *Response to COVID-19*

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

The Group's Organisational Resilience Leadership Team had started tracking the virus in early January 2020 as an emerging risk and through February reviewed the Group's pandemic response plans. The primary objective was to prepare the business, minimise the likely impact and allow the business to recover as quickly as possible.

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

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

The Recovery phase was initiated during May on a prioritised basis, to recover the capital work that had been initially paused, and to support employees in returning to the workplace over a phased period. In June, operational activities were back up to full capacity and office-based staff started working in the office on a rotational basis to allow social distancing to be maintained.

The Reimagination phase incorporates key learnings and is reshaping the business as required to ensure it remains fit for future operations.

## UK POWER NETWORKS (OPERATIONS) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

#### 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:

	2020	2019
<b><i>Non-financial performance</i></b>		
<b>Lost time incidents (LTIs)</b>		
LTIs - Injuries at work resulting in lost time of one day or more	2.0	3.0
<b>Customer minutes lost (CMLs) *</b>		
CMLs per customer - EPN	33.6	34.8
CMLs per customer - LPN	14.4	15.9
CMLs per customer - SPN	32.8	36.7
<b>Customer interruptions (CIs) *</b>		
CIs per 100 customers - EPN	43.4	41.4
CIs per 100 customers - LPN	13.2	14.1
CIs per 100 customers - SPN	45.1	44.4
<b>Customer satisfaction</b>		
Customer satisfaction score - EPN	92%	88%
Customer satisfaction score - LPN	91%	88%
Customer satisfaction score - SPN	90%	87%
<b><i>Financial performance</i></b>		
Turnover (£m)	1,051.5	1,010.4
EBITDA (Profit before interest, tax and depreciation) (£m)	6.1	5.6

\* 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.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

**Key performance indicators (KPIs) continued**

**Non-financial performance**

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

*Safety*

The Group's top priority is the safety of employees, contractors and the general public. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign is regularly ongoing for all operational staff. Safety procedures and training have been updated and adapted in response to the COVID-19 pandemic to protect employees in the workplace and where they come into contact with members of the public or contractors.

Lost time incidents (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 2 LTIs which is an improvement on the 3 LTIs recorded 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. Apart from an increase in CIs in EPN and SPN there have been improvements in all areas compared to the prior year. Each DNO remains ahead of targets set by Ofgem.

*Customer satisfaction*

Ofgem measures customer satisfaction of all the DNOs and this is one of the most important measures of performance. The customer satisfaction survey captures customers' experiences of the services provided by the DNOs, for interruptions, minor connections and general enquiries. Scores have improved for each DNO in the current year and remain above the industry wide target of 82%.

**Financial performance**

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

Turnover increased by £41.1m to £1,051.5m in the year due to higher volumes of work on the networks which has also resulted in a £40.6m increase in operating costs. The EBITDA result has improved by £0.5m to £6.1m.

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 £6.1m (2019: £5.6m) presented in the profit and loss statement.

## UK POWER NETWORKS (OPERATIONS) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

#### **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, which are implemented on a group wide basis. 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.

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

## UK POWER NETWORKS (OPERATIONS) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

#### **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.

#### **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.

The COVID-19 outbreak may continue to result in a significant economic slowdown, if not recession, in the months ahead and there is uncertainty in predicting the extent and duration of the effects of the pandemic on the business. The Directors expect the disruption to be temporary without material effect on the future financial position and prospects of the Company.

#### **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 COVID-19 pandemic and related disruption is not expected to impair the ability of these companies to service their debt or materially affect the Company's long term financial position and prospects.

The Company's forecasts and projections, taking into account reasonably possible changes in the trading performance of other Group companies, including having considered the impacts of COVID-19, 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 meet its obligations as they fall due in the twelve month period following the approval of these financial statements and to continue operating for the foreseeable future. Therefore they continue to adopt the going concern basis in preparing the financial statements.

## UK POWER NETWORKS (OPERATIONS) LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

#### 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 (amongst other matters) to:

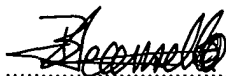
- a) the likely consequences of any decision in the long term.
- b) the interests of the Company's employees.
- c) the need to foster the Company's business relationships with suppliers, customers and others.
- d) the impact of the Company's operations on the community and the environment.
- e) the desirability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

The Company operates in an industry characterised by long term investment in the future to ensure a sustainable energy supply for customers. The consequences of the Company's strategy over the long term are considered in its long term business plans and projections, detailed business plans agreed with the industry regulator at the start of each price control period, and the Company's own five year projections which are updated annually.

The Company actively engages with its stakeholders on a regular basis in order to identify trends and developments, inform policies and procedures, and re-align its strategy. The Company has identified its key stakeholders as: employees, customers, suppliers, community and the environment, the regulator and shareholders. Further information about how the Company has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 18 to 20.

As described on pages 10 to 11, the Company'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.

Approved by the Board on 21 September 2020 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 2020

The Directors present their Annual Report including the Audited Financial Statements of the Company for the year ended 31 March 2020. Details of the Company's risk management objectives and policies, future developments, the going concern assessment and the Section 172(1) statement on the duties of the Directors 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

Only Basil Scarsella had a service contract with the Company in the current and 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.

#### **Business relationships**

The Company has identified its key stakeholders as: employees, customers, suppliers, community and the environment, regulator and shareholders. Further information about how the Company has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 18 to 20.

**UK POWER NETWORKS (OPERATIONS) LIMITED**

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020**

**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:

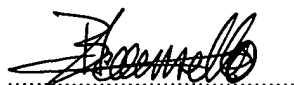
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's 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 2006.

Approved by the Board on 21 September 2020 and signed on its behalf by:



.....  
Basil Scarsella  
Director

## UK POWER NETWORKS (OPERATIONS) LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

The Company has adopted the Wates Corporate Governance Principles for Large Private Companies, as issued by the Financial Reporting Council (FRC), 2018.

The Company is a wholly owned subsidiary of UK Power Networks Holdings Limited and forms part of the UK Power Networks Holdings group (the "Group"). The Group operates a range of governance principles and practices on a group-wide basis, which are adopted and implemented by its subsidiaries, including the Company, to the extent they are relevant to their operations.

The Companies (Miscellaneous Reporting) Regulations 2018 requires the Company to make a statement in relation to which corporate governance code it has adopted, and how it has adopted that code. The purpose of this report is to set out how corporate governance principles have been applied to the Company in the context of the Group. Relevant disclosures are included below in this Report on Corporate Governance, in the Statement of Directors' Responsibilities, in the Directors' Report and in the Strategic Report.

#### **Principle 1 - Purpose and Leadership**

##### *Purpose, vision and values*

The Company has a clear public purpose to operate, maintain and renew the Group's electricity distribution networks in London, the South East and East of England. The Group has articulated the vision and values to which the Company aspires in fulfilling its purpose, and these are set out below.

The vision of the Group is to be consistently the best-performing Distribution Network Operator through being:

##### **An employer of choice:**

- the safest, with an exemplary safety record
- a place where people love to come to work
- embracing diversity
- an appropriately skilled workforce for both today and the long term

##### **A respected and trusted corporate citizen:**

- the most reliable networks
- the most satisfied customers
- the most innovative
- the most socially and environmentally responsible
- meeting the needs of vulnerable customers, both now and in the future
- enabling the low-carbon transition for all as the leading UK Distribution System Operator

##### **Sustainably cost efficient:**

- the lowest cost electricity distributor
- deliver on commitments
- delivering profitable growth in the Connections business

## UK POWER NETWORKS (OPERATIONS) LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

#### Principle 1 - Purpose and Leadership continued

The values of the Group underpin what the Company does. They define how the Company expects its representatives to behave and how the Company wants to be perceived by its stakeholders and those who come into contact with the business. The Company has adopted these values as follows:

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

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.

#### Principle 2 - Board composition

The Board of the Company ("the Board") comprises the Chief Executive Office ("CEO") of the Group and four Directors appointed to represent the shareholders of the Group. The Directors of the Company are all members of the board of the parent UK Power Networks Holdings Ltd ("the Group Board") which oversees the management of the entire UK Power Networks group ("the Group"). The Group Board and its sub-committees meet on a regular basis to conduct the affairs of the Group. The Board considers and acts on matters pertaining to the Company within this decision making forum.

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

The positions of the Chairman of the Board and CEO are held by separate individuals with a view to maintaining effective segregation of duties between management of the Board and the day-to-day management of the Company.

**CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020**

**Principle 2 - Board composition continued**

The CEO of the Group is the only Executive Board member. The other directors do not hold executive roles and therefore maintain an acceptable level of independence from the executive management of the Company. As such, the appointment of an independent Chairman is not deemed necessary.

The Group Board and Board committees meet on a regular basis to oversee the management of the Group as a whole and where appropriate to consider and act on matters pertaining to individual subsidiary companies. A total of five meetings of the Group Board were held during the year with eight to eleven directors present, including at least four members of the Company's Board.

**Principle 3 - Directors' responsibilities**

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

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

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

*Governance and control environment*

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

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

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

- The Audit Committee assists the Group Board with its responsibilities for financial reporting, maintaining an effective system of internal control and internal and external audit processes. Using risk assessment methodology and taking into account the Company's activities, Internal Audit determines the annual audit programme which is approved and monitored by the Audit Committee. The Audit Committee also reviews the arrangements by which staff of the Company may raise concerns in confidence about possible improprieties and monitors any investigations into concerns raised.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

**Principle 3 - Directors' responsibilities continued**

- The principal responsibilities of the Remuneration Committee include making recommendations to the Group Board on the Group's policies and structure in relation to the remuneration of senior management and employees of the Group, by reference to corporate goals and objectives resolved by the Group Board from time to time.
- The Treasury Committee oversees the treasury strategy, policy and procedure and seeks to ensure that all treasury risks are identified, measured and controlled in a manner consistent with corporate strategy and treasury policy.
- The Risk Management and Compliance Committee assists the Group Board with its responsibilities in relation to risk management and to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement. The Group Board is responsible for approval of the risk management strategy while management is responsible for implementing the Group Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the business.

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

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

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

*Integrity of financial information*

The consolidated financial statements of the Group and its subsidiaries (including the Company) are prepared by the central financial reporting team based on results submitted by each Directorate. Each Directorate is supported by an appropriately qualified finance team who provide advice to the EMT Directors and Managers and liaise with the central financial reporting team on such matters as the application of accounting policies, procedures and internal controls. The role of the central financial reporting team includes liaising with the shareholders regarding such matters as accounting policies, planning for changes in reporting requirements and to ensure that these are communicated effectively to the Directorates. There is regular dialogue between the central financial reporting team and the finance teams supporting the Directorates to ensure there is appropriate understanding of these requirements.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

**Principle 3 - Directors responsibilities continued**

*Integrity of financial information continued*

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

*External audit*

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

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

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

The Audit Committee reports its findings to the Group Board in respect of the effectiveness of the external audit process and significant issues considered in relation to financial statements and how these were addressed. On this basis, it advises the Group Board on whether the Group Annual Report and financial statements taken as a whole represent a fair, balanced and understandable view to shareholders and therein recommends the approval of the financial statements.

*Independence and objectivity of external auditor*

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

For each audit period a formal written statement is provided by the external auditor setting out all relationships between the external auditor and the Group. Any proposed appointment of ex-employees of the external audit firm to senior management positions with the Company is subject to consent by the Audit Committee.

The lead external audit engagement partner is rotated at least every five years, the last rotation being for the year ended 31 March 2017 audit engagement.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

**Principle 4 - Opportunity and Risk**

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

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

*Internal control*

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

*Risk identification and control*

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

The role of the Directorate risk review meetings is to assess new risks, review existing risks and monitor control improvement actions. Each identified risk is defined and assessed by the risk owner. This includes an assessment of the likelihood of the risk occurring and the associated impact, key mitigating controls, and an assessment of the adequacy of those controls. Where appropriate control improvement actions are defined.

Significant risks and delivery of control improvement actions are monitored and reported to the Executive and Senior Management Teams on a regular basis, and actively managed by the designated risk owners.

*Internal control framework*

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

**Principle 4 - Opportunity and Risk continued**

*Internal audit*

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

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

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

*Monitoring and corrective action*

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

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

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

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

**CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020**

**Principle 4 - Opportunity and Risk continued**

*Effectiveness review of internal control*

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

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

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

**Principle 5 - Remuneration**

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

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

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

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

The remuneration of directors is disclosed in note 9 of the financial statements.

**CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020**

**Principle 6 - Stakeholder Relationships and Engagement**

The stakeholders of the Company are consistent with the stakeholders from across the rest of the Group.

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

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

*Employees*

The Group recognises that its employees are fundamental to the achievement of its objectives and to its longer term success, and has articulated being an Employer of Choice as one of the three pillars to its vision. The Company employs over 80% of the Group's employees. A diverse workforce, with a range of backgrounds, abilities, skills and experience, is considered to be vital to achieving the best outcomes.

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

- A comprehensive annual employee engagement survey in which employees provide their views on key matters pertinent to the success of the Company and their own engagement. The results of this annual survey form part of the annual Sunday Times Top 25 Best Companies To Work For, in which the Group achieved tenth position nationally in 2019. The annual survey is supplemented by shorter monthly polls on samples of employees across the organisation.
- The EMT actively engage with more than 4000 employees face to face via monthly roadshows to sites across the Group, in which the workforce hear about the Group's performance and are able to ask questions directly to the EMT.
- The Group issues communications to employees through a range of channels, including a monthly 'team brief' in which employees hear about the Group's achievement against its objectives, and view a video address from the CEO. Other communications include Group-wide magazine publications, intranet sites, emails and social media forums.
- Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees through dedicated employee engagement forums.
- Each employee undertakes performance reviews with their managers, in which their performance against their objectives is reviewed and discussed and personal development opportunities and training identified.
- The Group has achieved accreditation to various bodies to promote the development of a skilled and diverse workforce, such as Investors in People, National Equality Standard and the Inclusive Top 50 UK Employers.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

**Principle 6 - Stakeholder Relationships and Engagement continued**

*Customers*

Customer engagement helps build a sustainable business, as it anchors the Group to the needs and expectations of its customers and shapes its long-term vision and objectives. The Group engages with its customers through a programme of events, forums and focus groups along with other communications such as newsletters and media campaigns, including:

- The Group receives customer feedback via an industry survey of 300 customers a week, which feeds into Ofgem's Broad Measure of Customer Satisfaction.
- This is supplemented by an additional feedback mechanism in which customers give almost instant feedback on the service they have received.
- The Group engages with community energy groups in its regions to understand how it can provide support to local energy projects.

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

*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 UK Power Networks vision, values, and standards. It outlines its approach to business ethics and sustainable procurement and clarifies the standards and behaviours it expects to be adopted throughout the supply chain.
- The Group is a signatory to the Prompt Payment Code, which sets standards for payment practices and best practice, working towards adopting 30 day payment terms as the norm, and to avoid any practices that adversely affect the supply chain.
- The Group has formed an alliance model with key strategic partners to promote closer working relationships and common practices on shared projects.

*Community and Environment*

As a network operator the Group recognises that its activities can have an impact on the communities and surrounding area where the Group operates. Being a respected and trusted corporate citizen is a key part of the Group's vision and it works closely with communities and their representatives to identify areas where it can play an active, beneficial role.

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

**Principle 6 - Stakeholder Relationships and Engagement continued**

*Community and Environment continued*

As part of the Group's Response to the COVID-19 pandemic, the Group contributed with other utilities towards a food programme fund for vulnerable customers in the areas in which the Group's licenced networks operate.

UK Power Networks has launched a Green Action Plan in 2019, addressing areas where it impacts the environment, and which has defined clear objectives with deadlines to help play its part ensuring its activities are sustainable.

*The regulator, Ofgem*

The Group is regulated by Ofgem (the "Office of Gas and Electricity Markets") which determines its strategy on a range of matters.

The Group regularly engages with Ofgem through formal consultation processes, and with other industry bodies in various forums, to share information, to ensure the Group understands its obligations as set out by Ofgem, and to ensure the Group's interests are represented in industry discussions.

Currently, the Group is actively engaged with Ofgem in its preparations for the next price control, RII0-ED2, from 1 April 2023 to 31 March 2028.

*Shareholders*

The Group is wholly owned by a consortium of three parties. The support and engagement of the Group's shareholders is vital to the success of the business in reaching its long term objectives.

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

## 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 of UK Power Networks (Operations) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 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 21 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.

##### 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 21, 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 FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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.

**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.



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**Makhan Chahal (Senior Statutory Auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor

London

United Kingdom

21 September 2020

**UK POWER NETWORKS (OPERATIONS) LIMITED**

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

	Note	2020 £ m	2019 £ m
<b>Turnover</b>	4	<b>1,051.5</b>	1,010.4
Cost of sales		<u>(761.1)</u>	<u>(735.4)</u>
<b>Gross profit</b>		<b>290.4</b>	275.0
Other operating expenses		<u>(284.3)</u>	<u>(269.4)</u>
<b>Operating profit</b>	5	<b>6.1</b>	5.6
Interest receivable and similar income	6	1.5	1.6
Interest payable and similar charges	7	<u>-</u>	<u>(2.0)</u>
<b>Profit before tax</b>		<b>7.6</b>	5.2
Taxation	10	<u>(0.8)</u>	<u>(0.6)</u>
<b>Profit for the year</b>		<u><b>6.8</b></u>	<u>4.6</u>

The above results were derived from continuing operations.

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

	2020 £ m	2019 £ m
<b>Profit for the year</b>	<u>6.8</u>	<u>4.6</u>
<b>Total comprehensive income for the year</b>	<u><b>6.8</b></u>	<u>4.6</u>

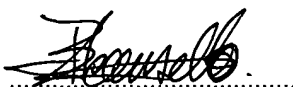
The notes on pages 28 to 41 form an integral part of these financial statements.

**UK POWER NETWORKS (OPERATIONS) LIMITED**

**BALANCE SHEET AS AT 31 MARCH 2020**

	Note	2020 £ m	2019 £ m
<b>Fixed assets</b>			
Tangible assets	11	-	-
<b>Current assets</b>			
Stocks	12	52.3	37.1
Debtors falling due within one year	13	336.4	374.4
Cash at bank and in hand		<u>32.3</u>	<u>3.4</u>
		421.0	414.9
<b>Creditors: Amounts falling due within one year</b>	14	<u>(362.3)</u>	<u>(362.6)</u>
<b>Net current assets</b>		<u>58.7</u>	<u>52.3</u>
<b>Total assets less current liabilities</b>		58.7	52.3
<b>Provisions for liabilities</b>	16	<u>(23.6)</u>	<u>(24.0)</u>
<b>Net assets</b>		<u>35.1</u>	<u>28.3</u>
<b>Capital and reserves</b>			
Called up share capital	17	2.0	2.0
Profit and loss account	17	<u>33.1</u>	<u>26.3</u>
<b>Total shareholders' funds</b>		<u>35.1</u>	<u>28.3</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 21 September 2020. They were signed on its behalf by:



Basil Scarsella  
Director

The notes on pages 28 to 41 form an integral part of these financial statements.

**UK POWER NETWORKS (OPERATIONS) LIMITED**

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

	Share capital £ m	Profit and loss account £ m	Total £ m
At 1 April 2018	2.0	21.7	23.7
Profit for the year	-	4.6	4.6
Total comprehensive income	-	4.6	4.6
At 31 March 2019	2.0	26.3	28.3

	Share capital £ m	Profit and loss account £ m	Total £ m
At 1 April 2019	2.0	26.3	28.3
Profit for the year	-	6.8	6.8
Total comprehensive income	-	6.8	6.8
At 31 March 2020	2.0	33.1	35.1

The notes on pages 28 to 41 form an integral part of these financial statements.

## UK POWER NETWORKS (OPERATIONS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

#### 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 7.

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.

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 2020

#### 2 Accounting policies (continued)

##### 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 COVID-19 pandemic and related disruption is not expected to impair the ability of these companies to service their debt or materially affect the Company's long term financial position and prospects.

The Company's forecasts and projections, taking into account reasonably possible changes in the trading performance of other Group companies, including having considered the impacts of COVID-19, 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 meet its obligations as they fall due in the twelve month period following the approval of these financial statements and to continue operating for the foreseeable future. Therefore they continue to adopt the going concern basis 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

##### Leases

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 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.

- 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 2020

#### 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

**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 2020**

**5 Operating profit**

Operating profit is arrived at after charging:

	<b>2020</b>	<b>2019</b>
	<b>£ m</b>	<b>£ m</b>
Research and development costs	14.2	10.4
Operating lease expense - property	3.6	3.5
Operating lease expense - vehicles	<u>13.3</u>	<u>13.9</u>

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>

**Analysis of Auditor's remuneration**

**Audit fees**

Audit of financial statements	<u>54.5</u>	<u>68.9</u>
Total audit fees	<b>54.5</b>	<b>68.9</b>

**Non-audit fees**

Other assurance services	<u>146.9</u>	<u>135.0</u>
	<u><b>201.4</b></u>	<u><b>203.9</b></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**

	<b>2020</b>	<b>2019</b>
	<b>£ m</b>	<b>£ m</b>
Interest receivable on loans to Group undertakings	1.1	1.4
Other interest receivable	<u>0.4</u>	<u>0.2</u>
	<u><b>1.5</b></u>	<u><b>1.6</b></u>

**7 Interest payable and similar charges**

	<b>2020</b>	<b>2019</b>
	<b>£ m</b>	<b>£ m</b>
Interest payable on loans from Group undertakings	1.1	1.2
(Gains)/losses on forward foreign currency contracts	<u>(1.1)</u>	<u>0.8</u>
	<u><b>-</b></u>	<u><b>2.0</b></u>

**UK POWER NETWORKS (OPERATIONS) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

**8 Staff costs**

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

	<b>2020</b>	2019
	<b>£ m</b>	£ m
Wages and salaries	<b>320.1</b>	301.7
Social security costs	<b>39.6</b>	36.9
Pension costs	<b>42.7</b>	42.5
Redundancy costs	<b>0.4</b>	0.2
	<b><u>402.8</u></b>	<u>381.3</u>

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

	<b>2020</b>	2019
	<b>Number</b>	Number
Average monthly number of employees	<b><u>5,359</u></b>	<u>5,318</u>

The disclosure above excludes costs of £9.0m (2019: £10.4m) relating to a monthly average of 169 (2019: 200) 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 £9.2m (2019: £7.9m) 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 three distribution companies Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc. 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 2020**

**9 Directors' remuneration**

The directors' remuneration for the year was as follows:

	<b>2020</b>	2019
	<b>£ m</b>	£ m
Emoluments	<b>1.8</b>	1.7
Amounts receivable under long-term incentive plans	<b>0.4</b>	0.3
Company contributions to money purchase pension schemes	<b>-</b>	-
	<b><u>2.2</u></b>	<u>2.0</u>

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

	<b>2020</b>	2019
	<b>Number</b>	Number
Accruing benefits under money purchase pension scheme	<b><u>1</u></b>	<u>1</u>

In respect of the highest paid director:

	<b>2020</b>	2019
	<b>£ m</b>	£ m
Emoluments	<b>1.8</b>	1.7
Amounts receivable under long-term incentive schemes	<b>0.4</b>	0.3
Company contributions to money purchase pension schemes	<b>-</b>	-
	<b><u>-</u></b>	<u>-</u>

**UK POWER NETWORKS (OPERATIONS) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

**10 Taxation**

Tax charged to the profit and loss account

	2020 £ m	2019 £ m
<b>Current taxation</b>		
UK corporation tax	1.5	1.4
Adjustments in respect of prior years	<u>(0.6)</u>	<u>(0.5)</u>
Total current taxation	<u>0.9</u>	<u>0.9</u>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	-	(0.3)
Effect of increase in tax rate on opening asset	(0.2)	-
Adjustments in respect of prior years	<u>0.1</u>	<u>-</u>
Total deferred taxation	<u>(0.1)</u>	<u>(0.3)</u>
Total tax charge	<u><u>0.8</u></u>	<u><u>0.6</u></u>

The total tax assessed for the year was lower than the standard rate of 19% (2019: 19%) applied to profit before tax, as follows:

	2020 £ m	2019 £ m
Profit before tax	<u>7.6</u>	<u>5.2</u>
Corporation tax at standard rate	1.4	1.0
Expenses not deductible for tax purposes	0.1	0.1
Deferred tax credit relating to changes in tax rates	(0.2)	-
Adjustments to current tax in respect of prior years	(0.6)	(0.5)
Adjustments to deferred tax in respect of prior years	<u>0.1</u>	<u>-</u>
Total tax charge	<u><u>0.8</u></u>	<u><u>0.6</u></u>

**UK POWER NETWORKS (OPERATIONS) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

**10 Taxation (continued)**

**Tax rate changes**

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

The current tax rate applied during the year was 19% (2019: 19%) and deferred tax was calculated at 19% (2019: 17%) based on the standard rate of corporation tax substantively enacted at the reporting date. Revaluing the opening deferred tax asset at 1 April 2019 from 17% to 19%, has reduced the tax charge in the current year by £0.2m.

**11 Tangible assets**

	Furniture, fixtures and equipment £ m	Total £ m
<b>Cost</b>		
At 1 April 2019	<u>81.0</u>	<u>81.0</u>
<b>At 31 March 2020</b>	<u>81.0</u>	<u>81.0</u>
<b>Depreciation</b>		
At 1 April 2019	<u>81.0</u>	<u>81.0</u>
<b>At 31 March 2020</b>	<u>81.0</u>	<u>81.0</u>
<b>Net book value</b>		
<b>At 31 March 2020</b>	<u>-</u>	<u>-</u>
At 31 March 2019	<u>-</u>	<u>-</u>

**12 Stocks**

	2020 £ m	2019 £ m
Raw materials and consumables	42.3	32.9
Work in progress	<u>10.0</u>	<u>4.2</u>
	<u>52.3</u>	<u>37.1</u>

**UK POWER NETWORKS (OPERATIONS) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

**13 Debtors**

	<b>2020</b>	<b>2019</b>
	<b>£ m</b>	<b>£ m</b>
<b>Amounts falling due within one year:</b>		
Trade debtors	17.9	17.5
Amounts recoverable on long term contracts	0.3	1.3
Amounts owed by Group undertakings	236.9	262.0
Other debtors	24.6	42.0
Deferred tax asset	1.7	1.6
Prepayments and accrued income	55.0	50.0
	<b>336.4</b>	<b>374.4</b>
	<b>336.4</b>	<b>374.4</b>

Amounts owed by Group undertakings are interest free trade balances repayable on demand and short-term loans of £125.0m to UK Power Networks Holdings Limited carrying interest at 0.5% per annum.

**Deferred tax**

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

	<b>Deferred tax</b>
	<b>£ m</b>
At 1 April 2019	1.6
Credited to profit and loss account	0.1
At 31 March 2020	1.7

**Analysis of deferred tax**

	<b>2020</b>	<b>2019</b>
	<b>£ m</b>	<b>£ m</b>
Differences between accumulated depreciation and amortisation and capital allowances	0.2	0.3
Other timing differences	1.5	1.3
Deferred tax asset	1.7	1.6

**UK POWER NETWORKS (OPERATIONS) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

**14 Creditors**

	<b>2020</b>	2019
	<b>£ m</b>	£ m
<b>Amounts falling due within one year:</b>		
Payments received on account	<b>58.4</b>	63.3
Trade creditors	<b>34.6</b>	36.9
Amounts owed to Group undertakings	<b>100.9</b>	98.7
Social security and other taxes	<b>13.8</b>	12.6
Other creditors	<b>37.1</b>	22.8
Accruals and deferred income	<b>115.7</b>	120.2
Corporation tax	<b>1.8</b>	7.0
Fair value of forward foreign currency contracts (note 15)	<b>-</b>	1.1
	<b><u>362.3</u></b>	<u>362.6</u>

Amounts owed to Group undertakings include interest free trade balances of £3.1m, £11.5m 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 addition there is a short-term loan due to UK Power Networks Services (Contracting) Ltd of £70.0m bearing interest at 0.6%.

**15 Derivative instruments**

**Forward foreign currency contracts**

	Average contract		Notional principal		Fair value	
	exchange rate		value		2020	2019
	2020	2019	2020	2019	2020	2019
	Rate	Rate	£ m	£ m	£ m	£ m
<b>Maturity of outstanding contracts</b>						
<b>Buy Euros</b>						
Less than 1 year	<b>1.125</b>	1.116	<b><u>24.0</u></b>	<u>36.3</u>	<b><u>-</u></b>	<u>1.1</u>

At the balance sheet date the Company held forward foreign currency contracts worth €27.0m (2019: €40.5m) to hedge the exchange rate exposure on Euro denominated equipment purchases. Hedge accounting was not adopted for these transactions.

## UK POWER NETWORKS (OPERATIONS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

#### 16 Provisions for liabilities

	<b>Other provisions</b> £ m
At 1 April 2019	24.0
Credited to profit and loss account	<u>(0.4)</u>
At 31 March 2020	<u><u>23.6</u></u>

Provisions for public liability and employer liability claims against the Company amount to £22.0m (2019: £20.5m). 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 £1.6m (2019: £3.5m) are expected to become payable within the next two years.

#### 17 Called up share capital and reserves

	<b>2020</b> £ m	2019 £ m
<b>Share capital: Allotted, called up and fully paid</b>		
2,000,002 ordinary shares at £1 each	<u>2.0</u>	<u>2.0</u>

Reserves comprise the profit and loss account which represents cumulative profits or losses net of dividends paid.

#### 18 Obligations under lease contracts

##### Operating leases

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

	<b>2020</b> £ m	2019 £ m
<b>Land and buildings</b>		
- within one year	3.6	3.6
- between one and five years	7.9	9.0
- after five years	<u>0.5</u>	<u>0.9</u>
	<u><u>12.0</u></u>	<u><u>13.5</u></u>
<b>Vehicles</b>		
- within one year	13.3	13.3
- between one and five years	20.6	26.9
- after five years	<u>2.0</u>	<u>3.7</u>
	<u><u>35.9</u></u>	<u><u>43.9</u></u>

## UK POWER NETWORKS (OPERATIONS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

#### **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 Subsequent events**

On Monday 23 March 2020 the UK Government declared a national lockdown due to the uncontrolled and rapid spread of the COVID-19 virus. The pandemic has continued to have a detrimental impact on the UK economy in the period from the reporting date at 31 March 2020 to the date of authorisation of these financial statements on 21 September 2020.

The Group's response to the pandemic has focused first and foremost on the safety and wellbeing of its employees and its customers, while continuing to provide reliable electricity supplies and support to vulnerable customers. In the initial phase of the lockdown, some operational work was paused to ensure safety, and office-based staff worked from home where possible. Relevant policies were established or updated in accordance with Government guidelines and there were daily communications with all employees.

A recovery phase was initiated during May on a prioritised basis, to resume the work that had been paused during March and April, and to support employees in returning to the workplace over a phased period. In June, operational activities were back up to full capacity and office based staff started working in the office on a rotational basis to allow social distancing to be maintained. The Company has not made use of any of the COVID-19 support schemes established by Government.

The financial statements for the year ended 31 March 2020 have not been adjusted to reflect any post balance sheet impact of the pandemic which is considered to be a non-adjusting subsequent event. Whilst there is uncertainty in predicting the overall impact of COVID-19, the Company's forecast modelling has shown that the Company will remain profitable over the next 12 months under all reasonable scenarios. The Directors' current assessment, as disclosed in the Going Concern statement on page 6, is that the pandemic is a temporary disruption and is not expected to have a material effect on the long term financial position and prospects of the Company.

#### **21 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 (OPERATIONS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

#### **21 Parent and ultimate parent undertaking (continued)**

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.