UK POWER NETWORKS HOLDINGS LIMITED

Registered Number 07290590

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2021

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STRATEGIC REPORT

The vision of UK Power Networks Holdings Limited and its subsidiaries (the "Group" or "UK Power Networks") sets the direction and guides the decisions which are taken within the business. The Group's vision is to be a leading performer in the electricity distribution industry through being:

- An employer of choice;
- A respected and trusted corporate citizen including delivering high quality services to the Group's customers; and
- Sustainably cost efficient.

The principal values which define how the Group expects its employees to behave and how the Group wants to be perceived by its stakeholders are:

- Integrity
- Respect
- Continuous improvement
- Responsibility
- Diversity and inclusiveness
- Unity

The Group's vision and values are discussed in more detail on pages 25 to 26.

Business model

The Group owns, operates and manages three of the 14 electricity distribution networks in Great Britain, covering an area of approximately 30,000 km^2 and delivering power to 8.3 million homes and businesses across London, the East and South east of England.

The Group includes:

- three licensed Distribution Network Operators ("DNOs"): London Power Networks plc ("LPN"); Eastern Power Networks plc ("EPN"); and South Eastern Power Networks plc ("SPN");
- a management business: UK Power Networks (Operations) Limited;
- a transport services provider: UK Power Networks (Transport) Limited;
- a groundworks services provider: UK Power Networks (South East Services) Limited; and
- a contracting business which manages a number of private networks and infrastructures: subsidiaries of UK Power Networks Services Holdings Limited.

The Group's objectives are to:

- maintain the safety and reliability of the electricity network;
- efficiently connect new customers to the electricity network, including power generators;
- restore supply as quickly as possible to customers who experience interruption;
- innovate to continually improve efficiency and the service provided to customers;
- facilitate a low carbon environment by investing in assets, processes and initiatives that enable low carbon technology to be connected to the network;
- extend and upgrade the network to meet the future needs of customers; and
- keep costs to customers as low as possible.

The key performance indicators used to measure progress against the Group's safety, efficiency and customer service objectives are set out on pages 6 to 10.

The Group has an important contribution to make in supporting the UK's transition to a low carbon economy. This is discussed on pages 14 to 16.

STRATEGIC REPORT continued

Business model continued

The Group operates within a regulated environment with the majority of its revenue being set as part of a price control review by the industry regulator, the Office of Gas and Electricity Markets ("Ofgem" or "the Regulator"). Each price control provides for the licensed distributor to earn a level of "allowed" revenue. The total amount of allowed revenue takes into account a number of factors including the capital expenditure plans of the business, an efficient level of operating costs, the cost of financing the business and a return on the regulated asset value. Income streams are considered to be stable, giving the business a lower risk profile which is reflected in the allowed rate of return on the regulated asset value.

In addition to allowed revenues, the Group collects income to cover the cost of connecting new customers to the network. Connections work which can only be carried out by UK Power Networks, for technical and safety reasons or as defined by the Regulator, is referred to as "non contestable" and is charged at cost to the customer. Work that other accredited providers can undertake is referred to as "contestable" and is charged to the customer at a 4% (2020: 4%) regulated margin. In market segments where UK Power Networks has passed a Competition test set by the Regulator, the price regulation is removed.

The performance of the regulated networks businesses is benchmarked against other licensed DNOs with the most efficient networks establishing an 'efficient frontier' or standard against which the other DNOs are evaluated. Ofgem sets allowances and a regime of potential incentives and penalties based on the detailed assessment of business plans submitted by the DNOs.

Price control RIIO-ED1

The current price control RIIO-ED1 applies for an eight year period from 1 April 2015 to 31 March 2023 and determines the allowed revenue the DNOs are able to collect from their customers and the outputs they are required to deliver, until 2023. RIIO stands for "Revenues driven by Incentives, Innovation and Outputs".

Allowed revenue covers the cost of operating and maintaining the network through an "in year" allowance for regulatory expenditure plus the regulatory return and regulatory depreciation on the regulatory expenditure which enters the Regulatory Asset Value, pass-through costs, incentives, tax, and pensions. The Group has the opportunity to outperform the allowed revenue either by delivering its agreed outputs at a cost below the regulatory cost allowances or through its performance against the RIIO-ED1 incentive mechanisms.

The RIIO model identifies six output categories with a range of incentive mechanisms attached:

- *Safety*: The provision of a safe network in compliance with Health and Safety Executive ("HSE") safety standards. In this category there is a strong reputational incentive and the penalty of fines if standards are breached.
- *Customer service*: DNOs are incentivised to think about their customers' needs and how best to engage with them through the Broad Measure of Customer Service ("BMCS") which incorporates measures of customer satisfaction, customer complaints and stakeholder engagement.
- *Social obligation*: The Regulator expects the DNOs to develop a specific strategy to improve the service to vulnerable customers which feeds into the BMCS.
- *Network availability and reliability*: Incentive mechanisms to improve the performance of the network, the most important of which is the Interruptions Incentive Scheme ("IIS") based on the number of customer minutes lost and the number of customer interruptions measured against DNO specific targets.
- *Connections*: There are strong incentives for the DNOs to focus on improving the service of connecting customers to the network. As well as the BMCS RIIO-ED1 has a "time to connect" incentive to reduce customer waiting times and an engagement incentive to encourage the DNOs to understand and satisfy the particular needs of a broad range of their customers.
- *Environmental performance*: There is an allowance for undergrounding of overhead lines in Areas of Outstanding Natural Beauty and National Parks and a requirement for the DNOs to report their Business Carbon Footprint ("BCF") in annual league tables. DNOs are incentivised to integrate carbon and other environmental considerations within their day to day business through reputational environmental reporting requirements.

STRATEGIC REPORT continued

Business model continued

Price control RIIO-ED1 continued
The Group's business plan for RIIO-ED1 lays out the DNOs' commitments to deliver measurable outputs against specific targets, within the six categories listed above. The Group reports on the progress in achieving these targets in an annual RIIO-ED1 Business Plan Commitment report, the most recent of which was published in October 2020 for the year ended 31 March 2020 (available on the Group's website at www.ukpowernetworks.co.uk/internet/en/about-us/business-plan). The report examines the progress relating to 77 commitments and indicates whether specific annual outputs have been achieved and if the Group's three DNOs are on target to meet their eight year output objectives.

Separate from the Group's regulated business, the Group's Services business operates in the unregulated network sector and develops, delivers and manages high-voltage electrical and multi-utility networks for owners of major infrastructure. The portfolio includes a range of high-profile clients from both the public and private sector including London's five main airports (Heathrow, Gatwick, Stansted, Luton and City), High Speed 1 (the Channel Tunnel rail link from Folkestone to London), Network Rail, London Undeground, Southern Water, Aspire (Ministry of Defence) and Canary Wharf. The Group's Services business seeks to develop new opportunities within target markets such as rail, airports, defence and nuclear.

Review of the business

The operations of the 3 DNO's, EPN, LPN and SPN are regulated under their respective distribution licences. Revenues are subject to a price control regulatory framework which provides economic incentives to maximise operating, capital and financing efficiencies.

The Directors aim to optimise shareholder returns through the safe operation of and efficient investment in the network while seeing that the business delivers high levels of customer service and operates within the boundaries of the price control allowances set by Ofgem.

The allowed revenue is calculated to finance an efficient level of operating costs, a capital expenditure programme and deliver a return on investment on the regulatory asset value. The DNOs have an opportunity to outperform the allowed revenue through the delivery of efficiencies beyond the regulatory cost allowances and through other performance based incentive mechanisms. Such outperformance delivers benefits to customers and the environment and creates value for shareholders. The key areas of focus are:

- Outperforming the cost allowances set by Ofgem through the delivery of sustainable efficiencies;
- Improving network performance by reducing the number and average length of power interruptions and outperforming the targets set by Ofgem; and
- Improving the levels of customer service across key parts of the business.

UK Power Networks was named "Network of the Year" at the Network Awards 2020 for its industry-leading performance in safety, reliability and innovation. In addition UK Power Networks was ranked first on the Singapore Power Smart Grid Index in a study of 85 utilities across 37 countries. The Index measures the progress that utilities have made against seven key metrics: customer satisfaction and environment; green energy; security; monitoring and control; data analytics; supply reliability and distributed energy resources integration.

STRATEGIC REPORT continued

Review of the business continued

Our customers

Through its three DNOs, the Group serves 8.3 million homes and businesses located in London, the East and South East of England.

The Group aims to provide an excellent service to its customers at a low cost and is constantly looking for ways to improve efficiency through innovation and effective business processes.

Customers also expect reliability and good service. These are measured by Ofgem through industry-wide metrics, and the Group's performance against them has improved significantly. The current performance can be seen on pages 6 to 7.

Customer engagement is at the heart of the Group's values. It 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. Initiatives taken by the Group to engage with customers are discussed on page 32 to 33.

Our people

The Group recognises the importance of recruiting, developing and retaining high calibre people. It is through its people that the Group will achieve success in safety, innovation, customer service and reliability. The Group aims to attract good people and continuously improve the work environment by engaging with employees through multiple channels, listening to what they say and ensuring they are informed about the business.

There are various awards and accreditations which the Group strives towards, to promote the development of a skilled and diverse workforce, such as The Sunday Times Top 25 Best Big Companies to Work For, Investors in People, National Equality Standard and the Inclusive Top 50 UK Employers.

The achievements and activities relating to employee well being and engagement are discussed on pages 31 to 32.

Our response to the COVID-19 pandemic

Business resilience and well developed business continuity plans have enabled the Group to sustain its operational and financial performance during the COVID-19 pandemic. With a primary focus on the safety and welfare of employees and customers, the Group has continued to achieve its main objective of delivering safe and reliable electricity supplies.

The Group has closely monitored the evolving pandemic situation and followed Government guidelines to minimise the risk to customers and members of the public and to safeguard staff in their role as key workers. Measures taken to mitigate the risks arising from the pandemic include:

- Clear regular communications to inform staff of the latest developments and guidelines.
- Use of Personal Protective Equipment ("PPE") and specific safety procedures for field staff entering premises with occupants that may be self isolating due to a COVID-19 infection or shielding.
- Facilitating working from home to limit contact between staff members and with members of the public.
- Social distancing arrangements, temperature checks and hygiene practices to create "COVID-19 secure" work environments at operational and office sites.

The Group's capital projects were impacted by reduced levels of activity during the initial lockdown period in March and April 2020. A recovery phase was initiated during May 2020 on a prioritised basis, to resume the work that had been paused in the previous months. By June 2020, operational activities were back up to full capacity. Over the winter, the Group adapted to the changing lockdown restrictions and maintained its operations at near normal levels using the safe work methods developed during the early stages of the pandemic. A large proportion of office staff worked from home but all offices remained open for those staff who needed to be on site to work effectively.

STRATEGIC REPORT continued

Review of the business continued

Our response to the COVID-19 pandemic continued

Although the domestic demand for electricity increased during the lockdowns, the suspension of activities by many businesses, resulted in an overall reduction in units distributed. The annual tariff increases within the price control resulted in higher turnover compared to the prior year, despite the reduction in volumes.

UK Power Networks has not made use of any of the COVID-19 support schemes established by Government. A number of smaller energy suppliers facing cash flow challenges as a result of the crisis, were granted extended payment terms in a support scheme initiated by Ofgem. This allowed certain of the Group's debtors to spread payments over 7 months from April 2020 to March 2021 but did not have a material effect on the Group's cash flows.

As set out on page 11 the Group continues to monitor the COVID-19 pandemic as a principal risk.

Financial performance for the year ended 31 March 2021

Turnover increased from £1,725.9m in the prior year to £1,760.0m, primarily due to tariff increases within the regulatory price control. However there was an overall reduction in distribution volumes of 7.4% as a result of lower demand for electricity from businesses during the COVID-19 lockdowns.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased from £1,270.2m to £1,294.3m driven by the increase in turnover partially offset by an increase operating costs.

Profit after tax for the financial year reduced from £505.8m to £493.1m reflecting a rise in finance costs due to changes in the fair value of derivative swap instruments. This was partially offset by higher EBITDA and a reduction in the tax charge from the prior year which included the deferred tax impact of the tax rate increase from 17% to 19%.

Gross capital expenditure on tangible assets was £815.1m, a reduction of £52.8m compared to the prior year due to lower capital work volumes in response to the COVID-19 pandemic. This expenditure primarily relates to improvements to the electricity networks. Capital expenditure net of customer contributions decreased by £27.6m to £598.5m.

Key performance indicators (KPIs)

The key performance indicators used by the Board of Directors in their monitoring of the performance of the Group focus on the areas of safety, network performance and reliability, customer service and financial 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 regularly 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. The Group recorded 5 LTIs in the year ended 31 March 2021 which is an increase on the 2 LTIs recorded in the prior year, but remains an industry-leading safety performance. The circumstances of each LTI are reported and investigated in detail with the aim of preventing the recurrence of such incidents. Findings from the investigations are used to improve training and safety procedures as well as raise awareness across the organisation.

STRATEGIC REPORT continued

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 table below. Apart from a marginal increase in CIs in EPN there have been improvements in all areas compared to the prior year. Each DNO remains ahead of targets set by Ofgem.

		Year ended 31 March 2021	Year ended 31 March 2020
* Customer Minutes Lost per customer (CMLs)	EPN	**32.4**	33.8
	LPN	**11.4**	14.4
	SPN	**32.0**	32.8
* Customer Interruptions per 100 customers (CIs)	EPN	**44.1**	43.7
	LPN	**13.0**	13.2
	SPN	**44.4**	45.1

* 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.

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.

The DNOs have achieved their best ever scores in the current year and remain well above the industry wide target of 82%, as set out in the table below.

		Year ended 31 March 2021	Year ended 31 March 2020
Customer satisfaction score	EPN	**93%**	92%
	LPN	**92%**	91%
	SPN	**92%**	90%

STRATEGIC REPORT continued

Financial key performance indicators

The Group's key financial performance indicators are set out in the table below.

	Year ended 31 March 2021	Year ended 31 March 2020
Turnover (£m)	**1,760.0**	1,725.9
EBITDA [1] (£m)	**1,294.3**	1,270.2
Profit after tax (£m)	**493.1**	505.8
Cash generated from operations (£m)	**1,302.5**	1,333.5
EBITDA interest coverage ratio [4]	**5.1x**	4.9x
Gross capital expenditure on tangible assets (£m)	**815.1**	867.9
Capital expenditure on tangible assets net of customer contributions (£m)	**598.5**	626.1

	As at 31 March 2021	As at 31 March 2020
Regulatory asset value (RAV) [2] (£m)	**6,475.2**	6,334.3
RAV gearing [3]	**67%**	69%

1. EBITDA is a non-statutory measure, and is calculated by adding back amortisation and depreciation to operating profit (also explained in subsequent paragraphs).

2. "RAV" is the Regulatory Asset Value of the business. The 31 March 2021 RAV presented is provisional at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The prior period comparatives have been restated to reflect the latest agreed position.

3. RAV gearing is the ratio of the net debt of the Regulated businesses (as defined within certain of the Group's covenant arrangements) to the RAV.

4. Interest cover is the number of times the underlying finance cost (net finance cost as disclosed in note 6 excluding pension interest and fair value gains or losses on derivative instruments) is covered by EBITDA (also explained in subsequent paragraphs).

STRATEGIC REPORT continued

Financial key performance indicators continued

EBITDA

The EBITDA measure excludes the effect of interest, taxation, depreciation and amortisation from earnings and thus reflects the operational performance of the business. It is also the basis for certain of the Group's covenant metrics. The closest statutory measure is operating profit which is reconciled to EBITDA as follows:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Operating profit as presented in profit and loss statement	**909.2**	901.6
Share of joint ventures' operating profit/(loss) as presented in profit and loss statement	**0.1**	(0.7)
Depreciation of tangible fixed assets (note 5)	**324.5**	310.4
Amortisation of goodwill (note 5)	**26.8**	26.8
Amortisation of other intangible assets (note 5)	**33.7**	32.1
EBITDA (£m)	**1,294.3**	1,270.2

Operating profit and the share of joint ventures' operating loss are presented in the profit and loss statement. Depreciation and amortisation are disclosed in note 5 to the financial statements.

Removing the effect of depreciation and amortisation from operating profit provides a clearer measure of operating efficiencies within the business and enables comparison with industry peers.

Capital expenditure

Gross capital expenditure is a measure of the Group's investment in the electricity distribution networks during the year. Capital expenditure net of customer contributions, as calculated in the table below, is also monitored because the contributions received from customers as payment for connections to the networks, are directly attributable to those network assets.

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Gross capital expenditure on tangible assets (note 11)	**815.1**	867.9
Less: Customer contributions received in the year (note 23)	**(216.6)**	(241.8)
Capital expenditure net of customer contributions	**598.5**	626.1

RAV gearing

The proportion of debt measured against the Regulatory Asset Value of the business indicates the capacity of the business to source additional finance. This is a key metric for the Group's covenant arrangements with pension trustees and providers of finance and is monitored on a regular monthly basis. The RAV gearing ratio at 31 March 2021 of 67% (2020: 69%) is within the pension and bank covenant targets.

STRATEGIC REPORT continued

Financial key performance indicators continued

Interest cover ratio
The interest cover ratio, calculated below as the number of times the underlying finance cost is covered by EBITDA, is a measure of the Group's ability to pay interest on outstanding debt. This indicator allows the Group and its creditors and lenders to assess whether earnings are sufficient to cover interest payments and to monitor this relationship from year to year.

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
EBITDA (as calculated above)	**1,294.3**	1,270.2
Underlying finance cost		
Net finance costs (note 6)	**294.5**	208.4
Less: Net (loss)/gain related to derivative instruments (note 6)	**(43.2)**	53.6
Less: Net interest income/(cost) related to defined benefit pensions (note 6)	**4.0**	(2.4)
	255.3	259.6
Interest cover ratio (EBITDA / Underlying finance cost)	**5.1x**	4.9x

The underlying finance cost excludes the net (loss)/gain related to derivative instruments and the net interest income/(cost) related to defined benefit pensions because these items are subject to volatility arising from changes in the financial markets. Removing these effects provides a more stable measure of interest cover enabling comparison across different periods.

Risk identification and management

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.

Control procedures have been implemented throughout the Group to mitigate the risks identified. Compliance with internal controls is monitored through three lines of defence being:

- management control;
- oversight and challenge; and
- assurance provided by the Internal Audit function and third party assurance providers.

The Group's system of risk management and internal control is described in more detail on pages 29 to 31.

STRATEGIC REPORT continued

Principal risks and uncertainties

As well as the opportunities the Group has to grow and develop its business, certain risks and uncertainties are faced in achieving its objectives. The Group's principal risks and uncertainties, and a summary of actions to mitigate them, are set out below. There are no significant changes compared to the prior year except that COVID-19, identified previously as an emerging risk, is now established as part of the Top 10 risks in the Group's risk register and described below:

Risk	Mitigation
COVID-19 Inadequate response to the COVID-19 pandemic could result in a failure in UK Power Networks performance (e.g. power outages at key facilities, safety incidents, poor customer service and/or breach of licence conditions) resulting in significant financial and reputational damage and a less engaged and committed workforce.	The COVID-19 risk is continually monitored using guidance from Public Health England, the Department of Business, Energy and Industrial Strategy ("BEIS"), and Ofgem. Employees are provided with updates on a regular basis via email, a dedicated information site on the intranet and frequent video briefings and Q&A sessions by the Chief Executive Officer. There are regular consultations with Trade Union Representatives. The Group's response plan has three phases: Response, Recovery and Re-imagination which include the following measures: • Scenario planning to stress test the business continuity plans for each business unit. • Adapting work practices, safety procedures and training to protect employees in the workplace and where they come into contact with members of the public or contractors. Measures include providing appropriate PPE to field staff, splitting operational teams to ensure social distancing, re-organising operational sites and offices in line with COVID safety government guidelines. • Review and reprioritisation of work on the network as required, in response to the changing risks. • Recovery plans to monitor work back-logs against strategic targets and resume work as quickly as possible if projects are impacted by the pandemic. • Additional support measures for vulnerable customers. • Monitoring by senior management of key performance areas which could be impacted by COVID-19 e.g. network safety and performance, customer satisfaction levels, employee health and absenteeism, PPE allocation, adherence to new policies and procedures, financial impacts. The changing risk profile of the pandemic and the Group's response is under constant review by senior management in three main forums: the Incident Leadership team, the Organisational Resilience Leadership team and the Strategic Operational team.

STRATEGIC REPORT continued

Risk	Mitigation
Health and safety incidents There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public or a third party. Any such incident could lead to a prosecution or a fine and have an adverse impact on the reputation of the Group.	The Group aims to create and foster a culture in which safety is the highest priority in the minds of everyone who works at UK Power Networks. The Group runs a range of programmes and initiatives, such as its Be Bright Stay Safe campaign, aimed at staff and those outside of the Group to promote safety and make them aware of potential hazards and how to operate in hazardous situations. The Group actively monitors, measures and investigates safety incidents, including near misses, and seeks to learn from each one.
Major outage of 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. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Group.	The reliability of the Group's network is a key performance indicator and is closely monitored by the Group. Investment in the network is prioritised to those projects which are likely to have a beneficial impact on reliability, and the Group strives to continually innovate to improve the ways in which it identifies and manages the risk of outages. The Group has a well developed plan for dealing with storms and other major weather events, and has extended that planning activity to other potentially damaging events such as a pandemic flu event. Through its risk management activities, the Group has become the first DNO to achieve level 4 from the Cabinet Office Emergency Planning College assessment for Organisational Resilience based on BS 65000:2014 *Guidance on Organisational Resilience*.

STRATEGIC REPORT continued

Risk	Mitigation
Cyber security breach A cyber security breach which results in a failure of the Group'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 Group'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.	A Cyber Security Improvement Programme operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation. The Group focuses its activities in this area across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactive testing of resilience. All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation. The Group operates a training programme to see that all its staff are aware of cyber risks and know how to minimise and manage those risks, as well as how to respond in the event of a suspected breach.
Regulatory environment The prices which can be charged for the use of the Group's networks are determined in accordance with the Regulator approved price controls. The current price control, RIIO-ED1, comes to an end in March 2023 when a new price control RIIO-ED2 will come into force. The methodology for pricing in RIIO-ED2 is not yet known and could result in lower financial returns in future years.	Industry regulation is set by Ofgem who operate independently of the DNOs, and therefore there is limited ability for the Group to directly mitigate this risk. However, the Group regularly engages with Ofgem directly and through formal consultation processes, and with other industry bodies in various forums, to ensure the Group's interests are represented in industry discussions.
Funding and liquidity risk The Group's financing requirements are partially met through bonds and bank lending facilities. There is a risk that the Group is not able to access funding at acceptable rates, either through changes in market conditions or through a downgrade in the credit rating of the Group, or through breaching covenants on existing facilities.	The Group has established a Treasury Committee, a sub-committee of the Board, which oversees the setting of treasury policy and guidelines, and seeks to ensure that treasury risks are identified and managed. The Group monitors its financial position carefully on a regular basis, including the use of detailed financial projections that assess funding requirements and performance against credit metrics and covenants of the Group. The Group has spread its debt maturities over a number of years in order to reduce the concentration of funding risk in any one financial year. More details of the Group's approach to dealing with financial risks are shown on pages 16 to 17.

STRATEGIC REPORT continued

Risk	Mitigation
Non-compliance with regulatory requirements The electricity industry is subject to extensive regulatory obligations with which the regulated network business must comply. Non-compliances can result in financial penalties and have a negative reputational impact.	The Group operates a Regulatory Compliance programme which seeks to ensure that regulatory risks and obligations are understood, with controls and processes in place to meet regulatory compliance requirements and to manage risks of non-compliance.

The challenge of climate change
Climate change is having, and will continue to have, a significant impact on the electricity industry in which the Group operates, in particular on public policy, customer behaviours, regulatory frameworks, financial performance and public opinion. This creates both risks and opportunities in relation to future performance. Set out below is a summary of how climate related risks and opportunities are addressed, the Board's strategy for responding to climate change, its risk management activities, and the use of metrics and targets to measure progress against the Group's strategy.

Governance
As described on pages 29 to 31 the Group has implemented governance procedures to identify risks and opportunities faced by the Group. The Group's Corporate Governance Framework Policy, which outlines the governance structure within the Group, is supported by the Risk, Control and Compliance Policy and underlying procedures to identify risks, implement and monitor internal controls, report on incidents and develop contingency plans. Climate related risks are considered as part of this risk management process.

The Group operates in an industry characterised by long term investment to ensure a sustainable energy supply for customers. The consequences of the Group's strategy over the long term are considered in its long term business plans and projections, including a detailed business plan agreed with Ofgem at the start of each price control period. The Group actively engages with a wide range of stakeholders, including customers, community bodies, local government, industry experts and the regulator, regarding its strategy and long term objectives. The Group's business plan includes strategies to address climate change and sets out how the Group will contribute to the UK's ambition to reduce carbon emissions. This will be a key feature in the business plan submitted to Ofgem for the next price control RIIO-ED2, from 1 April 2023 to 31 March 2028.

Strategy
The Group's strategy is to make a significant contribution to the UK's transition to a low carbon economy by investing in infrastructure and enabling new technologies. Key areas of focus include:

- Connecting increasing volumes of renewable energy (such as wind and solar) to the network. Forecasts indicate that by 2030 80% of homes on the Group's network will be powered by renewables.
- Facilitating Electric Vehicle uptake. The Group is supporting the roll out of Electric Vehicle infrastructure. By 2030 4.5 million Electric Vehicles are forecast to be using charge points on the Group's network.
- Heat decarbonisation. The Group's strategy to facilitate the deployment of low carbon heating systems is to: provide data and evidence to support government policy in this area; to provide excellent service to customers wishing to connect low carbon heating solutions; and to prepare its networks for the new demands of electrified heating.

It is anticipated that electricity storage technology will become more important as the need for greater flexibility increases. The role of the Group is expected to transform from being a Distribution Network Operator ("DNO") which manages the network to a Distribution System Operator ("DSO") which is proactive and enables a smart, flexible system that responds to customer needs.

STRATEGIC REPORT continued

The challenge of climate change continued

Strategy continued
Innovation is central to achieving the Group's strategy. The Group seeks new ways to improve what it does for customers by identifying, developing and applying smart solutions to make the network more efficient, greener, safer and more reliable. Through its innovation team and smart grid team the Group is working towards 'a smart grid for all' that enables customers and communities to benefit from a decentralised, decarbonised and digitised electricity system.

Other environmental activities include the reduction of pollution through replacement of fluid filled cables, the control and mitigation of losses from equipment containing oil and the greenhouse gas Sulphur Hexafluoride and a commitment to the under-grounding of cables in areas of outstanding natural beauty and in national parks.

Risk management
The Group actively monitors and manages risks, including risks relating to climate change. Its key activities to manage climate risk are as follows:

- The Group has implemented a Climate Resilience Strategy which assesses the threat and potential impacts different climate change scenarios could have on its operations. It uses the UK Climate Projections (UKCP18) to identify the climate hazards under the highest emission scenario, addressing eight hazards including flooding, extreme high temperatures and winds.
- It also works actively with the Energy Networks Association to collaboratively identify and assess the climate change hazards to the networks, and identify solutions.
- The Group has business continuity plans in place to respond to major events, which may include climate related events that could affect its operations. These continuity plans are actively monitored and tested as part of the Group's resilience planning.
- Insurance policies are in place to mitigate the financial impact of significant adverse events, including those relating to climate events and natural disasters.
- The Group's environmental management systems are compliant with ISO14001.

Further details of the Group's risk management framework can be found on page 29 to 31.

Metrics and targets
The Group monitors its progress in tackling climate change in various ways:

- The Green Action Plan which was launched in 2019 and is developing over time, sets out targets for reducing the Group's impact on the environment in relation to carbon emissions, waste, water usage, air and noise pollution and biodiversity. Progress against these targets is reported on the Group's website at www.ukpowernetworks.co.uk/internet/en/about-us/sustainability).

- The Group's RIIO-ED1 Business Plan includes social and environmental commitments. Progress in meeting these commitments is reported to Ofgem annually and published on the Group's website at www.ukpowernetworks.co.uk/internet/en/about-us/business-plan).

- A key element of the Business Plan for the next price control RIIO-ED2 will be an Environmental Action Plan, focusing on four main areas with measurable targets for each:

    - Decarbonisation with science-based targets. In April 2021 the Group became the first UK DNO group to set Science Based Targets accredited by the Science Based Target Initiative ("SBTi") providing independent verification that the Group's targets are robust and in line with the latest science and Paris Agreement goals. The target to reduce the Group's total carbon footprint equates to a 28% reduction by 2028 from a 2018/19 baseline and covers all emissions.

STRATEGIC REPORT continued

The challenge of climate change continued

Metrics and targets continued

- Reducing the Group's impact on limited resources through developing circular economies and avoiding landfill for any recyclable items. Targets include recycling 80% of office, depot and network waste by 2028, re-use of 99.5% of streetworks waste by 2028 and zero waste to landfill for all recoverable wastes from 2023. The Group will also develop a circular economy tool, baselining material inputs and outputs by 2023 and then setting targets once this is completed.
- Reducing pollution arising from business operations and network activity, with a target of reducing Nitrogen Oxide ("NO_x") emissions by 33% by 2028 (from a 2018/19 baseline).
- Improving natural diversity through habitat management at the Group's operational sites, initially focusing on creating a 10% to 20% gain in biodiversity potential at new major substation developments and a 30% gain at 100 existing sites.

- The Group is aligning its activities to the United Nations' Sustainable Development Goals which address the global challenges facing the world. It has prioritised eleven of the UN's goals that are particularly relevant to UK Power Networks.

Carbon emissions data relating to the consumption of energy for the Group's own use is collated and reported internally on a regular basis.

The table below outlines the annual quantities of emissions, in tonnes of carbon dioxide equivalent, resulting from activities for which the Group is responsible involving the combustion of gas or the consumption of fuel for the purposes of transport, and from the purchase of electricity for its own use. It also presents the aggregate annual quantity of energy consumed in MWh relating to these activities.

	Year ended 31 March 2021	Year ended 31 March 2020
Tonnes of CO_2:		
From combustion of gas or consumption of fuel	**29,438**	29,854
From purchase of electricity for own use	**13,239**	15,514
Total	**42,676**	45,368
Total per employee	**7.06**	7.19
MWh consumed relating to the activities above	**170,402**	174,401

Financial risk management objectives and policies

The Group is financed by a combination of equity and retained profits, bonds, a committed shareholder loan facility and bank lending facilities. The Group's funding and liquidity are managed within a framework of documented treasury policies and guidelines.

At 31 March 2021 borrowings amounted to £5,848.3m (2020: £5,613.8m) including shareholder loans of £774.2m (2020: £774.2m), bond debt of £4,376.7m (2020: £4,142.8m) and loans from the European Investment Bank ("EIB") of £697.4m (2020: £696.8m). The Group's principal financial assets are cash balances and trade and other receivables.

The Group's activities expose it to a number of financial risks, the most important of which are interest rate risk, foreign exchange risk, credit risk and liquidity risk.

STRATEGIC REPORT continued

Financial risk management objectives and policies continued

Interest rate risk

The interest rate exposure on the Group's debt is partially hedged in order to provide the desired mix of fixed, floating and index linked interest rates to achieve a balanced debt portfolio with a similar profile to that of the cost of debt allowance within Ofgem's price control. The use of financial derivatives is governed by the Group's treasury policies which provide written principles on the use of financial derivatives to manage interest rate risks. The Group does not use derivative financial instruments for speculative purposes.

Foreign exchange risk

There is exposure to the financial risk of changes in foreign currency exchange rates arising from the purchase of goods and services denominated in foreign currencies. At the balance sheet date the Group held forward foreign currency contracts worth 24.0m Euros (2020: 27.0m Euros) to hedge the foreign currency exposure on certain equipment purchases.

Within its borrowings the Group holds a 315 million US dollar bond (nominal sterling value £203.2m) and a 5 billion JPY bond (nominal sterling value £33.8m) which are converted to sterling by way of cross currency swaps to provide some protection against exchange rate movements.

Credit and liquidity risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of impairment allowances for expected credit losses. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are large recognised banks with investment grade credit ratings assigned by international rating agencies. The Group does not have a significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group generates cash primarily from use of system charges which are payable within 14 days of the demand for payment. Payments to suppliers and contractors are made in accordance with negotiated terms. Other principal cash outflows include interest, taxation and dividends. The Group plans its working capital requirements to take account of expected cash inflows and outflows.

Liquidity risk is managed by spreading debt maturities over a range of dates which provides comfort that the Group is not subject to excessive financing risk in any one year. The Group is able to raise finance in financial markets supported by cash flows generated by the Regulatory Asset Value which in part determines the level of allowed revenue that may be recovered. The distribution businesses are required by their distribution licences to maintain investment grade credit ratings.

At the balance sheet date the Group's committed borrowing facilities were:

- £500.0m (2020: £250.0m) available from a revolving credit facility until at least 2024 of which £nil (2020: £nil) was drawn. The terms of the facility were renegotiated in December 2020, increasing from £250.0m to £500.0m; and
- £3.0 billion (2020: £3.0 billion) available on a shareholder loan facility until 2041 of which £774.2m (2020: £774.2m) was drawn.

The unregulated services business is committed to funding of £200m in the form of notes to be drawn in the next financial year, in October and November 2021, as refinancing for a USD bond which matures in December 2021. Negotiations were completed with investors in March 2021 for the first £100m and May 2021 (subsequent to the balance sheet date) for the second £100m. The notes will mature in 2041 and carry fixed rate annual coupons of 2.7%.

The Directors believe the Group has sufficient resources to service its assets and liabilities for the foreseeable future. Cash generated from operations for the year amounted to £1,302.5m (2020: £1,333.5m). The net cash outflow from investing activities was £817.4m (2020: £878.1m) and the net cash outflow from financing activities was £251.5m (2020: £415.4m).

STRATEGIC REPORT continued

Pension commitments

A significant proportion of the Group's employees are members of two funded defined benefit pension schemes: the UK Power Networks Group of the Electricity Supply Pension Scheme (the UKPN Group Scheme); and the UK Power Networks Pension Scheme (the UKPNPS). Both schemes are closed to new members. A defined contribution pension scheme, introduced in 2011, is open to all new employees. There is automatic enrolment to the scheme in the first month of employment but employees do have the choice to opt out.

The Group's defined benefit pension obligation at 31 March 2021, accounted for under FRS 102, amounts to a net deficit of £29.0m (2020: net surplus of £82.0m). This comprises a surplus of £176.0m (2020: surplus of £144.0m) in the UKPN Group scheme and a deficit of £205.0m (2020: deficit of £62.0m) in the UKPNPS scheme.

Taxation

The Company operates entirely within the United Kingdom and is subject to all the main charges which fall under UK legislation. These include corporation tax, VAT, national insurance, regulatory licence fees, local authority fees (such as road permits issued under the New Roads and Streetworks Act) and relevant rates.

The Group has a significant long term capital expenditure programme which generates a charge against taxable profit through capital allowances. The timing of the tax relief on these allowances has the effect of delaying the payment of corporation tax and giving rise to a deferred tax liability. At 31 March 2021 the Group's net deferred tax liability was £492.3m (2020: £501.2m).

The acquisition of the Distribution businesses and unregulated businesses in 2010 was funded partly by an injection of equity and partly through the provision of interest bearing shareholder loans. The loans are the subject of an Advance Thin Capitalisation Agreement agreed with HMRC.

Subsequent events after 31 March 2021

Important events which have occurred since the end of the financial year are as follows:

- On 21 May 2021 the 20% share of the Group ultimately held by Li Ka-Shing Foundation Limited (incorporated in Hong Kong) was transferred to CK Asset Holdings Limited, a company incorporated in the Cayman Islands (refer to notes 29 and 30).
- The corporation tax rate increase from 19% to 25% with effect from 1 April 2023, within the Finance Bill 2021, was substantively enacted on 24 May 2021. Remeasuring the 31 March 2021 deferred tax liability at the new rate of 25% will result in a charge of £149.1m to the profit and loss account in the next financial year ended 31 March 2022. The rate increase has no effect on the tax charge for the year ended 31 March 2021 (refer to notes 9 and 30).

Factors likely to affect future development and performance

The following trends and factors are expected to influence the future financial position and performance of the Group.

COVID-19
There is still uncertainty in predicting the full extent and duration of the COVID-19 impact on the business. The Group's business model has been stress tested to understand the impact under several severe but plausible downside scenarios, as discussed in the Going Concern statement on page 20. The Directors' continued assessment is that the effects of the COVID-19 pandemic are a temporary disruption which are not expected to have a material effect on the long term financial position and prospects of the Group. However COVID-19 remains on the risk register as part of the top ten risks as discussed on page 11.

STRATEGIC REPORT continued

Factors likely to affect future development and performance continued

Workforce renewal programme
The Group runs various programmes which recruit and develop the UK Power Networks workforce to meet the future needs of the business.

The recruitment and training of technically skilled staff is promoted through Graduate and Engineering development programmes, apprentice schemes and a Smart Metering Traineeship.

Management training is important for safety, quality of work and efficiency and is sourced either internally through the Human Resources function or through third-party suppliers. The Group has this year launched a leadership academy which is a structured training programme for around 600 middle managers who will work towards a Chartered Management Institute diploma in leadership and management.

Innovation
The Group has a dedicated innovation team seeking to deliver solutions in the following areas:

- Improving the performance of the network in terms of safety, reliability and efficiency. Projects aim to deliver measurable impacts on for example customer interruptions (CIs), customer minutes lost (CMLs), carbon emissions and safety performance.
- Enabling low carbon technologies like electric vehicles, renewable energy and energy storage. Projects aim at improving network access through reducing time and cost to connect low carbon load, generation, and storage technologies.
- Developing the Group's future capabilities as a Distribution System Operator to deliver a secure, reliable low carbon energy system that addresses its customers' evolving needs.

RIIO-ED2 (1 April 2023 to 31 March 2028)
The challenge of the next price control RIIO-ED2 will be focused around maintaining affordability for customers in light of the new demands of connecting low carbon technologies and increased generation to the distribution network. The Group aims to make a positive contribution to the design of the price control. Its draft RIIO-ED2 business plans were submitted to Ofgem on 1 July 2021 and will be subject to review and further consultation, with final determination scheduled for December 2022.

Key long-term objectives
The Group's key long-term objectives beyond 2021 are summarised below:
- Continued high performance in safety, network reliability, customer satisfaction and stakeholder engagement.
- Facilitating distributed energy resource deployment e.g. Electric vehicles, storage, to enable the net zero transition.
- Seeing that customers in vulnerable circumstances are not left behind in the energy transition.
- Developing the Group's digital and data analytics capability.
- Embedding organisational resilience to strengthen the Group's response to major events such as storms or pandemics.
- Developing and delivering the Group's RIIO-ED2 social contract.
- Delivering sustained growth in the Services and Connections businesses.

STRATEGIC REPORT continued

Going concern

The Group's business activities together with details regarding its risk management policies and its future development, performance and position are set out in the preceding paragraphs of this Strategic Report. Further detail in respect of its financial instruments and hedging activities and exposure to credit risk and liquidity risk are included in the relevant notes to the financial statements.

In considering the going concern basis in preparing the financial statements, the Directors have taken the Group's annual budget and long-term plan into account as well as the following factors:

- The Group is profitable with strong underlying cash flows. The distribution businesses generate stable, predictable revenues regulated by Ofgem under an established price control mechanism.
- The unregulated infrastructure projects operate under profitable long-term contracts.
- The Group is funded by debt with an average maturity of 9 years and has access to committed borrowing facilities. These include a long term shareholder loan facility of £3.0 billion with drawings of £774.2m due for repayment in 2041 and undrawn credit facilities of £500.0m available until at least 2024.
- The Group has the ability to access external debt markets supported by cash generated from its operations. In June 2020 the Group raised additional finance through the issue of a £300m sterling bond which carries interest at 1.875% and matures in 2035. In December 2020 access to revolving credit facilities was increased from £250m to £500m and extended to 2024 with options to extend to 2026.
- The three DNOs of the Group maintain investment grade credit ratings, as required by their distribution licences. Due to the forecast stability of these entities their credit ratings were upgraded by one rating agency in July 2020. Combined with the Group's track record of securing finance during the year, this provides comfort to the Directors that the Group is able to access the capital markets when required.
- At 31 March 2021 the Group had a net current liability position of £501.5m reflecting debt due to mature within the next 12 months which includes a £400m sterling bond maturing in September 2021, a £90m loan from the European Investment Bank maturing in November 2021 and a 315m USD bond (nominal sterling value £203.2m) maturing in December 2021. To replace the USD bond, the unregulated services business has already secured funding of £100m in notes to be drawn in October 2021 and £100m to be drawn in November 2021. The notes will mature in 2041 and carry fixed rate annual coupons of 2.7%. Negotiations were completed with investors in March 2021 for the first £100m and May 2021 (subsequent to the balance sheet date) for the second £100m. The Group is in the process of negotiating further debt arrangements to be drawn in 2021.
- The Directors are confident that, in addition to the anticipated refinancing, the Group has sufficient resources to meet these obligations as they fall due, which include cash reserves of £385.0m, the undrawn £500m revolving credit facility and the headroom available in the £3.0 billion shareholder loan facility.

Although the COVID-19 pandemic has had an impact on distribution volumes and progress on capital projects the Group has felt the effects of the pandemic less than many other businesses in the UK. There has been no significant decline in revenues, the Group has not required any funding support from the government and the adverse economic climate has not resulted in an increase in debtors. As key workers, the Group's employees continued to work, support all customers and provide a safe and reliable electricity network throughout the lockdowns. The Directors have applied sensitivities to the Group's forecasts with a central case that anticipates a recovery of distribution volumes and the majority of the Group's activities to previous levels, within the next twelve months. In addition, forecasts have been stress tested with different scenarios including higher costs due to major storms, a volume driven reduction in revenues arising from further COVID-19 lock downs or similar events, unexpected operational or capital expenditure required in response to safety incidents and higher levels of bad debt in the COVID-19 economic climate.

The forecast modelling has shown that the Group will remain profitable over the next 12 months, under all reasonable scenarios, and there is considerable headroom in lending facilities and covenants (comprising gearing and interest cover measures) which underpins the going concern assumption on which these financial statements have been prepared. The stress tests in the forecast modelling indicate that, even in the pandemic impacted economic environment, the decline required in the Group's financial performance to result in a covenant breach, is remote. The Directors closely monitor cash conversion and covenants, and there are a number of mitigating actions including delay in capital expenditure and deferral of discretionary dividend payments within the control of the Group.

STRATEGIC REPORT continued

Going concern continued

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, demonstrate that the Group will be able to operate within its credit facilities. The Group has delivered a strong financial and operational performance during the year. While there remains uncertainty, the Directors' assessment is that the pandemic is not expected to have a material impact on the Group's financial position and prospects in the medium to long term. The Directors are satisfied that the Company and the Group have adequate resources to continue operating for the foreseeable future and on this basis the principle of a going concern has been adopted in the preparation of the financial statements.

Viability statement

Taking into account the Group's current position and its principal risks (as discussed in the preceding paragraphs of this Strategic Report), the Directors have also assessed the Group's prospects and viability. The Group's business model has proved to be stable and defensive, supported by a consistent revenue stream from a regulated market. The Group serves more than 8 million homes and businesses within the three regions that the DNOs serve.

The strategy of being an employer of choice, a respected and trusted corporate citizen and sustainably cost efficient is designed to enable the Group to be a leading performer in the electricity distribution industry. The business is underpinned by a regulated asset base which supports the Group's ability to raise finance in the debt markets. The key revenue generating units of the Group are three distribution licence holders, Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc which all maintain investment grade credit ratings.

The Directors assess the Group's prospects on a regular basis. Although there is no reason not to believe that the Group will be viable over a longer period, including having considered the impacts of COVID-19, and given the business model, current regulatory clarity, and other factors affecting the external environment, the Board has chosen to monitor the viability of the Group over a five year forecast period up to 31 December 2025. This period is used as it aligns with the Group's formal financial planning process and provision of information to its shareholders. The Board also consider the Group's profitability, cash flows, funding requirements and the elements of non-financial performance that can impact the regulatory return.

The five year plan is built from the RIIO-ED1 plan, and an initial assessment of the RIIO-ED2 business plan and financial returns, updated to reflect performance to date and the latest forecasts through an annual financial planning process. The performance of the Group against the annual forecast is monitored monthly.

The Group's forward plan has been stress tested using sensitivity analysis, which reflects plausible but severe combinations of the principal risks of the business and the impact on cash flows. These stress test events included potentially higher costs due to major storms, a volume driven reduction in revenues arising from further COVID-19 lockdowns or similar events, unexpected operational or capital expenditure required in response to safety incidents and higher levels of bad debt in the COVID-19 economic climate.

The stress tests have been considered in isolation as well as in combination to allow the Board to make its assessment of the Group's viability. Although each of the scenarios may be plausible in isolation, the Board considers that for all of them to occur simultaneously, is extremely unlikely. In this stress testing, management has considered the Board's risk appetite and how the Group's principal risks are managed. In assessing the principal risks, the Board also has considered the strong financial position of the Group, as well as the ability to raise capital and adopt a flexible dividend policy. Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will continue to operate and meet its liabilities as they fall due over the five year forecast period.

No single principal risk, cluster or combination of principal risks was found to have an impact on the viability of the Company and the Group over the five year assessment period. In addition the Group's assurance system contains preventative and mitigating controls to minimise the likelihood of occurrence and / or financial and reputational impact.

STRATEGIC REPORT continued

Section 172(1) statement

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

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

The Group operates in an industry characterised by long term investment in the future to ensure a sustainable energy supply for customers. The consequences of the Group's strategy over the long term are considered in its long term business plans and projections, including a detailed business plan agreed with Ofgem at the start of each price control period, and the Group's own five year projections which are updated annually. Further information on the factors likely to affect future performance and how the Group responds to them can be found on pages 18 to 19.

The Group actively engages with its stakeholders on a regular basis. The Group has identified its key stakeholders as: employees, customers, suppliers, the communities affected by the Group's operations, the regulator and shareholders. Further information about how the Group has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 31 to 34.

As described on pages 25 and 26, the Group's vision is to be a respected and trusted corporate citizen, operating within a set of values which are designed to promote high standards and fair and ethical behaviour.

Fair, balanced and understandable

Taking into account the process and procedures in place to prepare and present the information in the Annual Report the Board considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Group's position and performance, business model and strategy.

Approved by the Board and signed on its behalf by:

....
Basil Scarsella
Director

14 July 2021
Newington House,
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

DIRECTORS' REPORT

The Directors present their annual report on the audited financial statements of UK Power Networks Holdings Limited (the "Company") and its subsidiary undertakings (the "Group") for the year ended 31 March 2021.

The preceding Strategic Report discusses the Group's exposure to financial risks and its financial risk management objectives and policies including the use of derivative financial instruments. An indication of likely future developments in the business, the going concern assessment and the Section 172 statement on the duties of the Directors are also included in the Strategic Report, which forms part of this report by cross reference.

Dividends

Equity dividends of £237.0m were paid in the year (2020: £237.0m).

Political contributions

No political donations were made during the year (2020: £nil).

Directors

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

Andrew John Hunter (Chairman)
Hing Lam Kam
Neil Douglas McGee
Hok Shan Chong (resigned 21 May 2021)
Basil Scarsella
Charles Chao Chung Tsai
Loi Shun Chan
Mei Fan Ngan (resigned 21 May 2021)
Duncan Nicholas Macrae
Kee Ham Chan
Wendy Barnes
Chi Tin Wan

Only Basil Scarsella has a service contract with the Group. The other Directors are all employed by, or have contracts with, immediate or intermediate shareholder companies.

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

Disabled employees

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

Employee engagment

The Group places considerable value on the engagement and involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, various media channels and publications. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees. Activities undertaken to encourage employee engagement are discussed further on pages 31 and 32.

DIRECTORS' REPORT continued

Business relationships

The Group has identified its key stakeholders as: employees, customers, suppliers, the communities affected by the Group's operations, the regulator and shareholders. Further information about how the Group has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 31 to 34.

Energy and Carbon Reporting

The Group's strategy in addressing the risks and opportunities relating to climate change is discussed on pages 14 to 16 with carbon emissions disclosed on page 16.

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

Deloitte LLP have expressed their willingness to continue in office as Auditor and a resolution to reappoint them will be proposed at the Annual General Meeting.

Approved by the Board and signed on its behalf by:

……………………………………..
Basil Scarsella
Director

14 July 2021
Newington House,
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Code

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

The Group operates a range of governance principles and practices on a group-wide basis, which are adopted and implemented by its subsidiaries to the extent they are relevant to their operations. The Companies (Miscellaneous Reporting) Regulations 2018 requires the following companies of the Group to make a statement regarding the corporate governance code they have adopted, and how they have adopted that code:

- Eastern Power Networks plc;
- London Power Networks plc;
- South Eastern Power Networks plc; and
- UK Power Networks (Operations) Limited

The purpose of this report is to set out how corporate governance principles have been applied on a group-wide basis. 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 Group has a clear public purpose: to deliver electricity to London, the East and South East of England. The Board has articulated the vision and values to which the Group aspires in fulfilling its purpose, and these are set out below.

The vision of UK Power Networks is to be consistently the leading Distribution Network Operator through being:

- an employer of choice
    - the safest, with an exemplary safety record
    - an organisation that employees are proud to work for
    - 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 customers in vulnerable circumstances, 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
    - delivering on commitments in a collaborative way
    - delivering profitable growth in the Services and Connections businesses.

CORPORATE GOVERNANCE STATEMENT continued

Principle 1 – Purpose and Leadership continued

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

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

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

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

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

Diversity and inclusiveness: The Group recognises and encourages the value that difference and constructive challenge 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 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 Directors is the principal decision-making forum for the Group. It has overall responsibility for leading and controlling the Group as well as its financial and operational performance.

The Group is wholly owned by a consortium of three companies incorporated outside the UK as set out in note 29 to the financial statements. The Board composition is determined by the shareholding companies, each of which nominates Directors in proportion to their shareholdings. In addition two "Sufficiently Independent Directors" ("SIDs") must be appointed to the boards of the Group's regulated distribution companies as a specific condition of the regulatory licence. The Nominations Committee makes these appointments.

The positions of the Chairman of the Board and Chief Executive Officer ("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 UK Power Networks Group.

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 Group. As such the appointment of an independent Chairman is not deemed necessary. The directors of each wholly owned subsidiary are all members of the Board of the Group, with the exception of the two SIDs of the distribution companies, who are not members of the Board of the Group but do attend the Board and Board committee meetings.

The 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 six meetings of the Board were held during the year with ten to twelve directors present, including at least one representative of each shareholder.

Principle 3 – Directors' responsibilities

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

The powers of the Directors have been set out in the Company's Articles of Association. To ensure good corporate governance the 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 Group. Furthermore the 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 Board is collectively responsible for the oversight of the management of the Group. The Board comprises the CEO of the Group and 11 shareholder nominated Directors including three alternate Directors. The 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 Board in fulfilling its oversight responsibilities, five Board sub-committees have been created with the following terms of reference:

- The *Audit Committee* assists the Board with its responsibilities for financial reporting, maintaining an effective system of internal control and internal and external audit processes. Using risk assessment methodology and taking into account the Group's activities, Internal Audit determines the annual audit programme which is approved and monitored by the Audit Committee. The Audit Committee also reviews the arrangements by which staff may raise concerns in confidence about possible improprieties and monitors any investigations into concerns raised.
- The principal responsibilities of the *Remuneration Committee* include making recommendations to the 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 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 Board with its responsibilities in relation to risk management and to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement. The Board is responsible for approval of the risk management strategy while management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the business.
- The *Nomination Committee* recommends Sufficiently Independent Directors (SIDs) for appointment to the Boards of the Distribution companies. The Committee selects the candidates based on the criteria defined by condition 43A of the distribution licence which requires the SIDs to have a sufficient level of independence from the executive management of the Company and the shareholder companies.

CORPORATE GOVERNANCE STATEMENT continued

Principle 3 – Directors' responsibilities continued

The Nominations Committee meets when required, the Remuneration Committee meets at least once annually and the other committees at least three times annually. A chairman is elected at each meeting by the relevant committee. During the year the Remuneration Committee held one meeting and the Risk Management and Compliance, Audit and Treasury Committees each held three meetings. A quorum was present at each meeting.

A further Board subcommittee has been established in relation to the preparation of and Board assurance over the RIIO-ED2 business plan. This committee has held monthly meetings since June 2020.

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 Group'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 are prepared by the central financial reporting team based on results submitted by each Directorate. Each Directorate is supported by an appropriately qualified finance team who provide advice to the EMT Directors and Managers and liaise with the central reporting team on such matters as the application of accounting policies, procedures and internal controls.

The role of the central financial reporting team includes liaising with the shareholders regarding such matters as accounting policies, planning for changes in reporting requirements and to 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.

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 year to date 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 subcommittee thereof, prior to approval by the Board.

External audit

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

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

CORPORATE GOVERNANCE STATEMENT continued

Principle 3 – Directors' responsibilities continued

External audit

The Audit Committee reports its findings to the 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 Board on whether the 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 Company. 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 31 March 2017 year ended audit engagement.

Principle 4 – Opportunity and Risk

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

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

Risk identification and Internal Control

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

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

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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 4 – Opportunity and Risk continued

Internal control framework

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

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

Internal audit

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

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

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

Monitoring and corrective action

The 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 EMT; and

- Third line of defence – assurance. Assurance is provided by the Internal Audit function and external audits and accreditation exercises are conducted by third party assurance providers.

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 continued

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.

The shareholder companies, 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 Group's policies and structure in relation to the remuneration of senior management and the employees of the Group by reference to corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee is formed by members of the Board and one of the SIDs, and meets on at least an annual basis.

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

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

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

The remuneration of directors is disclosed in note 8 of the financial statements.

Principle 6 – Stakeholder Relationships and Engagement

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

The Group has identified the following as its key stakeholders, and has described below how it seeks to engage with them: employees, customers, suppliers, the communities affected by the Group's operations, the regulator and 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. A diverse workforce, with a range of backgrounds, abilities, skills and experience, is considered to be vital to achieving the best outcomes.

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

Employees continued

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

- A comprehensive annual employee engagement survey by an external survey provider “Best Companies” in which employees provide their views on key matters pertinent to the success of the Group and their own engagement. The results of the survey continue to improve and this year the Group achieved a top rating of 3 stars in recognition of exceptional levels of employee engagement. Feedback indicated that Leadership, Fair Deal and Wellbeing were key areas of strength. Shorter monthly polls are conducted on samples of employees across the organisation, as a supplement to the annual survey.
- The Group has featured on the *Sunday Times Top 25 Best Big Companies To Work For* list since 2013, achieving sixth position nationally in the last survey published in May 2021.
- The EMT actively engage with more than 4,000 employees face to face, via monthly roadshows to sites across the Group (or during the COVID-19 pandemic via video conferencing), in which the workforce hear about the Group’s performance and are able to direct questions 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.
- The values of Diversity and Inclusiveness are key considerations in the Group’s recruitment, training and communication programmes. Training is provided to senior and middle managers on how unconscious biases affecting the way people are treated, can be overcome. Diversity Champions are appointed to act as role models for diversity and equality within the business. Through various forums, employees are asked to share their views on diversity and inclusiveness in the work place and make recommendations for improvement. Achieving the National Equality Standard (NES) accreditation and 3rd place in the 2020 Inclusive Companies list reflects the Group’s intent and commitment toward becoming a truly diverse and inclusive workplace.
- Each employee undertakes performance reviews with their managers, in which their performance against specific objectives is reviewed and discussed, and personal development opportunities and training identified.
- The Group holds an “Investors in People” platinum accreditation which recognises its commitment to excellence in people management, an achievement obtained by only 2% of companies globally.

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.

An important source of customer feedback is 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.

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

Customers continued

The Group has enhanced its service to customers in the following ways:

- Detailed analysis of data from various perspectives such as network performance, geography, and the particular customer experience or circumstances to provide greater insight into what drives customer satisfaction.
- Improved, tailored communication with the customer throughout their journey with UK Power Networks including the use of technology in the form of a Customer App.
- Better collaboration between different parts of the business so that the customer receives a joined up level of service at all points of contact from call centre staff to engineers in the field.

UK Power Networks' customer service performance is currently industry leading with satisfaction scores of over 92% in the year ended 31 March 2021 (refer to page 7). A Group wide campaign has been launched to help drive the culture of improving customer service even further. The campaign involves formal review by senior management of major complaints or service failings to understand what went wrong and how changes can be implemented. These learning points are shared with employees in regular team briefs together with examples of best practice where UKPN has received excellent feedback from customers.

In addition to achieving high customer satisfaction scores, UKPN was ranked in the top 10 companies in terms of complaint handling in the 2020 UK Customer Satisfaction Index ("UKCSI"), which benchmarks customer satisfaction.

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.
- UK Power Networks assesses its suppliers through a pre-qualification platform Achilles Utilities Vendor Database ("UVDB"). As an industry-recognised risk management framework, Achilles UVDB provides a fair, open and transparent means of supplier selection for potential tender opportunities.
- The Group is a signatory to the Prompt Payment Code, which sets standards for payment practices and best practice, working towards adopting 30 day payment terms as the norm, and to avoid any practices that adversely affect the supply chain.
- The Group has formed an alliance model with key strategic partners to promote closer working relationships and common practices on shared projects.

CORPORATE GOVERNANCE STATEMENT continued

Principle 6 – Stakeholder Relationships and Engagement continued

The Community and Environment

As a network operator the Group recognises that its activities can have an impact on the communities and surrounding area where it 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. The Group also undertakes an intensive programme of engagement with such groups when it is forming its business plan for a new price control period. The feedback from these interactions result in initiatives and commitments which the Group delivers as part of its business plan.

The Group maintains a Priority Services Register ("PSR") which, in the event of a power cut, allows it to deliver specific support to customers living in vulnerable circumstances. Many different services are offered to the approximately 1.9 million customers on the PSR ranging from personal calls with information updates, to hot meals, and even alternative accommodation or a mobile generator.

As part of the response to the COVID-19 pandemic, the Group led a collaboration between eight utility firms to donate £0.5m to 21 community foundations, distributing fast funding to local charities, including local food banks, volunteer centres, food delivery services and outreach programmes for those at risk of isolation. In addition the Group's £300,000 Power Partner scheme was repurposed to help people struggling to pay their energy bills while out of work and at home due to lockdown restrictions.

As discussed on pages 14 to 16 UK Power Networks has a Green Action Plan which addresses areas where it impacts the environment and defines clear objectives with deadlines, to help play its part in ensuring its activities are sustainable.

The regulator, Ofgem

The Group is regulated by Ofgem 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.

As part of its response to the COVID-19 crisis the Group participated in a scheme initiated by Ofgem to provide support to smaller energy suppliers facing cash flow challenges in the difficult economic climate. The scheme allowed the spreading of payments over 7 months between September 2020 and March 2021. The Group granted extended payment terms to 15 of its debtors on an invoice value of £7.7m.

Currently, the Group is actively engaged with Ofgem in its preparations for the next price control, RIIO-ED2.

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 Board of Directors, and as such receive regular reporting on financial and operational matters, and are directly involved in strategic decision making.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets and liabilities and financial position of the Company and Group and profit of the Group as at and for the year ended 31 March 2021;
- the Strategic Report and the Directors' Report includes a true and fair view of the development and performance of the business and the financial position of the Group, together with a description of its principal risks and uncertainties; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board of Directors of UK Power Networks Holdings Limited on 14 July 2021:

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Basil Scarsella
Director

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

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of UK Power Networks Holdings Limited (the "parent company") and its subsidiaries (the "group"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 30.

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

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the relevant controls relating to the going concern process;
- Understanding the financing facilities available to the Company, including the associated covenants;
- Assessing all bank covenants and facility expiry dates, and recalculating current and forecast covenant compliance;
- Obtaining an understanding of the going concern forecast prepared by Management, including the downside scenarios as well as evaluating any plan for future actions;

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

Conclusions relating to going concern continued

- Testing the mathematical accuracy of the model used to prepare the going concern forecast;
- Challenging the key assumptions, including forecast revenue and capital expenditure cash flows, on which the assessment is based and evaluating the consistency of assumptions with other assumptions within the going concern assessment as well as related assumptions used in other areas;
- Evaluating Management's assessment of the impact of Covid-19 within the forecast;
- Assessing the level of headroom in the forecast, with regard to both liquidity and debt covenant tests;
- Assessing the outcome of the reverse stress testing performed by Management;
- Assessing whether any additional facts or information has become available since the date Management made its assessment; and
- Evaluating the appropriateness of the going concern disclosures in the financial statements.

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

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

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

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

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

Impairment of Goodwill

The Group has Goodwill with a carrying value of £1,868.5m. The Goodwill impairment assessment performed by Management is based upon a value in use model that uses certain key assumptions, including the future cash flow forecasts, growth rates and discount rates. These assumptions may vary from year to year depending on the business environment and the Group's operations, and require management estimation.

We identify an increased risk in relation to the goodwill balance, specifically focusing on management's assumptions pertaining to the discount rate and growth rates in addition to the forecasted future cash flows. There is a potential fraud risk that management may manipulate these key estimates as a means to overstate the value in use and therefore potentially fraudulently understate an impairment.

We have performed the following procedures in response to the risk identified:

- Challenged the cash flows in the goodwill model and agreed those back to the latest budget and forecasts;
- Benchmarked the Group's growth rate and market multiples to recent comparable companies transactions;
- Challenged the significant assumptions within the model, including growth rate and discount rate in conjunction with our valuation expert;
- Compared year to date and historical actual results versus forecast cash flow and sought explanations for significant movements;
- Particularly focused on assessing the cash flows arising and the reasonableness of these cash flows.

Accuracy of Cost Classification

The Group has an extensive capital investment programme in each of the Distribution Network Operators. The Group undertakes a number of activities that are similar in nature leading to either operating expenditure (maintenance or network repair) or capital expenditure (network enhancement or new assets). The classification of activities between capital and operating expenditure is impacted by judgements undertaken by Management.

Management's judgements pertain to the cost drivers that form part of the cost classification model, that determine the expenditure classification as part of the overall capitalisation policy, as well as a degree of complexity surrounding the allocation of network costs using a range of network cost drivers. We identify this as a potential fraud risk as management might be incentivised to fraudulently overstate capital expenditure and understate operating expenditure, in the determination of the cost drivers that underpin the classification of expenditure.

We have performed the following procedures in response to the risk identified:

- Tested relevant controls over the application of the policy in relation to classification of expenditure;
- Assessed whether the Group's accounting policies in relation to capitalisation comply with FRS 102.17 Property, Plant and Equipment;
- Tested the implementation of the cost drivers through assessing the capital nature of a sample of projects against the capitalisation policy and then, for a sample of cost transactions, assessing whether the costs capitalised agreed to respective project purchase invoices;
- Assessed the proportion of capitalised overhead costs using historical comparisons and expected changes based on enquiry and our sector knowledge;
- Challenged and assessed the judgements made by management in relation to cost drivers used for each cost category, against the capitalisation criteria of FRS 102.17, as well as consistency with the prior year and challenged any changes made in the year;
- Tested the cost allocation model and the outcome of the year-end cost review with particular emphasis on overhead capitalisation; and
- Tested the integrity and mechanics of the cost allocation model to assess the mathematical accuracy of the model.

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

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

We have nothing to report in respect of these matters.

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

Makhan Chahal

Makhan Chahal, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 July 2021

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2021

Group

	Note	2021 £m	2020 £m
Turnover [1]	3,4	**1,760.0**	1,725.9
Cost of sales		**(280.6)**	(282.6)
Gross profit		**1,479.4**	1,443.3
Other operating expenses		**(570.2)**	(541.7)
Operating profit	3,5	**909.2**	901.6
Share of joint ventures' operating profit/(loss)		**0.1**	(0.7)
Profit on ordinary activities before finance costs		**909.3**	900.9
Finance costs (net)	6	**(294.5)**	(208.4)
Profit before taxation		**614.8**	692.5
Taxation	9	**(121.7)**	(186.7)
Profit for the financial year		**493.1**	505.8

[1] Turnover excludes the share of joint ventures' turnover of £2.0m (2020: £2.2m).

All results are derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021

Group

	Note	2021 £m	2020 £m
Profit for the financial year		**493.1**	505.8
Cash flow hedges and cost of hedging			
Gains arising during the year	22	**3.2**	6.4
Reclassified to profit or loss	22	**2.8**	2.8
Remeasurement of net defined benefit pension liability	26	**(194.2)**	160.4
		(188.2)	169.6
Tax relating to components of other comprehensive income		**35.8**	(28.3)
Other comprehensive income		**(152.4)**	141.3
Total comprehensive income		**340.7**	647.1
Profit for the year attributable to:			
Non-controlling interest		**-**	-
Equity shareholders of the Company		**493.1**	505.8
		493.1	505.8
Total comprehensive income for the year attributable to:			
Non-controlling interest		**-**	-
Equity shareholders of the Company		**340.7**	647.1
		340.7	647.1

CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET
AS AT 31 MARCH 2021

		Group		Company	
		2021	2020	**2021**	2020
	Note	**£m**	£m	**£m**	£m
Fixed assets					
Intangible fixed assets	*10*	**1,940.7**	1,988.6	**-**	-
Tangible fixed assets	*11*	**12,273.7**	11,785.3	**-**	-
Investments	*12*	**0.1**	0.1	**3,064.1**	3,064.1
Investment in joint ventures	*13*	**0.2**	0.1	**-**	-
		14,214.7	13,774.1	**3,064.1**	3,064.1
Current assets					
Stocks	*14*	**62.5**	58.3	**-**	-
Debtors					
Amounts falling due within one year	*15*	**318.4**	281.4	**37.4**	37.8
Amounts falling due after more than one year	*15*	**405.1**	496.1	**-**	-
Cash and cash equivalents		**385.0**	259.4	**0.9**	0.1
		1,171.0	1,095.2	**38.3**	37.9
Creditors: amounts falling due within one year	*16*	**(1,672.5)**	(953.1)	**(813.2)**	(335.8)
Net current (liabilities)/assets		**(501.5)**	142.1	**(774.9)**	(297.9)
Total assets less current liabilities		**13,713.2**	13,916.2	**2,289.2**	2,766.2
Creditors: amounts falling due after more than one year	*17*	**(8,676.8)**	(9,105.5)	**(805.0)**	(1,280.0)
Provisions for liabilities	*21*	**(789.5)**	(667.5)	**-**	-
Net assets		**4,246.9**	4,143.2	**1,484.2**	1,486.2

CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET
AS AT 31 MARCH 2021 continued

		Group		Company	
	Note	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Capital and reserves					
Called up share capital	22	**494.2**	494.2	**494.2**	494.2
Share premium account	22	**768.0**	768.0	**768.0**	768.0
Hedging reserves	22	**(16.3)**	(21.2)	**-**	-
Profit and loss account	22	**3,000.8**	2,902.0	**222.0**	224.0
Shareholders' funds		**4,246.7**	4,143.0	**1,484.2**	1,486.2
Non-controlling interest		**0.2**	0.2	**-**	-
Total capital employed		**4,246.9**	4,143.2	**1,484.2**	1,486.2

The profit for the financial year of the Company amounted to £235.0m (2020: £237.9m). As permitted by Section 408 of the Companies Act 2006, the Company has not presented a separate profit and loss account and statement of comprehensive income.

The financial statements of UK Power Networks Holdings Limited (registered number 07290590) were approved by the Board of Directors and authorised for issue on 14 July 2021. They were signed on its behalf by:

....
Basil Scarsella
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

Group	Called-up share capital £m	Share premium account £m	Profit and loss account £m	Hedging reserves[1] £m	Total £m	Non-controlling interest £m	Total £m
At 1 April 2019	494.2	768.0	2,500.1	(29.4)	**3,732.9**	0.2	**3,733.1**
Profit for the financial year	-	-	505.8	-	**505.8**	-	**505.8**
Cash flow hedges							
Gains arising during the year	-	-	-	6.4	**6.4**	-	**6.4**
Reclassified to profit or loss	-	-	-	2.8	**2.8**	-	**2.8**
Remeasurement of net defined benefit liability	-	-	160.4	-	**160.4**	-	**160.4**
Tax relating to items of other comprehensive income	-	-	(27.3)	(1.0)	**(28.3)**	-	**(28.3)**
Total comprehensive income	-	-	638.9	8.2	**647.1**	-	**647.1**
Equity dividends paid	-	-	(237.0)	-	**(237.0)**	-	**(237.0)**
At 31 March 2020	494.2	768.0	2,902.0	(21.2)	**4,143.0**	0.2	**4,143.2**
Profit for the financial year	-	-	493.1	-	**493.1**	-	**493.1**
Cash flow hedges							
Gains arising during the year	-	-	-	3.2	**3.2**	-	**3.2**
Reclassified to profit or loss	-	-	-	2.8	**2.8**	-	**2.8**
Remeasurement of net defined benefit liability	-	-	(194.2)	-	**(194.2)**	-	**(194.2)**
Tax relating to items of other comprehensive income	-	-	36.9	(1.1)	**35.8**	-	**35.8**
Total comprehensive income	-	-	335.8	4.9	**340.7**	-	**340.7**
Equity dividends paid	-	-	(237.0)	-	**(237.0)**	-	**(237.0)**
At 31 March 2021	**494.2**	**768.0**	**3,000.8**	**(16.3)**	4,246.7	**0.2**	4,246.9

1 Hedging reserves comprise the cash flow hedge reserve and cost of hedging reserve. Refer to note 22 for further detail.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

Company	Called-up share capital £m	Share premium account £m	Profit and loss account £m	Total £m
At 1 April 2019	494.2	768.0	223.1	**1,485.3**
Profit for the financial year	-	-	237.9	**237.9**
Total comprehensive income	-	-	237.9	**237.9**
Equity dividends paid	-	-	(237.0)	**(237.0)**
At 31 March 2020	494.2	768.0	224.0	**1,486.2**
Profit for the financial year	-	-	235.0	**235.0**
Total comprehensive income	-	-	235.0	**235.0**
Equity dividends paid	-	-	(237.0)	**(237.0)**
At 31 March 2021	**494.2**	**768.0**	**222.0**	**1,484.2**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £m	2020 £m
Cash generated from operations	23	**1,302.5**	1,333.5
Corporation tax paid		**(108.0)**	(131.2)
Net cash inflow from operating activities		**1,194.5**	1,202.3
Cash flows from investing activities			
Proceeds from sale of tangible assets		**1.9**	1.6
Gross capital expenditure		**(820.2)**	(883.3)
Interest received		**0.9**	3.6
Net cash flows used in investing activities		**(817.4)**	(878.1)
Cash flows from financing activities			
Equity dividends paid		**(237.0)**	(237.0)
Preference dividends paid		**(6.0)**	(6.0)
Interest paid		**(306.1)**	(259.9)
Repayment of short-term borrowings		**-**	(160.0)
Proceeds from long-term borrowings		**297.6**	247.5
Net cash flows used in financing activities		**(251.5)**	(415.4)
Net increase/(decrease) in cash and cash equivalents		**125.6**	(91.2)
Cash and cash equivalents at beginning of year		**259.4**	350.6
Cash and cash equivalents at end of year		**385.0**	259.4
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		**75.0**	169.4
Cash equivalents		**310.0**	90.0
Cash and cash equivalents		**385.0**	259.4

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

General information and basis of accounting

UK Power Networks Holdings Limited (the Company) is a company 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 address of the Company's registered office is shown on page 1.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic Report on pages 2 to 22. The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in compliance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. In these separate financial statements, exemptions have been taken in relation to presentation of a cash flow statement and disclosures relating to financial instruments and related parties. In addition, as permitted by the Company's Act 2006, the Company has not presented a separate profit and loss statement or statement of comprehensive income.

Basis of consolidation

The group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March each year.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have 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. Further detail is contained in the Strategic Report on pages 20 to 21.

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Intangible assets – IT software and development costs
IT software acquired from third parties is included at cost and amortised in equal annual instalments over an expected useful life of 4 to 8 years.

IT development expenditure is written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Company is expected to benefit. This period is between 4 to 8 years.

Provision is made for any impairment to the carrying values of these assets.

Intangible assets – goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is estimated to be 80 years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

A review for impairment of goodwill is carried out annually. Impairment reviews comprise a comparison of the carrying amount of the goodwill with its recoverable amount (the higher of net realisable value and value in use). To the extent that the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the profit and loss account.

Research and development
Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. Provision is made for any impairment.

Joint ventures
In the Group financial statements, investments in joint ventures are accounted for using the equity method. Investments are initially recognised at the transaction price (including transaction costs) and are subsequently adjusted to reflect the Group's share of the profit or loss and other comprehensive income of the joint ventures. Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

Investments
In the Company balance sheet investments in subsidiaries, joint ventures and other interests are measured at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Tangible fixed assets

Tangible fixed assets are stated at historical cost, net of depreciation and provision for impairment. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

Network overhead and underground lines	–	45 to 60 years
Other network plant and buildings	–	20 to 60 years
Furniture, fixtures and equipment	–	4 to 15 years
Vehicles	–	5 to 10 years

Assets in the course of construction are carried at cost less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Customer contributions toward the cost of network assets are credited to the balance sheet as deferred income on receipt, and amortised to turnover over the expected useful lives of the relevant assets. The Company has an ongoing obligation to maintain these assets so it is appropriate to recognise the benefit over the same period over which the assets depreciate.

Borrowing costs capitalised

Borrowing costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Stocks

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

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Taxation

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

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

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

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

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

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

Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards relating to the transaction are considered to have been transferred to the buyer. Turnover from the supply of services represents the value of services provided under contracts, to the extent that there is a right to consideration, and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date based on a proportion of the total contract value. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year. Customer contributions received as payment for connections to the network are held as deferred income mainly within creditors falling due after more than one year, and released to turnover over the expected useful lives of the related assets.

Long-term contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

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

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

Pensions
The Group has obligations under defined benefit and defined contribution pension arrangements.

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

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

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of its amount.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Financial instruments

The Group has elected to apply Section 11.2c of FRS 102, which allows the recognition and measurement provisions of the International Financial Reporting Standard IFRS 9 'Financial instruments' with the disclosure and presentation requirements of Sections 11 and 12 of FRS 102.

The Group adopted the Amendments to IFRS 9 in respect of Interest Rate Benchmark Reforms ("IBOR Reforms") early, with effect from 1 April 2019. The Group is exposed to LIBOR within its hedge accounting relationships, which is subject to the reforms. The amendments provide temporary relief to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks, are amended as a result of the on-going IBOR Reforms.

Financial assets and financial liabilities are initially recognised at fair value, when the Group becomes a party to the contractual provisions of the instrument. Subsequent measurement is either at amortised cost or fair value depending on the classification of the instrument.

Amortised cost is calculated as:

The amount at which the financial asset or liability is measured at initial recognition;
Less: the principal repayments;
Plus: the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount. The effective interest rate exactly discounts estimated future cash flows through the expected life of the instrument back to the initial carrying amount recognised. Discounting is omitted where the effect of discounting is immaterial;
Less: any loss allowance in respect of financial assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is a quoted price in an active market. When quoted prices are unavailable, the price of a recent transaction for a similar asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of a similar asset on their own are not a good estimate of fair value, the fair value is estimated using a discounted cash flow approach.

Financial assets

After initial recognition at fair value the financial assets held by the Group are subsequently measured as follows:

Financial asset		**Subsequent measurement**
Fixed asset investments - unlisted		At cost less impairment
Trade and other receivables		At amortised cost less impairment
Derivatives not designated as hedging instruments	*	At fair value through profit or loss (FVPL)
Derivatives designated as hedging instruments	*	Hedge accounting at fair value

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

The impairment loss allowance on financial assets is calculated as the expected credit loss over the lifetime of the debt using the IFRS 9 simplified approach. The Group has established a provision matrix derived from historical credit loss experience adjusted for forward looking factors specific to the debtors and the economic environment.

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Financial assets continued

Cash and cash equivalents comprise cash in hand, and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Equity instruments
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract which grants the holder a right to a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. The Company's issued share capital includes non-redeemable preference shares entitling holders to a fixed annual dividend of 1% of the paid up value of the shares. The debt element of these instruments is presented as a long-term liability calculated as the net present value of the annual cash coupon payments extending into perpetuity. The residual paid up value of the shares after deducting the debt element is included within equity. Annual coupon payments are accounted for as a finance charge.

Financial liabilities
After initial recognition at fair value the financial liabilities held by the Group are subsequently measured as follows:

Financial liability		**Subsequent measurement**
Borrowings, trade and other payables		At amortised cost using the effective interest rate method
Derivatives not designated as hedging instruments	*	At fair value through profit or loss
Derivatives designated as hedging instruments	*	Hedge accounting at fair value

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

Bonds issued by subsidiaries prior to the formation of the Group in October 2010 were fair valued at the date of acquisition and the fair value adjustment amortised to the profit and loss account over the remaining life of the bonds.

Other than derivative financial liabilities there are no financial liabilities which are mandatorily required to be measured at fair value through profit or loss under IFRS 9. The Group has not elected to measure any financial liabilities at fair value through profit or loss.

Offsetting of financial instruments
Financial assets and liabilities are only offset in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derecognition of financial instruments
A financial asset is derecognised when the right to receive cash flows from the asset have expired or the Group has transferred its right to receive cash flows from the asset, to a third party. A financial liability is derecognised when the Group's obligations are discharged, cancelled or expire.

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate, inflation rate and currency movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Interest rate and cross currency swaps are entered into for the purpose of managing the interest rate and currency risk associated with the borrowing requirements of the Group. Inflation linked swaps are used to economically hedge the exposure of the Group's regulated revenues to movements in inflation. Amounts payable or receivable in respect of the swap instruments are recognised within net finance costs in the profit and loss account.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the profit and loss account depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges). This accounting treatment is discussed below under hedge accounting.

A derivative with a positive fair value is recognised as a financial asset and a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Group designates certain derivatives as hedging instruments within cash flow hedge and fair value hedge relationships. At the inception of the hedge relationship, the Group formally designates and documents the hedge relationship. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument;
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually used to hedge that quantity of hedged item.

Note 20 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

In respect of cross currency swaps designated as effective cash flow hedges, the fair value changes arising from the currency basis spread are excluded from the hedge movement deferred to the cash flow hedge reserve and accumulate in a separate component of equity called the cost of hedging reserve.

NOTES TO THE FINANCIAL STATEMENTS continued

1. Accounting policies continued

Derivative financial instruments

Cash flow hedges continued
Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognised in the line related to the hedged item in profit or loss. Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item is then amortised to profit or loss over the remaining term of the hedged item.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following paragraphs consider the critical judgements and key sources of estimation uncertainty that may have a significant effect on the amounts recognised in the financial statements.

Critical judgements in applying the Group's accounting policies

Carrying value of property plant and equipment
Tangible fixed assets as disclosed in note 11 represent over 75% of the Group's total asset base. The carrying value of the Network asset of £12,113.2m (2020: £11,625.9m) is impacted by management's judgement in the following areas:

- the classification of activities undertaken on the electricity network as either repair and maintenance to be expensed or improvements to be capitalised; and
- the allocation of operational overheads and non-operational support costs to capital using a range of cost drivers.

The nature of costs to be included for capitalisation is a key judgement within the Network asset carrying value and is based on an analysis of the activities directly attributable to capital work.

Key sources of estimation uncertainty

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

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

Details of the defined benefit pension schemes and the assumptions used to estimate the defined benefit obligation are set out in note 26. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2021.

	Change in assumption	**Impact on scheme liabilities**	
		UKPN Grp 2021 £m	**UKPNPS 2021 £m**
Discount rate	**+/-0.50%**	-7.0% to 8.2%	-13.9% to 16.9%
RPI inflation	**+/-0.50%**	7.2% to -6.3%	12.9% to -11.5%
Life expectancy	**+/- 3yrs**	16.4% to -16.3%	10.7% to -10.5%
Rate of salary increases	**+/-0.50%**	0.6% to -0.6%	4.1% to -3.7%

At 31 March 2021 scheme liabilities were valued at £3,748.0m (2020: £3,320.0m) for the UKPN Group scheme and £676.0m (2020: £460.0m) for the UKPNPS Scheme, in accordance with FRS 102 (as disclosed in note 26).

NOTES TO THE FINANCIAL STATEMENTS continued

3. Segment information

Operating segments have been identified primarily on the basis of internal reports used by the Board and the EMT, which are the chief decision making bodies assessing the performance of the Group. The Group is managed as two classes of business:

Regulated: This reflects principally the three regulated electricity distribution businesses, Eastern Power Networks plc, South Eastern Power Networks plc, London Power Networks plc, and the supporting management business, UK Power Networks (Operations) Limited, and transport provider business, UK Power Networks (Transport) Limited.

Unregulated Services: This reflects the unregulated asset management businesses under UK Power Networks Services Holdings Limited which are involved in the construction, operation, maintenance and renewal of a number of private electricity distribution networks.

	Regulated		Unregulated Services		Group	
	2021	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m
Turnover						
Total sales	**1,649.1**	1,601.9	**119.8**	132.6	**1,768.9**	1,734.5
Inter-segment sales	**(6.3)**	(5.7)	**(2.6)**	(2.9)	**(8.9)**	(8.6)
Sales to third parties	**1,642.8**	1,596.2	**117.2**	129.7	**1,760.0**	1,725.9
Segment profit	**852.8**	850.8	**56.4**	50.8	**909.2**	901.6
Operating profit					**909.2**	901.6
Share of joint ventures' operating profit/(loss)					**0.1**	(0.7)
					909.3	900.9
Finance costs (net)	**(271.1)**	(191.9)	**(23.4)**	(16.5)	**(294.5)**	(208.4)
Profit before taxation					**614.8**	692.5
Segment net assets	**4,122.1**	3,891.6	**124.6**	251.5	**4,246.7**	4,143.1
Share of joint ventures' net assets					**0.2**	0.1
Net assets					**4,246.9**	4,143.2

NOTES TO THE FINANCIAL STATEMENTS continued

4. Turnover

Turnover for the year ended 31 March 2021 was £1,760.0m (2020: £1,725.9m). This is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activities of electricity distribution, the management of a number of private electricity networks, electrical contracting services and the invoice value of other goods and services provided.

Turnover includes the annual impact of contributions from customers towards the cost of connections to the network. This income is initially deferred to the balance sheet and then amortised to turnover over the expected useful lives of the related network assets. The amount of customer contributions released to turnover during the year was £106.9m (2020: £101.4m).

5. Operating profit

Operating profit is stated after charging:

	2021	2020
	£m	£m
Depreciation of tangible fixed assets	**324.5**	310.4
Amortisation of goodwill	**26.8**	26.8
Amortisation of other intangible assets	**33.7**	32.1
Loss on disposal of tangible fixed assets	**0.3**	-
Operating lease rentals:		
Land and buildings	**5.3**	5.0

NOTES TO THE FINANCIAL STATEMENTS continued

5. Operating profit continued

The analysis of Auditor's remuneration is as follows:

Group

	2021 £000	2020 £000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	**15**	17
Fees payable to the Company's Auditor and their associates for other services to the Group		
The audit of the Company's subsidiaries	**409**	395
The audit of parent undertakings	**11**	10
Total audit fees	**435**	422
Audit related assurance services	**150**	142
Other assurance services	**160**	147
Total non-audit fees	**310**	289
Total fees	**745**	711

Audit related assurance services are those that relate to other statutory filings or engagements that are required by law or regulation to be carried out by an appointed auditor.

The disclosures above are for the Group. The Company is not required, in its individual financial statements, to disclose information about fees for non-audit services provided to the Company because the consolidated financial statements disclose such fees on a consolidated basis.

NOTES TO THE FINANCIAL STATEMENTS continued

6. Finance costs (net)

Group

	2021 £m	2020 £m
Interest payable and similar expenses	**(273.5)**	(280.4)
Less: investment income	**5.9**	3.6
Other finance (costs)/income	**(26.9)**	68.4
	(294.5)	(208.4)
Investment income		
Income from fixed asset investments	**-**	1.7
Income from current asset investments	**0.5**	1.7
Other interest receivable and similar income	**0.4**	0.2
Net interest income on defined benefit pension surplus	**5.0**	-
	5.9	3.6
Interest payable and similar expenses		
Interest on bank loans	**(13.4)**	(16.6)
Interest on bonds	**(193.0)**	(185.5)
Accretion on index linked debt	**(7.4)**	(12.6)
Interest on shareholder loans	**(76.9)**	(77.1)
Net interest on swap instruments	**24.6**	24.8
Accretion on swap instruments	**(8.9)**	(16.3)
1% cumulative preference dividends	**(6.0)**	(6.0)
	(281.0)	(289.3)
Finance costs capitalised	**7.5**	8.9
	(273.5)	(280.4)

Finance costs have been capitalised on the basis of a capitalisation rate range of 3.9% to 4.2% (2020: 4.3% to 4.7%), which is the weighted average of interest rates applicable to the general borrowings of the distribution businesses outstanding during the year. The cumulative amount of interest capitalised within tangible fixed assets amounts to £110.0m (2020: £102.5m).

NOTES TO THE FINANCIAL STATEMENTS continued

6. Finance costs (net) continued

Group

	2021	2020
	£m	£m
Other finance (costs)/income		
Fair value (losses)/gains on financial instruments		
Interest rate swaps not in hedge relationships	**(3.1)**	2.3
Index-linked swaps not in hedge relationships	**(45.8)**	35.1
Interest rate swaps in fair value hedge relationships	**(9.5)**	1.1
Hedged items in fair value hedge relationships	**10.2**	3.9
Change in fair value of cost of hedging	**0.2**	0.3
Ineffectiveness on cash flow hedge swaps	**(4.4)**	0.4
Exchange gain/(loss) on bonds hedged by cross currency swaps	**29.7**	(14.3)
Exchange (loss)/gain on cross currency swaps	**(29.7)**	14.3
Exchange (loss)/gain on forward foreign currency contracts	**(1.0)**	1.1
	(53.4)	44.2
Amortisation of fair value hedge adjustments	**12.2**	11.6
Reclassified to profit or loss from hedge reserve	**(2.8)**	(2.8)
Amortisation of novation adjustment on index linked swaps	**0.8**	0.6
Net (loss)/gain related to derivative instruments	**(43.2)**	53.6
Net interest cost on defined benefit pension deficit	**(1.0)**	(2.4)
Amortisation of debt fair value acquisition adjustments	**17.3**	17.3
Other charges	**-**	(0.1)
	(26.9)	68.4

NOTES TO THE FINANCIAL STATEMENTS continued

7. Staff costs

The average monthly number of employees (including executive directors) was:

Group

	2021 Number	2020 Number
Direct [1]	**2,970**	2,948
Indirect [2]	**3,147**	3,299
	6,117	6,247

1. Direct staff are those generally employed in activities which involve physical contact with system assets.
2. Indirect staff support the activities of the Direct staff. This generally does not involve physical contact with system assets.

Their aggregate remuneration comprised:

Group

	2021 £m	2020 £m
Wages and salaries	**369.0**	367.5
Social security costs	**46.0**	45.4
Other pension costs	**51.6**	45.5
Severance costs	**0.5**	0.4
	467.1	458.8

The disclosures above exclude costs of £11.5m (2020: £18.7m) relating to a monthly average of 180 (2020: 285) agency staff who do not hold service contracts with the Group.

The Company had no employees in either the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS continued

8. Directors' remuneration and transactions

Group

	2021	2020
	£m	£m
Directors' remuneration		
Emoluments	**2.0**	1.8
Amounts receivable under long-term incentive plans	**0.4**	0.4
Company contributions to money purchase pension schemes	**-**	-
	2.4	2.2

Group

	2021	2020
	Number	Number
The number of directors who are members of:		
A money purchase pension scheme	**1**	1

	2021	2020
	£m	£m
Remuneration of the highest paid director:		
Emoluments	**2.0**	1.8
Amounts receivable under long-term incentive plans	**0.4**	0.4
Company contributions to money purchase schemes	**-**	-

None of the Directors had benefits accruing under defined benefit schemes.

None of the Directors had rewards receivable in the period in the form of shares under a long-term incentive scheme.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Tax on profit on ordinary activities

Group	2021 £m	2020 £m
Analysis of tax charge in the year:		
UK current tax		
UK corporation tax	**100.3**	94.3
Adjustments in respect of prior years	**(5.5)**	7.0
Total current tax charge	**94.8**	101.3
UK deferred tax		
Origination and reversal of timing differences	**23.6**	44.3
Adjustments in respect of prior years	**3.3**	(5.4)
Effect of increase in tax rate on opening liability [1]	**-**	46.5
Total deferred tax charge	**26.9**	85.4
Total tax charge for the year (excluding share of joint ventures)	**121.7**	186.7
Share of tax of joint ventures	**-**	-
Total tax charge on profit before tax	**121.7**	186.7

The tax assessed for the year is higher (2020: higher) than the standard rate of corporation tax in the UK. The differences are explained below.

	2021 £m	2020 £m
Profit before tax	**614.8**	692.5
Less: share of joint ventures' (profit)/loss before tax	**(0.1)**	0.7
	614.7	693.2
Corporation tax at standard rate of 19% (2020: 19%)	**116.8**	131.7
Disallowed expenses and non taxable income	**7.1**	6.9
Deferred tax charge relating to changes in tax rates	**-**	46.5
Adjustments in respect of prior years	**(2.2)**	1.6
Total tax charge for the year (excluding share of joint ventures)	**121.7**	186.7

[1] In the prior year the deferred tax rate increased from 17% to 19% increasing the tax charge by £46.5m.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Tax on profit on ordinary activities continued

Tax rate changes

The current tax rate applied during the year was 19% (2020: 19%) and deferred tax was calculated at 19% (2020: 19%) based on the standard rate of corporation tax substantively enacted at the reporting date.

Within the Finance Bill 2021 published on 11 March 2021, the standard rate of corporation tax is set to increase from 19% to 25% with effect from 1 April 2023. This rate increase was not yet substantively enacted at the reporting date 31 March 2021 and therefore has no effect on these financial statements. The enactment took place in the third reading of the Finance Bill 2021 on 24 May 2021 and as such is a non-adjusting post balance sheet event. Remeasuring the 31 March 2021 deferred tax liability at the new rate of 25% will result in a charge of £149.1m to the profit and loss account in the next financial year ended 31 March 2022.

10. Intangible fixed assets

Group	IT software and develop - ment costs £m	Goodwill £m	Total
Cost			
At 1 April 2020	241.6	2,149.0	**2,390.6**
Additions	12.6	-	**12.6**
At 31 March 2021	**254.2**	**2,149.0**	**2,403.2**
Amortisation			
At 1 April 2020	148.3	253.7	**402.0**
Charge for the year	33.7	26.8	**60.5**
At 31 March 2021	**182.0**	**280.5**	**462.5**
Net book value			
At 31 March 2021	**72.2**	**1,868.5**	**1,940.7**
At 31 March 2020	93.3	1,895.3	1,988.6

IT software and development costs are amortised to profit or loss over an estimated useful life of 4 to 8 years.

Goodwill arising from the acquisition of the business in October 2010 is being amortised on a straight-line basis over an estimated useful life of 80 years. A review for impairment of goodwill is carried out annually. There was no impairment loss recorded in the current year (2020: £nil).

The Company had no intangible assets in either the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS continued

11. Tangible fixed assets

Group	Network £m	Non - network land and buildings £m	Furniture fixtures and equipment £m	Vehicles £m	**Total Group £m**
Cost					
At 1 April 2020	17,288.5	119.5	467.9	88.7	**17,964.6**
Additions	790.9	0.5	9.4	14.3	**815.1**
Disposals	(18.2)	-	(0.1)	(5.7)	**(24.0)**
At 31 March 2021	**18,061.2**	**120.0**	**477.2**	**97.3**	**18,755.7**
Depreciation					
At 1 April 2020	5,662.6	31.5	435.9	49.3	**6,179.3**
Charge for the year	302.1	2.0	10.2	10.2	**324.5**
Disposals	(16.7)	-	(0.1)	(5.0)	**(21.8)**
At 31 March 2021	**5,948.0**	**33.5**	**446.0**	**54.5**	**6,482.0**
Net book value					
At 31 March 2021	**12,113.2**	**86.5**	**31.2**	**42.8**	**12,273.7**
Net book value					
At 31 March 2020	11,625.9	88.0	32.0	39.4	11,785.3

Network assets at 31 March 2021 include land of £70.2m (2020: £69.3m) and assets in the course of construction of £189.6 (2020: £205.6m). Approximately £78.6m of the prior year's assets under construction were completed during the current year (2020: £93.8m).

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

Group	**2021 £m**	2020 £m
Freehold land	**5.6**	5.6
Freehold buildings	**80.1**	81.6
Short leasehold	**0.8**	0.8
	86.5	88.0

The Company had no tangible fixed assets in either the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS continued

12. Fixed asset investments

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Subsidiary undertakings	**-**	-	**3,064.1**	3,064.1
Other investments and loans	**0.1**	0.1	**-**	-
	0.1	0.1	**3,064.1**	3,064.1

Group investments

The Company and the Group have investments of ordinary share capital in the following subsidiaries and joint ventures:

Name	**Principal activity**	**%**
Subsidiaries		
UK Power Networks (Operations) Ltd[1]	Maintenance of distribution networks	100%
London Power Networks plc[1]	Management of distribution network	100%
Eastern Power Networks plc[1]	Management of distribution network	100%
South Eastern Power Networks plc[1]	Management of distribution network	100%
Lea Valley Utilities Ltd[1]	Dormant	100%
UK Power Networks (IDNO Finance) Ltd[1]	Holding company	100%
UK Power Networks (IDNO) Ltd	Electricity distribution project	100%
UK Power Networks (South East Services) Ltd	Groundworks contracting	100%
UK Power Networks (Transport) Ltd	Provision of transport services	100%
UK Power Networks Insurance Ltd[1]	Insurance	100%
UK Power Networks Group (Trustee) Ltd[1]	Pension Trustee	100%
UK Power Networks (Trustee) Ltd[1]	Pension Trustee	100%
UK Power Networks Services Holdings Ltd[1]	Holding company	100%
UK Power Networks Services (Contracting) Ltd	Electricity distribution projects	100%
UK Power Networks Services (Enterprises) Ltd	Investments in commercial projects	100%
UK Power Networks Services (South East) Ltd	Holding company	100%
UK Power Networks Services (Development) Ltd	Holding company	100%
UK Power Networks Services (Asset Management) Ltd	Holding company	100%
UK Power Networks Services (Commercial) Ltd	Electrical contracting	100%
UK Power Networks Services (Powerlink Holdings) Ltd	Holding company	100%
UK Power Networks Services Powerlink Ltd	Asset management	80%

[1] Held directly by UK Power Networks Holdings Ltd

NOTES TO THE FINANCIAL STATEMENTS continued

12. Fixed asset investments continued

Name	Principal activity	%
Joint ventures (note 13)		
Power Asset Development Co. Ltd	Asset management	50%
MUJV Ltd	Utility infrastructure management	49.9%

The subsidiary UK Power Networks Insurance Limited is registered at:

Willis Management (Guernsey) Limited
4th floor
The Albany
South Esplanade
St Peter Port
Guernsey

The joint venture MUJV Limited is registered at:

Aspire Business Centre
Ordnance Road
Tidworth
Wiltshire
SP9 7QD
United Kingdom

All other entities listed above are registered at:

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

NOTES TO THE FINANCIAL STATEMENTS continued

13. Joint ventures

	Group £m	Company £m
Share of net assets		
At 1 April 2020	**0.1**	-
Profit after tax	**0.1**	-
Net book value at 31 March 2021	**0.2**	-

The particulars of the joint ventures are listed in note 12.

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

	2021 £m	2020 £m
Group		
Turnover	**2.0**	2.2
Profit/(loss) before tax	**0.1**	(0.7)
Taxation	**-**	-
Profit/(loss) after tax	**0.1**	(0.7)
Current assets	**2.4**	3.7
Liabilities due within one year	**(2.2)**	(3.6)

14. Stocks

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Raw materials and consumables	**52.6**	43.3	**-**	-
Work in progress	**9.9**	15.0	**-**	-
	62.5	58.3	**-**	-

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

NOTES TO THE FINANCIAL STATEMENTS continued

15. Debtors

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade debtors	**204.8**	199.6	**-**	-
Amounts recoverable on contracts	**-**	0.3	**-**	-
Amounts owed by related party undertakings (note 28)	**16.2**	16.2	**13.6**	13.6
Amounts owed by Group undertakings	**-**	-	**11.3**	12.7
Amounts owed by joint ventures	**2.8**	2.9	**-**	-
Other debtors	**4.3**	0.8	**-**	-
Corporation tax	**7.9**	-	**12.5**	11.5
Prepayments	**34.7**	31.9	**-**	-
Accrued income	**18.6**	28.2	**-**	-
Derivative financial assets (note 20)	**29.1**	1.5	**-**	-
	318.4	281.4	**37.4**	37.8
Amounts falling due after more than one year:				
Prepayments	**1.7**	0.7	**-**	-
Derivative financial assets (note 20)	**227.4**	351.4	**-**	-
Surplus in the UKPN Group defined benefit pension scheme (note 26)	**176.0**	144.0	**-**	-
	405.1	496.1	**-**	-
	723.5	777.5	**37.4**	37.8

Company
Amounts owed by Group undertakings comprise interest free trade balances and a loan to UK Power Networks (Operations) Limited of £11.1m which is repayable on demand and bears interest at 2.0%.

NOTES TO THE FINANCIAL STATEMENTS continued

16. Creditors: amounts falling due within one year

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Trade creditors	**17.3**	36.4	**-**	-
Borrowings (note 18)	**718.7**	-	**780.1**	301.5
Amounts owed to Group undertakings	**-**	-	**3.4**	4.5
Amounts owed to joint ventures	**38.3**	43.5	**-**	-
Corporation tax	**-**	5.3	**-**	-
Other creditors	**54.9**	44.1	**-**	-
Other taxation and social security	**65.7**	71.6	**-**	-
Payments received on account	**65.4**	58.4	**-**	-
Accruals	**333.1**	315.0	**29.7**	29.8
Deferred income	**374.0**	375.4	**-**	-
Derivative financial liabilities (note 20)	**5.1**	3.4	**-**	-
	1,672.5	953.1	**813.2**	335.8

Company
Amounts owed to Group undertakings comprise interest payable on loans from the distribution businesses.

Group
Deferred income includes £112.3m (2020: £107.4m) from customer contributions, expected to be released to profit or loss within one year. Contributions received from customers for connections work are held as deferred income and released to turnover over the expected useful lives of the related network assets (also discussed in note 17).

NOTES TO THE FINANCIAL STATEMENTS continued

17. Creditors: amounts falling due after more than one year

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Borrowings (note 18)	**5,129.6**	5,613.8	**689.2**	1,164.2
Deferred income	**2,963.1**	2,858.3	**-**	-
1% cumulative non-redeemable preference shares (note 22)	**115.8**	115.8	**115.8**	115.8
Derivative financial liabilities (note 20)	**468.3**	517.6	**-**	-
	8,676.8	9,105.5	**805.0**	1,280.0

Deferred income comprises contributions received from customers as payment for connections work, the cost of which is capitalised to network assets. This income is released to turnover over the expected useful lives of the related network assets.

18. Borrowings

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Amounts falling due within one year				
Amounts owed to Group undertakings	**-**	-	**780.1**	301.5
£400m 4.75% Bond due September 2021	**400.3**	-	**-**	-
£90m 2.485% EIB loan due November 2021	**90.0**	-	**-**	-
USD 315m 5.0% Bond due December 2021	**203.1**	-	**-**	-
Exchange loss adjustment on USD Bond	**25.3**	-	**-**	-
	718.7	-	**780.1**	301.5

NOTES TO THE FINANCIAL STATEMENTS continued

18. Borrowings continued

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Amounts falling due after more than one year				
Amounts owed to Group undertakings	**-**	-	**-**	475.0
Shareholder loans due June 2041 (2020: July 2030)	**309.7**	309.7	**275.7**	275.7
Shareholder loans due June 2041 (2020: June 2031)	**464.5**	464.5	**413.5**	413.5
£90m 2.485% EIB loan due November 2021	**-**	90.0	**-**	-
£50m 0.01% EIB Index linked loan due November 2024	**57.4**	56.8	**-**	-
£50m 2.335% EIB loan due October 2025	**50.0**	50.0	**-**	-
£130m 2.234% EIB loan due March 2028	**130.0**	130.0	**-**	-
£220m 1.614% EIB loan due October 2028	**220.0**	220.0	**-**	-
£35m 2.070% EIB loan due April 2029	**35.0**	35.0	**-**	-
£30m 2.155% EIB loan due May 2029	**30.0**	30.0	**-**	-
£70m 2.224% EIB loan due February 2030	**70.0**	70.0	**-**	-
£15m 2.335% EIB loan due June 2030	**15.0**	15.0	**-**	-
£400m 4.75% Bond due September 2021	**-**	400.8	**-**	-
£250m 5.125% Bond due March 2023	**249.6**	249.3	**-**	-
£50m 3.053% Index Linked Bond due June 2023	**82.7**	81.3	**-**	-
£350m 5.75% Bond due March 2024	**349.8**	349.7	**-**	-
£40m 0.25% Index Linked Bond due February 2025	**45.8**	45.3	**-**	-
£25m 0.25% Index Linked Bond due February 2025	**28.6**	28.3	**-**	-
£132.3m 8.5% Bond due March 2025	**132.0**	131.9	**-**	-
£35m 0.032% Index Linked bond due October 2025	**40.4**	39.9	**-**	-
£270m 5.5% Bond due June 2026	**269.2**	269.1	**-**	-
£300m 6.125% Bond due June 2027	**301.7**	302.0	**-**	-
£250 2.625% Bond due March 2029	**248.3**	248.1	**-**	-
£300m 5.625% Bond due September 2030	**319.2**	321.2	**-**	-
£300m 6.375% Bond due November 2031	**298.4**	298.2	**-**	-
£150m 3.125% Index Linked Bond due June 2032	**252.4**	248.2	**-**	-
£250m 2.125% Bond due November 2033	**247.4**	247.2	**-**	-
£350m 6.25% Bond due November 2036	**345.9**	345.7	**-**	-
£300m 1.875% Bond due June 2035	**297.7**	-	**-**	-
Fair value adjustment to bonds at acquisition	**130.4**	147.7	**-**	-
Adjustments for fair value hedge relationships	**75.9**	98.3	**-**	-
USD 315m 5.0% Bond due December 2021	**-**	203.0	**-**	-
Exchange loss adjustment on USD Bond	**-**	50.4	**-**	-
JPY 5 billion 1.035% Bond due July 2038	**33.6**	33.6	**-**	-
Exchange (gain)/loss adjustment on JPY Bond	**(1.0)**	3.6	**-**	-
	5,129.6	5,613.8	**689.2**	1,164.2

NOTES TO THE FINANCIAL STATEMENTS continued

18. Borrowings continued

Group

Shareholder loans comprise £309.7m due to an immediate parent company CKI Number 1 Limited in June 2041, £309.7m due to related party Framework Investments Limited in June 2041 and £154.8m due to related party Eagle Frame Limited in June 2041. These amounts are drawn from a £3 billion shareholder loan facility and bear interest at 9.95%. The maturities of the loans were extended by 10 years to 2041 in August 2020.

Term loans from the EIB amount to a nominal value of £690.0m with maturities ranging from 2021 to 2030 and bearing interest at between 1.614% and 2.485%. The £50m EIB loan maturing in 2024 is index linked to RPI and the carrying value includes accretion of £7.4m (2020: £6.8m).

The carrying values of the bonds are stated net of fees of £15.0m (2020: £14.6m) and include premiums amounting to £20.9m (2020: £24.0m). The RPI index linked bonds include accretion of £150.9m (2020: £144.2m). These balances together with the interest expense are allocated to the profit and loss account over the term of the borrowings.

Fair value adjustments to bonds at acquisition
Bonds acquired with the Networks business in October 2010 were measured at their fair value on the date of acquisition and subsequently at amortised cost. The fair value adjustment is being amortised to the profit and loss account over the life of the bonds. The unamortised adjustment amounts to £130.4m (2020: £147.7m) and is shown on a separate line in the table above.

Adjustments for fair value hedge relationships
The cumulative adjustment to the carrying amount of the bonds, arising from fair value hedge relationships with interest rate swaps, amounts to £75.9m (2020: £98.3m) as shown in the table above. The movement during the year comprises a fair value gain of £10.2m (2020: gain of £3.9m) and an amortisation adjustment of £12.2m (2020: £11.6m) relating to discontinued hedge relationships. The fair value adjustment amortises to profit or loss from the date of cessation of the fair value hedge until the maturity of the hedged debt.

Security
No security has been given over the assets of the Group in respect of the Group's borrowings.

Borrowing facilities
The Group has access to a revolving credit facility of £500m until 2024 which was undrawn at the balance sheet date.

New debt
In June 2020 the Group raised additional finance through the issue of a £300m sterling bond which carries interest at 1.875% and matures in 2035. In December 2020 access to revolving credit facilities was increased from £250m to £500m and extended to 2024 with options to extend to 2026.

To replace the USD bond maturing in December 2021 the unregulated services business has secured funding of £100m in notes to be drawn in October 2021 and £100m to be drawn in November 2021. The notes will mature in 2041 and carry fixed rate coupons of 2.7%. Negotiations were completed with investors in March 2021 for the first £100m and May 2021 (subsequent to the balance sheet date) for the second £100m.

Company

Shareholder loans comprise £275.7m due to an immediate parent company CKI Number 1 Limited in June 2041, £275.7m due to related party Framework Investments Limited in June 2041 and £137.8m due to related party Eagle Frame Limited in June 2041. These amounts are drawn from a £3 billion shareholder loan facility and bear interest at 9.95%.

Amounts owed to Group undertakings due within one year comprise an interest free subordinated loan of £145.0m repayable on demand from UK Power Networks Services (South East) Limited, £11.1m repayable on demand from UK Power Networks Insurance Limited bearing interest at 2.0%, and loans from the distribution businesses comprising £475.0m at 2.56% interest and £149.0m at 0.4% interest.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial Instruments

The carrying values of the Group's financial assets are summarised by category below.

	Group	
	2021	2020
	£m	£m
Financial assets		
Measured at fair value through profit or loss		
- Derivative financial assets (note 20)	**195.1**	246.9
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets (note 20)	**61.4**	106.0
Measured at amortised cost		
- Trade and other debtors (note 15) excluding prepayments and accrued income	**228.1**	219.8
Equity instruments measured at cost less impairment		
- Fixed asset unlisted investments (note 12)	**0.1**	0.1
- Investment in joint ventures (note 13)	**0.2**	0.1
	484.9	572.9

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial Instruments continued

The carrying values of the Group's financial liabilities are summarised by category below.

	Group	
	2021	2020
	£m	£m
Financial liabilities		
Measured at fair value through profit or loss		
- Derivative financial liabilities (note 20)	**(468.7)**	(520.5)
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities (note 20)	**(4.7)**	(0.5)
Measured at amortised cost and designated in an effective hedge relationship		
- * Bonds (note 18)	**(734.5)**	(837.9)
Measured at amortised cost		
- ** Bonds and loan payable (note 18)	**(5,113.8)**	(4,775.9)
- Debt component of non-redeemable preference shares (note 17)	**(115.8)**	(115.8)
- Trade and other creditors (note 16) excluding taxation and social security and accruals and deferred income	**(137.6)**	(138.9)
- Amounts owed to joint ventures (note 16)	**(38.3)**	(43.5)
	(6,613.4)	(6,433.0)

* Bonds measured at amortised cost and designated in an effective hedge relationship include fair value adjustments of £28.9m (2020: £48.7m) relating to fair value hedges and £24.3m (2020: £54.0m) relating to cash flow hedges.

** Bonds measured at amortised cost include fair value adjustments of £47.0m (2020: £49.6m) relating to discontinued fair value hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial Instruments continued

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

	Group	
	2021	2020
	£m	£m
Derivative financial assets measured at fair value through profit or loss		
Interest rate swaps not in hedge relationships		
- Net interest receivable	**35.6**	30.9
- Fair value (losses)/gains	**(54.2)**	32.1
Derivative financial assets measured at fair value and designated in effective hedge relationships		
Cross currency swap designated as a cash flow hedge		
- Net interest receivable	**0.5**	1.6
- Fair value gains deferred to cash flow hedge reserve	**2.9**	9.6
- Fair value losses deferred to cost of hedging reserve	**(0.2)**	(1.2)
- Hedge ineffectiveness (charged)/credited to profit or loss	**(4.1)**	0.4
- Change in fair value of cost of hedging through profit or loss	**0.1**	0.1
- Exchange (losses)/ gains measured through profit or loss	**(25.1)**	11.6
Interest rate swaps designated as fair value hedges		
- Net interest receivable	**13.1**	11.7
- Fair value (losses)/gains	**(9.5)**	1.1
	(40.9)	97.9

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial Instruments continued

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

	2021 £m	2020 £m
Derivative financial liabilities measured at fair value through profit or loss		
Interest rate swaps not in hedge relationships		
- Net interest payable	**(33.2)**	(30.9)
- Fair value gains/(losses)	**51.1**	(29.8)
Index linked swaps not in hedge relationships		
- Net interest receivable	**9.2**	12.1
- Accretion payable	**(8.9)**	(16.3)
- Fair value (losses)/gains	**(45.8)**	35.1
Forward foreign currency contracts		
- Exchange (losses)/gains	**(1.0)**	1.1
Derivative financial liabilities measured at fair value and designated in hedge relationships		
Interest rate swaps designated as cash flow hedges		
- Net interest payable	**(0.6)**	(0.6)
- Fair value gains/(losses) deferred to cash flow hedge reserve	**2.3**	(2.8)
- Fair value (losses)/gains deferred to cost of hedging reserve	**(1.8)**	0.8
- Change in fair value of cost of hedging through profit or loss	**0.2**	0.2
- Hedge ineffectiveness charged to profit or loss	**(0.3)**	-
- Exchange (losses)/gains measured through profit or loss	**(4.6)**	2.7
Financial liabilities which are hedged items in effective hedge relationships		
USD and JPY bonds in cash flow hedge relationships		
- Interest payable	**(11.9)**	(13.0)
- Exchange gains/(losses) through profit or loss	**29.7**	(14.3)
Sterling bonds in fair value hedge relationships		
- Fair value gains measured through profit or loss	**10.2**	3.9
Financial liabilities measured at amortised cost		
Interest payable on bonds and bank loans	**(194.5)**	(189.0)
Accretion payable on bonds and bank loans	**(7.4)**	(12.6)
Interest payable on shareholder loans	**(76.9)**	(77.1)
1% cumulative preference dividends	**(6.0)**	(6.0)
	(290.2)	(336.5)

NOTES TO THE FINANCIAL STATEMENTS continued

20. Derivative financial instruments

Group

	Due within one year		Due after one year	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Derivative financial assets				
Cross currency swaps designated as effective cash flow hedges	**25.5**	-	**-**	52.6
Interest rate swaps designated as effective fair value hedges	**-**	-	**35.9**	53.4
Interest rate swaps not designated in hedging relationships	**3.6**	1.5	**191.5**	245.4
	29.1	1.5	**227.4**	351.4
Derivative financial liabilities				
Cross currency swaps designated as effective cash flow hedges	**-**	-	**(4.7)**	(0.5)
Interest rate swaps not designated in hedging relationships	**(4.1)**	(3.4)	**(139.1)**	(189.2)
Index linked swaps not designated in hedging relationships	**-**	-	**(324.5)**	(327.9)
Forward foreign currency contracts	**(1.0)**	-	**-**	-
	(5.1)	(3.4)	**(468.3)**	(517.6)
	24.0	(1.9)	**(240.9)**	(166.2)

Interest rate swaps and cross currency swaps are used to manage the interest rate risk and exchange rate risk on the Group's borrowings and index linked swaps are used to partially hedge the RPI exposure on the Group's regulated income.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest calculated on agreed notional principal amounts. Cross currency swap contracts exchange JPY or USD amounts due on foreign currency denominated bonds with sterling values. Index linked contracts convert floating or fixed interest rates to RPI inflation linked rates.

The fair value of the swap instruments at the reporting date is determined by discounting the future cash flows implicit in the swaps. The discount rate is derived from forward interest rate and RPI curves adjusted for the Group's own credit risk in respect of swap liabilities and counterparty credit risk in respect of swap assets.

Interest payable and receivable on the swaps is settled on a net basis, annually or semi-annually.

NOTES TO THE FINANCIAL STATEMENTS continued

20. Derivative financial instruments continued

Cash flow hedges

	Average contract fixed interest rate		Notional Principal value		Fair value	
	2021	2020	**2021**	2020	**2021**	2020
	%	%	**£m**	£m	**£m**	£m
Maturity of outstanding contracts						
Receive fixed USD rate / pay fixed sterling rate						
Cross currency swap on USD bond						
Under 1 year	**5.4%**	-	**203.2**	-	**25.5**	-
1 to 2 years	-	5.4%	-	203.2	-	52.6
			203.2	203.2	**25.5**	52.6
Receive fixed JPY rate / pay fixed sterling rate						
Cross currency swap on JPY bond						
5 years plus	**3.0%**	3.0%	**33.8**	33.8	**(4.7)**	(0.5)

Receive fixed USD rate/pay fixed sterling rate

The Group holds a USD 315.0m bond due for repayment in December 2021 bearing interest at 5.0%. A cross currency swap provides protection against exchange rate and interest rate movements by exchanging the USD interest payments and the USD principal with the equivalent values in Sterling. This instrument is designated as an effective cash flow hedge in respect of the USD cash flows due on the bond.

Receive fixed JPY rate/ pay fixed sterling rate

Another cross currency swap hedges the exchange rate exposure on the JPY 5 billion bond due for repayment in July 2028 and bearing interest at 1.035%. The swap is designated as an effective cash flow hedge, exchanging the JPY principal and the JPY interest payments with the equivalent values in Sterling.

Relating to these cash flow hedges, net gains of £3.2m (2020: gains of £6.4m) were recognised during the year through other comprehensive income in the cash flow hedge reserve and cost of hedging reserve (refer to note 22 for further detail). In addition hedge ineffectiveness of £4.4m (2020: £0.4m) was debited (2020: credited) to profit or loss and costs of hedging resulted in a gain of £0.2m (2020: gain of £0.3m) to profit or loss.

Historical cash flow hedge relationships

During the year £2.8m (2020: £2.8m) of the deferred loss from former cash flow hedge relationships was reclassified from the hedge reserve to profit or loss. These cash flow hedges were interest rate swaps used to hedge the interest rate risk on future borrowings. Fair value losses on the swaps were deferred to the hedge reserve until the issue of the new debt and then amortised to profit or loss over the debt term.

NOTES TO THE FINANCIAL STATEMENTS continued

20. Derivative financial instruments continued

Fair value hedge interest rate swaps

	Average contract fixed interest rate		Notional Principal value		Fair value	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Maturity of outstanding contracts	**%**	**%**	**£m**	**£m**	**£m**	**£m**
Receive fixed/ pay floating						
1 to 2 years	**5.1%**	-	**187.5**	-	**8.6**	-
2 to 5 years	**7.1%**	6.5%	**258.0**	499.8	**27.3**	53.4
			445.5	499.8	**35.9**	53.4

The fair value hedge interest rate swaps exchange fixed rate interest for floating rate interest as a hedge against the fair value risk on a portion of the Group's bond debt. The floating rate payable is six month LIBOR plus a margin of between 2.1% and 4.8% with maturity dates from 2023 to 2025.

Fair value losses of £9.5m (2020: gains of £1.1m) were recognised in profit or loss during the year and fair value gains of £10.2m (2020: gains of £3.9m) were adjusted to the carrying amount of the bonds as part of the hedge relationships.

In July 2020 the Group terminated a nominal value of £54.3m from its fair value hedge swap contracts. Fair value gains of £7.9m were realised on exit from the contracts.

Historical fair value hedge relationships

The fair value adjustment on bonds relating to discontinued hedge relationships amortises to profit or loss over the remaining term of the relevant bond, from the date of cessation of the fair value hedge. The total amortisation adjustment for the year was a gain of £12.2m (2020: £11.6m) to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS continued

20. Derivative financial instruments continued

Non hedge interest rate swaps

	Average contract fixed interest rate		Notional Principal value		Fair value	
	2021	2020	**2021**	2020	**2021**	2020
	%	%	**£m**	£m	**£m**	£m
Maturity of outstanding contracts						
Receive fixed/pay floating						
Under 1 year	**3.3%**	2.3%	**225.0**	190.0	**3.6**	1.5
1 to 2 years	**-**	3.3%	**-**	225.0	**-**	8.9
5 years plus	**5.5%**	5.5%	**1,025.0**	1,025.0	**191.5**	236.5
			1,250.0	1,440.0	**195.1**	246.9
Receive floating/pay fixed						
Under 1 year	**3.8%**	4.4%	**225.0**	190.0	**(4.1)**	(3.4)
1 to 2 years	**-**	3.8%	**-**	225.0	**-**	(10.4)
5 years plus	**2.7%**	2.7%	**1,025.0**	1,025.0	**(139.1)**	(178.8)
			1,250.0	1,440.0	**(143.2)**	(192.6)

The Company is party to a number of interest rate swap contracts not designated in hedge accounting relationships.

Receive fixed/pay floating

The floating rate payable on fixed to floating rate contracts is six month LIBOR plus a margin of up to 3.3% with maturities ranging from 2021 to 2031. In addition to interest receivable on these instruments, fair value losses of £54.2m (2020: gains of £32.1m) were recognised in profit or loss during the year.

Receive floating/pay fixed

The Group has partially re-fixed the floating rates achieved by the fixed to floating rate contracts to align the interest rate profile of the Company more closely to regulatory allowances. The floating rate receivable on the floating to fixed rate contracts is 6 month LIBOR with maturities ranging from 2021 to 2031. In addition to interest payable on these instruments, fair value losses of £51.1m (2020: £29.8m) were recognised in profit or loss during the year.

20. Derivative financial instruments continued

Non hedge index linked swap contracts

	Average contract fixed interest rate		Notional Principal value		Fair value	
	2021	2020	**2021**	2020	**2020**	2020
	%	%	**£m**	£m	**£m**	£m
Maturity of outstanding contracts						
Receive fixed/pay fixed + RPI						
5 years plus	**6.0%**	6.0%	**422.9**	440.0	**(163.4)**	(169.0)
Receive floating/pay fixed + RPI						
5 years plus	-	-	**150.0**	150.0	**(161.1)**	(158.9)
			572.9	590.0	**(324.5)**	(327.9)

The Group uses RPI linked swap contracts to convert a portion of the fixed rate bond interest payable to an inflation linked rate. Although designed as an economic hedge against the RPI exposure of the Group's regulated income, these instruments are not designated in formal hedge accounting relationships. The index linked swaps receive a combination of fixed and floating rate interest and pay RPI linked interest. Maturities range from 2027 to 2041.

During the year fair value losses of £45.8m (2020: gains of £35.1m) were recognised in profit or loss together with an accretion charge of £8.9m (2020: £16.3m) offset by net interest receivable of £9.2m (2020: £12.1m).

In July 2020 the Group terminated a notional value of £17.1m from its RPI linked contracts. Fair value losses of £3.8m were realised on exit from the contracts.

Forward foreign currency contracts

	Average contract exchange rate		Notional value		Fair value	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
			£m	£m	**£m**	£m
Maturity of outstanding contracts						
Buy Euros						
Less than 1 year	**1.117**	1.125	**21.5**	24.0	**(1.0)**	-

At the balance sheet date the Group held forward foreign currency contracts worth £24.0m Euros (2020: 27.0m Euros) to hedge the exchange rate exposure on Euro denominated equipment purchases. Hedge accounting was not adopted for these transactions.

NOTES TO THE FINANCIAL STATEMENTS continued

21. Provision for liabilities

	Group 2021 £m	Group 2020 £m
Deferred tax liability	**492.3**	501.2
Other provisions	**92.2**	104.3
	584.5	605.5
Defined benefit retirement obligations		
Deficit in the UKPNPS defined benefit pension scheme (note 26)	**205.0**	62.0
	789.5	**667.5**

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

	Deferred Tax £m	Environmental restoration £m	Other £m	**Total £m**
At 1 April 2020	501.2	34.1	70.2	**605.5**
Charge/(credit) to profit and loss account	26.9	(7.5)	(4.6)	**14.8**
Charge to other comprehensive income	(35.8)	-	-	**(35.8)**
At 31 March 2021	**492.3**	**26.6**	**65.6**	**584.5**

Environmental restoration

A provision of £26.6m (2020: £34.1m) represents the estimated cost of restoring sites where oil has leaked from cables or equipment. This was a contingent liability recognised as part of the fair value of the business at acquisition in 2010. The estimate includes the cost of repairing or replacing the equipment as well as the associated excavation works. The provision is stated at the present value of the estimated expenditure discounted at 2.6% (2020: 2.6%). The majority of the restoration costs are expected to arise within five years.

NOTES TO THE FINANCIAL STATEMENTS continued

21. Provision for liabilities continued

Other

The Group has other potential legal and constructive obligations of £65.6m (2020: £70.2m), which are expected to become payable within two to five years.

Deferred taxation is provided in the financial statements as follows:

Group	**2021 £m**	2020 £m
Accelerated capital allowances	**563.5**	551.8
Deferred tax relating to defined benefit pension schemes	**(5.5)**	15.6
Timing differences on derivative financial instruments	**(59.6)**	(56.0)
Other timing differences	**(6.1)**	(10.2)
Provision for deferred tax	**492.3**	501.2

22. Share capital and reserves

Share capital: Allotted, called up and fully paid

	2021 Number	2020 Number	**2021 £m**	2020 £m
A Preference shares of £1 each	**360,000,000**	360,000,000	**290.5**	290.5
B Preference shares of £1 each	**240,000,000**	240,000,000	**193.7**	193.7
A Ordinary shares of £1 each	**6,000,000**	6,000,000	**6.0**	6.0
B Ordinary shares of £1 each	**4,000,000**	4,000,000	**4.0**	4.0
	610,000,000	610,000,000	**494.2**	494.2

The Company has 600,000,000 of A and B non-redeemable preference shares. The terms of the preference shares entitle holders to a fixed cumulative dividend of 1% per annum and in respect of the B preference shares an additional amount equating to 5% of available profits. On return of capital or on winding up, the preference shares carry the right to repayment of capital and any arrears of dividends in priority to the right of ordinary shareholders. The shares carry the right to attend the general meeting of the company and are redeemable only upon the liquidation of the Company. Of the total of £600.0m contributed in respect of the A and B Preference Shares, £115.8m is presented as a financial liability (note 17).

Reserves

The share premium account contains the premium arising on issue of equity shares, net of issue expenses.

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

Hedging reserves comprise the cash flow hedge reserve and the cost of hedging reserve.

NOTES TO THE FINANCIAL STATEMENTS continued

22. Share capital and reserves continued

Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts profit or loss or when the hedging relationship ends.

Cost of hedging reserve
The Group uses cross currency swaps to hedge the foreign currency risk on USD and JPY denominated bonds, within designated cash flow hedge relationships. In the valuation of cross currency interest rate swaps, spreads are applied to cash flows in currencies with perceived higher credit risk or lower liquidity. These are referred to as "currency basis spreads". As they only exist in the hedging instrument (the cross currency swap), IFRS 9 does not allow inclusion of the currency basis spreads in the valuation of the hedged item (the foreign currency risk of the bond), in the assessment of hedge effectiveness. Due to this mismatch between the hedging instrument and the hedged item, fair value changes in these currency basis spreads lead to hedge ineffectiveness.

IFRS 9 allows for the fair value changes in the currency basis spreads to be recorded in a separate cost of hedging reserve, through other comprehensive income, to the extent those changes are aligned with the hedged item. Excluding these movements from the hedge relationship helps to increase hedge effectiveness and mitigate volatility in profit or loss.

Movements in the hedging reserves during the period are shown shown below:

Group	**Cash flow hedge reserve £m**	**Cost of hedging reserve £m**	**Hedging reserves £m**
At 1 April 2019	(30.6)	1.2	**(29.4)**
Fair value gains/(losses) during the year	6.8	(0.4)	**6.4**
Reclassified to profit or loss	2.8	-	**2.8**
Tax relating to movements in hedge reserves	(1.1)	0.1	**(1.0)**
At 31 March 2020	**(22.1)**	**0.9**	**(21.2)**
Fair value gains/(losses) during the year	5.2	(2.0)	**3.2**
Reclassified to profit or loss	2.8	-	**2.8**
Tax relating to movements in hedge reserves	(1.5)	0.4	**(1.1)**
At 31 March 2021	**(15.6)**	**(0.7)**	**(16.3)**

NOTES TO THE FINANCIAL STATEMENTS continued

23. Reconciliation of operating profit to operating cash flows

Group	2021 £m	2020 £m
Operating profit	**909.2**	901.6
Adjustment for		
Depreciation and amortisation	**385.0**	369.3
Customer contributions recognised in turnover	**(106.9)**	(101.4)
Loss on disposal of tangible fixed assets	**0.3**	-
Operating cash flow before movement in working capital	**1,187.6**	1,169.5
Increase in stocks	**(4.2)**	(13.3)
Increase in debtors	**(1.7)**	(6.9)
(Decrease)/increase in creditors	**(4.5)**	45.1
Customer contributions received	**216.6**	241.8
Decrease in provisions	**(12.1)**	(20.7)
Pension deficit repair payment	**(81.8)**	(81.7)
Pension adjustments	**2.6**	(0.3)
Cash generated from operations	**1,302.5**	1,333.5

24. Reconciliation of net debt

	At 1 Apr 2020 £m	Cash flows £m	Fair value and exchange rate changes £m	Other non-cash changes £m	At 31 Mar 2021 £m
Cash and cash equivalents					
Cash at bank and in hand	169.4	(94.4)	-	-	75.0
Cash equivalents	90.0	220.0	-	-	310.0
	259.4	125.6	-	-	385.0
Borrowings					
Debt due within one year	-	-	(25.3)	(693.4)	(718.7)
Debt due after more than one year	(5,613.8)	(297.6)	94.7	687.1	(5,129.6)
	(5,613.8)	(297.6)	69.4	(6.3)	(5,848.3)
Net debt	(5,354.4)	(172.0)	69.4	(6.3)	(5,463.3)

NOTES TO THE FINANCIAL STATEMENTS continued

25. Financial commitments

Capital commitments entered into by the Group but not provided for amount to £156.7m (2020: £104.4m).

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

	Land and buildings	
	2021	2020
	£m	£m
Group		
- within one year	**5.6**	5.3
- between one and five years	**14.5**	14.2
- after five years	**36.6**	24.3
	56.7	43.8

26. Pension commitments

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

Employees can opt for a contribution rate of between 4% and 10% of their salary. As the employer, UK Power Networks matches the employee contribution up to a maximum of 5% of the salary. During the year the Group made contributions to the scheme amounting to £12.6m (2020: £11.5m).

Defined benefit pension schemes
The Group operates two funded defined benefit pension schemes:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

26. Pension commitments continued

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

	2021	2020
	%	%
Group		
Discount rate		
- UKPN Group	**2.1**	2.6
- UKPNPS	**2.1**	2.5
Rate of increase in RPI		
- UKPN Group	**3.0**	2.5
- UKPNPS	**2.8**	2.1
Rate of increase in CPI		
- UKPN Group	**2.6**	1.9
- UKPNPS	**2.3**	1.6
Rate of increase in salaries		
- UKPN Group	**3.5**	3.0
- UKPNPS	**3.3**	2.6
Rate of pension increases in payments		
- Pensions in excess of GMP (UKPN Group)	**3.0**	2.5
- Post 88 GMP (UKPN Group)	**2.2**	1.7
- RPI up to 5% per annum (UKPNPS)	**2.7**	2.1
- RPI up to 2.5% per annum (UKPNPS)	**2.0**	1.6
- Post 88 GMP (UKPNPS)	**2.0**	1.5
Rate of pension increases in deferment		
- UKPN Group	**3.0**	2.5
- CPI up to 5% per annum (UKPNPS)	**2.3**	1.6
- CPI up to 2.5% per annum (UKPNPS)	**2.3**	1.6

NOTES TO THE FINANCIAL STATEMENTS continued

26. Pension commitments continued

The following life expectancies have been assumed in the calculation of scheme liabilities at the balance sheet date:

UKPN Group	2021 years	2020 years
Life expectancy for male currently aged 60	**26**	26
Life expectancy for female currently aged 60	**29**	29
Life expectancy at 60 for male currently aged 40	**28**	28
Life expectancy at 60 for female currently aged 40	**30**	30

UKPNPS	2021 years	2020 years
Life expectancy for male currently aged 65	**23**	22
Life expectancy for female currently aged 65	**25**	25
Life expectancy at 65 for male currently aged 45	**24**	24
Life expectancy at 65 for female currently aged 45	**26**	26

The assumptions disclosed in the preceding tables are governed by FRS 102 and do not reflect the assumptions used by the independent actuary in the triennial valuations which determine the contribution rate for future years.

The amount recognised in the balance sheet in respect of the Group's defined benefit schemes is as follows:

Group	UKPN Grp 2021 £m	UKPNPS 2021 £m	Total 2021 £m	Total 2020 £m
Fair value of scheme assets	**3,924.0**	**471.0**	**4,395.0**	3,862.0
Present value of defined benefit obligations	**(3,748.0)**	**(676.0)**	**(4,424.0)**	(3,780.0)
Net (deficit)/surplus recognised on balance sheet	**176.0**	**(205.0)**	**(29.0)**	82.0

In respect of the UKPN Group scheme, the Directors are of the view that the surplus is recoverable on the basis that a right of refund exists under the scheme rules, assuming the gradual settlement of the liabilities over time until all the members have left the scheme. Based on this view, the surplus is presented as a non-current asset within Debtors (note 15).

NOTES TO THE FINANCIAL STATEMENTS continued

26. Pension commitments continued

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

Group	UKPN Grp 2021 £m	UKPNPS 2021 £m	Total 2021 £m	Total 2020 £m
Current service cost	**(19.0)**	**(19.0)**	**(38.0)**	(48.0)
Past service cost	**(1.0)**	**-**	**(1.0)**	(1.0)
Reduction in scheme liabilities due to plan amendment [1]	**-**	**-**	**-**	15.0
Net interest cost on pension scheme	**5.0**	**(1.0)**	**4.0**	(2.4)
	(15.0)	**(20.0)**	**(35.0)**	(36.4)
Recognised in other comprehensive income	**(45.2)**	**(149.0)**	**(194.2)**	160.4
	(60.2)	**(169.0)**	**(229.2)**	124.0

Of the charges shown above a net expense of £39.0m (2020: £34.0m) has been included in staff costs and net income of £4.0m (2020: an expense of £2.4m) included within net finance costs.

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

Group	UKPN Grp 2021 £m	UKPNPS 2021 £m	Total 2021 £m	Total 2020 £m
At 1 April	**(3,320.0)**	**(460.0)**	**(3,780.0)**	(4,189.0)
Current service cost	**(19.0)**	**(19.0)**	**(38.0)**	(48.0)
Past service cost	**(1.0)**	**-**	**(1.0)**	(1.0)
Reduction in scheme liabilities due to plan amendment [1]	**-**	**-**	**-**	15.0
Interest cost	**(84.0)**	**(11.0)**	**(95.0)**	(103.2)
Actuarial (loss)/gain	**(493.0)**	**(182.0)**	**(675.0)**	387.2
Benefits paid/(received)	**169.0**	**(4.0)**	**165.0**	159.0
At 31 March	**(3,748.0)**	**(676.0)**	**(4,424.0)**	(3,780.0)

1 During the prior year a plan amendment was made by the trustees of the UKPN Group scheme which permitted members to exchange inflation-linked pension payments for initially higher, but non-escalating, pension payments. This resulted in an overall reduction of £15.0m to the present value of defined benefit obligations, credited to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS continued

26. Pension commitments continued

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

Group	**UKPN Grp 2021 £m**	**UKPNPS 2021 £m**	**Total 2021 £m**	Total 2020 £m
At 1 April	**3,464.0**	**398.0**	**3,862.0**	4,031.0
Interest income	**89.0**	**10.0**	**99.0**	100.8
Return on plan assets (excluding amounts included in net interest cost)	**447.8**	**33.0**	**480.8**	(226.8)
Contributions by employer	**19.2**	**17.2**	**36.4**	34.3
Deficit payments	**73.0**	**8.8**	**81.8**	81.7
Increase in assets from bulk transfers	**-**	**-**	**-**	-
Benefits (paid)/received	**(169.0)**	**4.0**	**(165.0)**	(159.0)
At 31 March	**3,924.0**	**471.0**	**4,395.0**	3,862.0

The analysis of the fair value of scheme assets at the balance sheet date is as follows:

Group	**UKPN Grp 2021 £m**	**UKPNPS 2021 £m**	**Total 2021 £m**	Total 2020 £m
Liability-driven investments	**1,597.0**	**154.0**	**1,751.0**	1,375.0
Equities	**929.0**	**192.0**	**1,121.0**	1,065.0
Credit Funds	**747.0**	**47.0**	**794.0**	523.0
Hedge funds	**243.0**	**32.0**	**275.0**	854.0
Alternatives [1]	**262.0**	**40.0**	**302.0**	32.0
Cash and net current assets	**146.0**	**6.0**	**152.0**	13.0
	3,924.0	**471.0**	**4,395.0**	3,862.0

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

NOTES TO THE FINANCIAL STATEMENTS continued

27. Contingent liabilities and other obligations not provided for

Through the ordinary course of business the Group is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any these proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial position.

The Group has received certain claims against the Group in respect of work performed to date. The Group takes legal advice as to the likelihood of success of such claims and actions and no provision is made where the Directors consider, based on that advice that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made. The Group has given performance guarantees in respect of its own contracts amounting to £19.0m (2020: £17.8m). The guarantees are in the form of letters of credit or performance bonds issued by third party financial institutions.

28. Related parties

There have been no transactions with Directors in the year other than remuneration as disclosed in note 8 to the financial statements.

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

	Group		Company	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
CKI Number 1 Limited	**6.5**	6.5	**5.5**	5.5
Devin International Limited	**6.5**	6.5	**5.5**	5.5
Eagle Insight International Limited	**3.2**	3.2	**2.6**	2.6
	16.2	16.2	**13.6**	13.6

This amount is presented in debtors (note 15).

Group

Shareholder loans

Loans due to shareholders are disclosed in note 18. The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £76.9m (2020: £77.1m). Interest accrues on the shareholders' loans at a fixed rate of 9.95% per annum, and is payable semi-annually in arrears. The interest payable at 31 March 2021 of £32.5m (2020: £32.5m) is presented within accruals (note 16).

Joint ventures

The Group's joint ventures are set out in note 12. During the year the Group made sales in the ordinary course of business to MUJV Limited of £13.4m (2020: £11.6m). In addition the Group recognised management fee income from MUJV Limited of £1.2m (2020: £2.2m). Balances with joint ventures are shown separately within debtors (note 15) and creditors (note 16).

Company

Loans due to shareholders are disclosed in note 18. The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £68.5m (2020: £68.8m). Interest accrues on the shareholders' loans at a fixed rate of 9.95% per annum, and is payable semi-annually in arrears. The interest payable at 31 March 2021 of £28.8m (2020: £28.9m) is presented within accruals in creditors (note 16).

NOTES TO THE FINANCIAL STATEMENTS continued

29. Parent undertaking and controlling parties

The Company is wholly owned by a consortium consisting of:

Shareholder	Ultimate parent undertakings
CKI Number 1 Limited (40%)	CK Infrastructure Holdings Limited [1]
Devin International Limited (40%) [3]	Power Assets Holdings Limited [2]
Eagle Insight International Limited (20%)[3]	Li Ka-Shing Foundation Limited [2] until 21 May 2021. Subsequent to that date, this share was held by CK Asset Holdings Limited [4] (as disclosed in note 30)

[1] Incorporated in Bermuda

[2] Incorporated in Hong Kong

[3] Incorporated in the British Virgin Islands

[4] Incorporated in the Cayman Islands

In the Directors' opinion the Company has no single controlling party as it is jointly controlled by the consortium.

30. Subsequent events

Change in ownership

On 21 May 2021 the 20% share of the Group held by Li Ka-Shing Foundation Limited (as disclosed in note 29 above) was transferred to CK Asset Holdings Limited, a company incorporated in the Cayman Islands.

Tax rate changes

The corporation tax rate increase from 19% to 25%, with effect from 1 April 2023, was substantively enacted in the third reading of the Finance Bill 2021 on 24 May 2021. Remeasuring the 31 March 2021 deferred tax liability at the new rate of 25% will result in a charge of £149.1m to the profit and loss account in the next financial year ended 31 March 2022. The rate increase has no effect on the tax charge for the year ended 31 March 2021.