

VATTENFALL NETWORKS LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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VATTENFALL NETWORKS LTD

COMPANY INFORMATION

Directors	Donald James Stewart Dawson Jesper Karsen Thomas Otto Schäfer
Company secretary	Darren John Reeve
Registered number	02731769
Registered office	First Floor 1 Tudor Street London United Kingdom EC4Y 0AH
Independent auditor	Ernst & Young LLP 1 More London Place London SE1 2AF

VATTENFALL NETWORKS LTD

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VATTENFALL NETWORKS LTD

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

This report provides an overview of the current year performance, position and main issues that have been considered by the directors.

Principal activity

The principal activity of the Company is that of an Independent Distribution Network (electricity) Operator (iDNO) business, owning and operating electricity networks throughout mainland UK. The Company is a private company limited by shares, domiciled in the United Kingdom and incorporated in England and Wales. During the year the Company's immediate and ultimate parent undertaking is Vattenfall AB, the Swedish based international utility company.

Business review

The Company is tasked with building and operating an independent electricity distribution network business connecting British homes and businesses to the electricity grid. On 1 November 2017 the company was granted an operating licence by the energy regulator, Ofgem.

The Company achieved full 'code compliance' in 2018 such that the Company can own and operate electricity networks throughout mainland UK.

The energisation date for the first network secured during the final quarter of 2018 has been put on hold due to issues between the client and the local planning authority. It is possible that it may no longer proceed. The Company secured agreement to purchase and operate its second electricity network during the second quarter of 2019. This site was energised on 16 December 2019, at which point the Company paid for the network and took ownership of the network which generated a monthly revenue.

The Company was building capability during the financial year and consequently made a loss for the year ended 31 December 2019 of £437,441 (2018: £2,056,120).

The ultimate parent undertaking is Vattenfall AB. One of the key focus areas of Vattenfall's strategy is to become fossil free in a generation. The Company is unbundled from, and independent of, Vattenfall's existing UK sales and generation business.

Principal risks and uncertainties

The Company has considered any risks arising as a result of the UK's departure from the European Union ("EU"). The UK left the EU on 31 January 2020. This began a transition period that is set to end on 31 December 2020, during which the UK remains subject to EU law and remains part of the EU customs union and single market. The principal risk, currency risk, is mitigated as all income and costs will be denominated in Pound Sterling.

The Company operates within a regulated utility market and any changes to the regulatory framework could have either a positive or negative impact on the Company's future operations. The Company's future operations are limited to mainland UK and the Company is not dependent on pan-EU supply chains. Therefore the impact on the Company of the UK leaving the European Union is minimal.

The implementation of social restriction measures by the European governments in response to COVID-19 has resulted in less demand for electricity that could impact networks. In addition, limitations in travel, social distancing and the availability of materials may affect the efficiency of operations. The current unprecedented economic environment has created uncertainty in relation to the timing of a return to normalised demand levels and the ability to run operations at full efficiency.

VATTENFALL NETWORKS LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Key performance indicators ("KPIs")

As the Company is building an operational business within mainland UK, the principle KPIs include:

- the number of successful bids for projects and the win rate of these bids, considered by the year of the bid submission; and
- the number of asset offers made, the number of asset offers accepted and the win rate of these accepted offers, considered by the year of the offer submission.

Other KPIs, once electricity networks have been acquired and energised which is expected during 2020, will be quality of service, number of networks, peak demand connected to the Company's networks, diversity and safety.

This report was approved by the board and signed on its behalf.

DocuSigned by:

Donald James Stewart Dawson

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Donald James Stewart Dawson
Director

Date: 27 August 2020

VATTENFALL NETWORKS LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The ultimate parent company, Vattenfall AB, has agreed to provide continued financial support to the Company for the foreseeable future to meet its obligations as and when they fall due, for a minimum period of 12 months from the date of these financial statements, to the extent that the Company is unable to meet its liabilities.

Vattenfall Group released its Half Year 2020 results on 21 July 2020, which demonstrate that the Group increased their EBITDA to £2.2 billion during the period.

Based on this information, and on enquiry, the directors believe that the ultimate parent company, Vattenfall AB, has the ability to provide financial support to the Company for the foreseeable future.

Taking into account the position of the ultimate parent company, and their assessment of the impact on the Company summarised in Post Balance Sheet events of the Strategic Report, the directors are of the view, to the best of their current knowledge, that COVID-19 will not have a material adverse impact on the Company's ability to continue as a going concern. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Results and dividends

The loss for the year, after taxation, amounted to £437,441 (2018 - loss £2,056,120).

The dividend paid in the year is £nil (2018: £nil).

VATTENFALL NETWORKS LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Directors

The directors who served during the year were:

Donald James Stewart Dawson
Jesper Karpson
Thomas Otto Schäfer

Future developments

The Company is continuously reviewing its business to stay aligned to the challenging energy market conditions and the continued low energy prices. It is our policy to refrain from making any specific statements about expected future results. However, on the basis of risk analysis and adequate operational processes, we have faith that we will be able to tackle the challenges ahead and to stay on top of our operations.

In January 2020, an outbreak of a new strain of coronavirus, COVID-19, was identified in Wuhan, China. The virus has spread globally including to the UK and Europe and the World Health Organization (WHO) declared COVID-19 a pandemic on 11 March 2020. Governments, the UK government among them, have imposed restrictions to reduce the risk of further spread of the disease - closing borders, ordering home quarantine and cancelling public events. The Company is tasked with building and operating an independent electricity distribution network business and will continue to provide these services during the course of the following year. The implementation of social restriction measures by the European governments has resulted in less demand for electricity, resulting in lower power prices. In addition, limitations in travel, social distancing and the availability of materials may affect the efficiency of operations. The current unprecedented economic environment has created uncertainty in relation to the timing of a return to normalised electricity demand levels and the ability to run operations at full efficiency.

The directors have assessed the impact of COVID-19 on the Company, including a review of the customer base, customer contract terms and cash collection; procurement and supply chain; operations; staff working arrangements and capacity. At present, the directors believe that the Company is well placed to continue without significant adverse operational or financial impact.

Qualifying third party indemnity provisions

Certain directors benefited from qualifying third party indemnity provisions in place during the financial period and at the date of this report.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed 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 ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post Balance Sheet events

Subsequent to the Balance Sheet date, the World Health Organisation declared COVID-19 as a public health emergency. Note 16 of the financial statements describes the impact on the Company of COVID-19.

On 18 June 2020 the Company allotted 15,000,000 Ordinary fully paid £1.00 shares to Vattenfall AB at par value.

VATTENFALL NETWORKS LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Auditor

The auditor, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

DocuSigned by:

Donald James Stewart Dawson

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Donald James Stewart Dawson
Director

Date: 27 August 2020

VATTENFALL NETWORKS LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VATTENFALL NETWORKS LTD

Opinion

We have audited the financial statements of Vattenfall Networks Ltd (the 'Company') for the year ended 31 December 2019, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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.

Emphasis of matter

We draw attention to Note 2.4 and Note 16 of the financial statements, which describe the impact on the Company of COVID-19 in its operations and assessment of going concern. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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. Our opinion

VATTENFALL NETWORKS LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VATTENFALL NETWORKS LTD (CONTINUED)

on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and 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.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

VATTENFALL NETWORKS LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VATTENFALL NETWORKS LTD (CONTINUED)

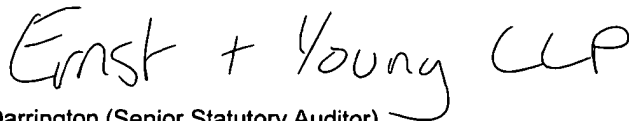
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Stuart Darrington (Senior Statutory Auditor)

for and on behalf of

Ernst & Young LLP, Statutory Auditor

1 More London Place
London
SE1 2AF

28 August 2020

VATTENFALL NETWORKS LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Turnover	4	250	-
Gross profit		250	-
Administrative expenses		(1,113,857)	(2,047,477)
Operating loss		(1,113,607)	(2,047,477)
Interest receivable and similar income	7	-	2
Interest payable and expenses	8	(38,149)	(8,645)
Loss before tax		(1,151,756)	(2,056,120)
Tax on loss	9	714,315	-
Loss for the financial year		(437,441)	(2,056,120)
Total comprehensive loss for the year		(437,441)	(2,056,120)

There were no recognised gains and losses for 2019 or 2018 other than those included in the Statement of Comprehensive Income.

All amounts relate to continuing activity.

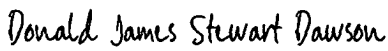
The notes on pages 13 to 26 form part of these financial statements.

VATTENFALL NETWORKS LTD
REGISTERED NUMBER:02731769

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
Non-current assets			
Fixed assets			
Tangible fixed assets	10	139,000	-
		<u>139,000</u>	<u>-</u>
Current assets			
Debtors: amounts falling due within one year	11	1,946,036	96,772
		<u>1,946,036</u>	<u>96,772</u>
Creditors: amounts falling due within one year	12	(5,429,006)	(3,003,301)
		<u>(3,482,970)</u>	<u>(2,906,529)</u>
Net current liabilities		<u>(3,482,970)</u>	<u>(2,906,529)</u>
Total assets less current liabilities		<u>(3,343,970)</u>	<u>(2,906,529)</u>
Net liabilities		<u>(3,343,970)</u>	<u>(2,906,529)</u>
Capital and reserves			
Called up share capital	15	2	2
Retained earnings		(3,343,972)	(2,906,531)
Total equity		<u>(3,343,970)</u>	<u>(2,906,529)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:

 ETAB05E92DB94AF...
Donald James Stewart Dawson
 Director

Date: 27 August 2020

The notes on pages 13 to 26 form part of these financial statements.

VATTENFALL NETWORKS LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2019	2	(2,906,531)	(2,906,529)
Comprehensive loss for the year			
Loss for the year	-	(437,441)	(437,441)
Total comprehensive loss for the year	-	(437,441)	(437,441)
At 31 December 2019	2	(3,343,972)	(3,343,970)

The notes on pages 13 to 26 form part of these financial statements.

VATTENFALL NETWORKS LTD

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

	Called up share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2018	2	(850,411)	(850,409)
Comprehensive loss for the year			
Loss for the year	-	(2,056,120)	(2,056,120)
Total comprehensive loss for the year	-	(2,056,120)	(2,056,120)
At 31 December 2018	2	(2,906,531)	(2,906,529)

The notes on pages 13 to 26 form part of these financial statements.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Authorisation of financial statements

The financial statements of Vattenfall Networks Ltd (the "Company") for the year ended 31 December 2019 were approved by the board and authorised for issue on 27 August 2020 and the Balance Sheet was signed on the board's behalf by Donald James Stewart Dawson. Vattenfall Networks Ltd is a private company limited by shares, incorporated and domiciled in England and Wales, United Kingdom.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The financial statements are prepared using the functional and presentational currency, GBP.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

2.3 Change in accounting policy and disclosures

Unless otherwise stated, the accounting policies and method of computation adopted in the preparation of the financial statements are consistent with those of the previous year.

New international reporting standards, amendments and interpretations

The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 January 2019 unless otherwise stated and the impact of adoption is described below. There are no other changes to IFRS effective in 2019 which have a material impact on the Company.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 Leases. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

There has been no material impact from IFRS 16 Leases implementation.

IFRIC Interpretation 23 Uncertainty over income tax treatments

IFRIC Interpretation 23 clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

There has been no material impact from IFRIC Interpretation 23.

AIP IAS 23 Borrowing costs - Borrowing costs eligible for capitalisation

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

There has been no material impact from AIP IAS 23.

New standards and interpretations not yet effective:

The Company has elected not to early adopt the following revised and amended standards, which are not yet mandatory in the EU.

The list below includes only standards and interpretations that could have an impact on the financial statements of the Company.

- IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors (effective in the EU 1 January 2020)

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.4 Going concern

The ultimate parent company, Vattenfall AB, has agreed to provide continued financial support to the Company for the foreseeable future to meet its obligations as and when they fall due, for a minimum period of 12 months from the date of these financial statements, to the extent that the Company is unable to meet its liabilities.

Vattenfall Group released its Half Year 2020 results on 21 July 2020, which demonstrate that the Group increased their EBITDA to £2.2 billion during the period.

Based on this information, and on enquiry, the directors believe that the ultimate parent company, Vattenfall AB, has the ability to provide financial support to the Company for the foreseeable future.

Taking into account the position of the ultimate parent company, and their assessment of the impact on the Company summarised in Post Balance Sheet events of the Strategic Report, the directors are of the view, to the best of their current knowledge, that COVID-19 will not have a material adverse impact on the Company's ability to continue as a going concern. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

2.5 Revenue

Connection fees are recognised on a monthly basis based upon fulfilment of obligations in accordance with IFRS 15. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and VAT.

Revenue is recognised when performance obligations have been satisfied being when the Company fulfils its contractual obligations to customers by supplying services or when it has the right to receive the income. Any payment received in advance of supplying the service is deferred until the service has been provided. There are no significant financing components included within any of the Company's revenue streams.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.6 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'interest receivable and similar income' for gains or 'interest payable and expenses' for losses.

2.7 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.8 Interest expenses

Interest expenses are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.9 Tangible fixed assets

All tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the Company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

Assets in the course of construction are capitalised as separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Distribution network assets - 40 years

2.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.12 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.13 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.14 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as assets at amortised cost.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less any provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, the Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. When assessing the impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

ageing profile of receivables and historical experience. Trade receivables are reported net and such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance Sheet.

2.15 Current and deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date as well as revenues and expenses reported during the year.

There are no estimates which are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the Balance Sheet date.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. Turnover

	2019 £	2018 £
Income from distribution network systems	<u>250</u>	<u>-</u>

All turnover arose within the United Kingdom.

5. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements. No other services are provided to the Company.

	2019 £	2018 £
Fees for audit services	<u>9,756</u>	<u>9,756</u>

6. Employees

Number of employees

The average monthly number of employees (including directors) during the year was 5 (2018: 5). A portion of the Company's payroll costs are incurred by other entities within the Group, with the costs recharged to the Company.

Directors remuneration

The directors of the Company are also directors of fellow subsidiaries. The directors remuneration for the year, apportioned to the Company based on the estimated individual director representation for the Company, amounts to £147,014 (2018: £140,518). All of the remuneration was paid by another Vattenfall Group company.

Staff costs were as follows:

	2019 £	2018 £
Wages and salaries	331,614	271,524
Social security costs	40,163	33,451
Cost of defined contribution scheme	30,338	25,390
	<u>402,115</u>	<u>330,365</u>

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

7. Interest receivable and similar income

	2019 £	2018 £
Interest receivable from group companies	-	2

8. Interest payable and similar expenses

	2019 £	2018 £
Interest payable to group companies	38,149	8,645

9. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on loss for the year	(231,860)	-
Total current tax	(231,860)	-
Deferred tax		
Origination and reversal of timing differences	(539,214)	-
Impact of change in tax laws and rates	56,759	-
Total deferred tax	(482,455)	-
Taxation on loss on ordinary activities	(714,315)	-

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

9. Taxation (continued)

Factors affecting tax credit for the year

The tax assessed for the year is lower than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	<u>(1,151,756)</u>	<u>(2,056,120)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	(218,834)	(390,663)
Effects of:		
Impact of change in tax laws and rates	56,759	-
Recognition of deferred tax asset	(552,240)	-
Deferred tax not recognised	-	390,663
Total tax credit for the year	<u><u>(714,315)</u></u>	<u><u>-</u></u>

Factors that may affect future tax charges

In the 2016 Budget the UK Government announced that the main rate of corporation tax would be reduced to 17% with effect from 1 April 2020. Legislation introduced in Finance Bill 2020 repeals the previously enacted 17% rate and therefore the rate will remain at 19%. The Company has recognised deferred tax balances at a rate of 17% being the rate substantively enacted at the Balance Sheet date. The rate at which deferred tax balances are recognised by the Company will increase to 19% in future years. If the deferred tax balance was recognised at 19% the additional asset on the Company's Balance Sheet would be approximately £56,000.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. Tangible fixed assets

	Distribution network assets £
Cost or valuation	
At 1 January 2019	-
Additions	139,000
At 31 December 2019	139,000
Net book value	
At 31 December 2019	139,000
At 31 December 2018	-

11. Debtors: amounts falling due within one year

	2019 £	2018 £
Amounts owed by group undertakings	702,226	2
Other debtors	728,993	76,403
Prepayments and accrued income	32,362	20,367
Deferred taxation	482,455	-
	1,946,036	96,772

There has been no effect on contract asset balances due to factors relating to the timing of satisfaction of the Company's performance obligations and their relationship with the typical timing of payment.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12. Creditors: amounts falling due within one year

	2019 £	2018 £
Trade creditors	46,212	348,611
Amounts owed to group undertakings	4,716,827	2,599,720
Corporation tax	422,694	-
Other creditors	8,173	19,950
Accruals and deferred income	235,100	35,020
	<u>5,429,006</u>	<u>3,003,301</u>

Amounts owed to group undertakings are payable on demand and not subject to an applied interest rate.

13. Financial instruments

	2019 £	2018 £
Financial assets		
Financial assets measured at amortised cost	<u>713,181</u>	<u>2</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(4,763,980)</u>	<u>(2,968,281)</u>

Financial assets measured at amortised cost comprise mostly amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise mostly amounts owed to group undertakings.

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

14. Deferred taxation

	2019 £
At beginning of year	-
Credited to the Statement of Comprehensive Income	482,455
At end of year	482,455

The deferred tax asset is made up as follows:

	2019 £	2018 £
Accelerated capital allowances	100,950	-
Other temporary differences	381,505	-
	482,455	-

Whilst the Company is loss making in the current year, the Company's deferred tax assets at 31 December 2019 are recognised on the basis that management consider it probable that sufficient taxable profits will arise in the future in the Company and wider UK group against which the Company's tax losses and allowances can be utilised.

No deferred tax asset was recognised at 31 December 2018. The unrecognised deferred tax asset at 31 December 2018 was £494,110.

15. Share capital

	2019 £	2018 £
Authorised, allotted, called up and fully paid		
2 (2018 - 2) Ordinary shares of £1.00 each	2	2

VATTENFALL NETWORKS LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16. Post Balance Sheet events

On 30 January 2020, subsequent to the Balance Sheet date, the World Health Organisation declared COVID-19 as a public health emergency and on 11 March 2020 the virus was declared as a pandemic. Given the COVID-19 escalation subsequent to the Balance Sheet date and considering the virus did not impact the Company in the year ended 31 December 2019, none of the conditions at the Balance Sheet date indicated that any adjustment would be required to the Company's financial statement, in accordance with IAS 10.

The forecasts used for impairment analysis are not including COVID-19 impact, as there has been no discernible impact to date and any future impact cannot be quantified. The forecasts used for the Company's going concern assessment have been updated to reflect the directors' assessment of the impact of COVID-19 at the date of approval of the financial statements.

The directors have assessed the impact of COVID-19 on the Company, customer contract terms and cash collection; procurement and supply chain; operations; staff working arrangements and capacity. At present, the directors believe that the Company is well placed to continue without significant adverse operational or financial impact. Given the uncertainty around the extent and timing of the potential future spread or mitigation of COVID-19, the directors continue to monitor the situation closely and will regularly update their assessment of the impact of the pandemic. The Company is financed by Vattenfall Group and receives a letter of ultimate parent support further referred to in the Going concern statement, within the Directors' Report.

On 18 June 2020 the Company allotted 15,000,000 Ordinary fully paid £1.00 shares to Vattenfall AB at par value.

Other than as described above, there were no significant events after 31 December 2019 that required adjustment to or disclosure in the financial statements.

17. Ultimate parent undertaking and controlling party

At 31 December 2019 the immediate parent undertaking is Vattenfall AB. The Directors regard Vattenfall AB, a company registered in S-162 87 Stockholm, Sweden as the Company's controlling party and ultimate parent undertaking.

The results of Vattenfall Networks Ltd are included in the consolidated financial statements of Vattenfall AB which are available from the Vattenfall website, <http://corporate.vattenfall.com>.