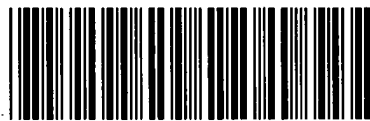


Prysmian Cables & Systems Limited

Annual Report and Financial Statements
For the Year Ended 31 December 2019

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Prysmian
Group

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 **Draka**

 **General Cable**

Prysmian Cables & Systems Limited

CONTENTS

	Page
Directors and Advisers	1
Strategic Report	2
Directors' Report	7
Independent Auditors' Report	14
Profit and Loss Account	17
Statement of Comprehensive Income	18
Balance Sheet	19
Statement of Changes in Equity	20
Notes to the Financial Statements	21-56

Prysmian Cables & Systems Limited

DIRECTORS AND ADVISERS

DIRECTORS

Mr M Del Brenna
Mr L Caserta
Mr F Romeo

COMPANY SECRETARY

Mr C Briggs

INDEPENDENT AUDITORS

Ernst & Young LLP
Statutory Auditors
Grosvenor House,
Grosvenor Square, Southampton SO15 2BE
United Kingdom

REGISTERED OFFICE

Chickenhall Lane
Eastleigh, Hampshire SO50 6YU
United Kingdom

Prysmian Cables & Systems Limited

STRATEGIC REPORT

For the year ended 31 December 2019

The directors present their Strategic Report of the Company for the year ended 31 December 2019.

Principal Activities

The Company's principal activity is the manufacture, sale and installation of cables and accessories, which also include project management activities. The Company operates in various key territories including Europe, Middle East and Asia. All operations are managed by the Company or through the Company's agency Draka U.K. Limited.

Particulars of the principal subsidiary companies are shown in note 15 to the financial statements.

A business review follows on pages 2 and 5.

Review of Business

The turnover of the Company is substantially stable compared to prior year. Operating profit has decreased mainly due to lower profitability in high voltage project business and in the business related to low and medium voltage cables for the construction and utilities sector.

The performance of the Trade and Installers business in 2019 reported a decrease in volumes driven by the domestic market and Hong Kong export where the company has suffered a downward trend in market demand, this is partially offset by an increase in sales to the Middle East. Despite the decrease in volumes, the reduction in profitability has been partially offset by an increase in sales prices. The Trade & Installers business has maintained its market leading position by continuing to develop strong customer relationships with its platform of product diversity and application solution focus.

The Power Distribution business reported stable volumes compared to 2018, however the profitability has been reduced due to a significant increase in variable costs particularly in relation to distribution and logistics.

The HV Systems business reported a decrease in profitability in 2019 compared to prior year. This is due to additional costs generated within the project business on reparation works. The services business has confirmed a positive trend also in 2019 and is expected to continue in 2020. There continues to be a lack of opportunities in highly profitable 400kV projects, where the company has technological leadership due to rescheduling of future projects for EHV (Extra High Voltage).

The HV Accessories channel continues to see a weak demand in fluid filled market, particularly on the export sales, and the technology shifting to XLPE (Cross-linked Polyethylene). The 2019 profitability was substantially in line with the prior year.

The Medium/Low voltage Components business reported a slight increase in 2019 compared to 2018, retaining the strong market position in the high value-added products such as, link boxes and fixings.

The Telecom sector continued to report a very positive trend in the Optical Cable segment and continued growth in the Connectivity business. The increase in demand is mainly driven by higher investment by large and alternative telecom operators, where the company is gaining market share, in the upgrade of the traditional copper network with fibre to the home technology. Connectivity sales have continued to increase due to U.K. broadband roll-out and similar projects throughout Europe.

Prysmian Cables & Systems Limited

STRATEGIC REPORT (continued)

For the year ended 31 December 2019

Review of Business (continued)

In 2015 the UK operators National Grid and Scottish Power filed actions in the High Court in London against certain cable manufacturers, including Prysmian Group, to obtain compensation for damages allegedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in the decision adopted in April 2014.

On 29 March 2019, Greater Gabbard Offshore Winds Limited and various Scottish and Southern Energy (SSE) Group companies filed actions against companies in the Prysmian Group. The actions are for compensation for damages purportedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in its April 2014 decision.

In 2019 profit and loss, the company has reported exceptional costs of £15.3m (2018 £8.8m), this includes a further provision related to the anti-trust legal claim in the year of £10.6m (2018: £4.4m) included in the total exceptional costs.

On 22 March 2019, National Grid communicated that it had brought a new action in the High Court of London against certain Group companies in which it claims compensation for damages purportedly suffered through alleged anti-competitive practices employed over a period running from the 1970s until 1997. On 12 June 2019, a writ of summons was served in which National Grid further detailed its claim for damages, which it also quantified.

In July 2020, Prysmian Group and Scottish Power entered into a confidential Deed of Settlement. Pursuant to a consent order dated 30 July 2020, all further proceedings in this claim have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

In November 2020, Prysmian Group and National Grid entered into a confidential Deed of Settlement. Pursuant to a consent order dated 10 November 2020, all further proceedings in respect of both National Grid claims have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

Key Performance Indicators ("KPIs")

The Company monitors and reports KPIs covering all aspects of its business including commercial volumes and prices, industrial, logistics and fixed costs as well as key financial ratios to senior management of the ultimate parent company (Prysmian SpA). The main indicators are listed below.

	2019	2018
Turnover increase(decrease) on previous year	(2.6%)	(2.8%)
Gross profit/Turnover percentage	14%	14%
Recurring EBITDA/Turnover percentage*	6.8%	6%
Net Financial Position	£215m	£215m

* Recurring EBITDA is calculated as operating (loss)/profit plus costs recharged from Group parent companies, plus depreciation and amortisation.

Prysmian Cables & Systems Limited

STRATEGIC REPORT (continued)

For the year ended 31 December 2019

Review of Business (continued)

The net financial position primarily represents loans to fellow group companies of £214m (2018: £211m), Cash at bank and in hand of £2m (2018: £5m) less bank borrowings and overdrafts of £1m (2017: £1m).

The key performance indicators above are reflective of the review of business described previously.

The Company continues to generate positive cash flows through recurring operations and a constant commitment to optimise the level on inventory and decrease the Trade Receivables exposure. A key indicator for the Company is the number of days lost as a result of accidents at work. A total of 253 days were lost in 2019 (2018: 734). As a consequence, a companywide behavioural safety program has been launched.

Strategy

In 2019 the Company continues to focus on improvement in return on capital employed and cashflow generation, through a selective strategy of volumes and investments. The company is constantly reviewing the production processes and develop initiatives, specifically investments to increase capacity and enhance production capabilities, combined with a focus on high value added products, are expected to deliver positive impacts to profit margins. The increase in cash flow generation remains a key target for 2020.

Future Outlook

The challenges that the business faced in both the domestic and international markets in 2019 are expected to increase in 2020 due to the uncertainty generated by the Brexit process in addition to the severe impact of the Covid-19 pandemic on the economy and markets the company operates. The Company however has been able, during the year, to reduce the fixed cost structure and strengthen its market position to successfully compete in the current environment and place it in a strong position after Brexit.

The immediate impact of Covid-19 was mitigated by reducing the workforce and utilising the furlough scheme in Q2 but has since returned to full capacity. The company is working to further reduce its cost structure and mitigate the impact of Covid-19 volume reduction and has utilised elements of the UK government deferrals of VAT, PAYE and Corporation tax payments temporarily to manage cash position. The company expects to continue to generate positive cashflow.

Brexit is expected to have an impact on sales and supply chain processing, the company has identified the implications of these and putting procedures in place to mitigate any risks to business continuity, this includes additional VAT registrations within the EU, increased deferment limits and HMRC guarantee waivers.

Business Environment

The Company continues to operate in a very competitive market. Competition in the areas of price, product quality and product development requires a constant focus on the market place to ensure continued success. The Company covers foreign exchange rate exposure through financial instruments to neutralise the currency risk, in what persists as a volatile environment. Nonetheless, the Company is well placed to react and compete in the current market which is expected to remain volatile in the short to medium term.

Prysmian Cables & Systems Limited

STRATEGIC REPORT (continued)

For the year ended 31 December 2019

Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks as with any large undertaking in a competitive market.

Depending on the finalisation of the Brexit process expected by the end of 2020, the overall economy in the UK and Europe could be significantly impacted by the outcome. Although the company is implementing all possible measures to mitigate the potential negative effect on the business, it is difficult to exclude a negative consequence on the company's results in the short and medium term.

The extraordinary impact of the Covid-19 pandemic have already impacted the results of the company in Q2 2020, due to a reduction in retail activity reducing demand, seeing turnover in the Trade and Installers and Optical areas of the business being 70% of budget. The effect of Covid-19 is expected to continue in the second half of the year, although Q3 sales have proved positive, and we are confident in the resilience of our organisation and our business. Our supply chain is proving highly responsive, and we can harness the strong differentiation of the markets and business sectors in which we operate.

Competition – the Company operates in a highly competitive market particularly around price and product quality. This results in downward pressures on the Company's margins and in the risk that customer expectations are not met. In order to mitigate this risk, the Company constantly works to decrease its cost structure and monitor market prices on an on-going basis and routine market research is undertaken to understand customer expectations and to measure whether they are being met.

Product development – any failure to improve existing products and to develop new solutions could result in adverse consequences for the Company in the future. Management ensure that research and development are given the profile that they deserve in order to maintain the Company's competitiveness and reputation as being the market leader in providing reliable and innovative products.

The continuing weakness of the European economy remains a key concern in 2020 as a large proportion of the Company's business depends on the provision of cable for the construction industry and the investments of the utilities in the maintenance of the network.

Section 172 Statement

The company is a wholly owned subsidiary of Prysmian U.K. Group Limited and is included in the consolidated financial statements of Prysmian SpA, forecasts and budgets are regularly communicated with group headquarters with performance determined using KPI's quoted on page 3.

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Suppliers are engaged by local and Prysmian Group procurement departments, the company partners with large volume raw material and local smaller specialist businesses, allowing the company to provide a diverse product range. Regular supplier communication days are organised to ensure key information is distributed, and suppliers are routinely engaged to assist with product development. Ordering schedules are forecasted and provided to suppliers to aid liquidity and planning. Compliance checks are performed on all new vendors and sub-contractors are required to complete a pre-qualification questionnaire before being awarded any project contracts.

Prysmian Cables & Systems Limited

STRATEGIC REPORT (continued)

For the year ended 31 December 2019

Section 172 Statement (continued)

Established agreements are in place with the company's diverse customer portfolio, the company has a range of customer service and quality protocols to ensure customer needs are met. The company regularly develops products to meet customer needs and has an open dialogue with its customers to understand the market and meet their demand.

The company considers its workforce its highest priority, health and safety is considered in all operational decisions, and a safety programme is in place to engage with the workforce on such matters, to measure this, lost working days is a key operational KPI and is quoted on page 3. Members of the workforce are regularly represented by workers unions, who are consulted on all company decisions affecting their members. Prysmian group conducts regular employee workplace surveys to provide feedback on each entity working environment, this is then used by the company directors to implement improvements to the working environment.

Further employment and corporate responsibility policies are described on page 10 as part of the Directors report.

The Strategic Report was approved by the Board of Directors on 21 December 2020 and signed on its behalf by:



Digitally signed by M Del Brenna
DN: cn=M Del Brenna, o=Prysmian Group, email=M.DelBrenna@prysmiangroup.com
Reason: I am the author of this document
Date: 2020.12.23 10:34:00 +01'00'

M Del Brenna

Director

23 December 2020

Prysmian Cables & Systems Limited

DIRECTORS' REPORT

For the year ended 31 December 2019

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

The Company is a wholly-owned subsidiary of Prysmian U.K. Group Limited and is included in the consolidated financial statements of Prysmian SpA, which are publicly available on the Prysmian Group website (www.prysmiangroup.com).

Future Developments

In 2020, as indicated in the Strategic Report, the focus will continue to remain on delivering the best possible return on assets by selecting the most profitable business, whilst at the same time retaining volumes.

The increase in cash flow generation remains a key target for 2020.

Going Concern – effects of Covid-19

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future.

A further going concern analysis has been performed to analyse the impact of the Covid-19 pandemic on the company and establish if the company will encounter additional business risks due to lockdown measures in the UK. This included revisiting existing forecasts compared to budget and adjusting where appropriate, determining downside scenarios in which a breakeven Recurring EBITDA would be realised and assessing the cashflow impact these scenarios would then have. Breakeven EBITDA is equivalent to a reduction in revenue of 48%.

The company's forecast and downside scenarios continue to indicate significant positive cash balances. These balances are held centrally with Prysmian Treasury Srl to maximise interest and cash movements. The company is entitled to immediate access to these funds under a legally binding cash pooling agreement which the company expects to continue for at least 12 months from the signing of the financial statements.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Results and Dividends

Company turnover in 2019 of £498.4 million (2018: £511.4 million) produced an operating profit of £1.8 million (2018: £11.6 million).

The UK operators National Grid and Scottish Power have filed actions in the High Court in London against certain cable manufacturers, including Prysmian Group, to obtain compensation for damages allegedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in the decision adopted in April 2014.

On 29 March 2019, Greater Gabbard Offshore Winds Limited and various Scottish and Southern Energy (SSE) Group companies filed actions against companies in the Prysmian Group. The actions are for compensation for damages purportedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in its April 2014 decision.

Prysmian Cables & Systems Limited

DIRECTORS' REPORT (continued)

For the year ended 31 December 2019

Results and Dividends (continued)

On 22 March 2019, National Grid communicated that it had brought a new action in the High Court of London against certain Group companies in which it claims compensation for damages purportedly suffered through alleged anti-competitive practices employed over a period running from the 1970s until 1997. On 12 June 2019, a writ of summons was served in which National Grid further detailed its claim for damages, which it also quantified.

In light of all of the above, the Company has recognised a provision in 2019 of £10.6m in addition to the provision of £32.6m reported in previous years.

In July 2020, Prysmian Group and Scottish Power entered into a confidential Deed of Settlement. Pursuant to a consent order dated 30 July 2020, all further proceedings in this claim have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

In November 2020, Prysmian Group and National Grid entered into a confidential Deed of Settlement. Pursuant to a consent order dated 10 November 2020, all further proceedings in respect of both National Grid claims have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

Financial Risk Management

After finance cost, interest and taxation, the Company made a loss for the year of £1.2 million (2018: £7.5 million).

The directors do not recommend the payment of a dividend (2018: £ Nil).

The Company's operations expose it to a variety of financial risks that include the effects of changes in commodity prices (copper in particular), credit risk, liquidity risk, foreign exchange rate risk and interest rate risk. The Company has a risk management programme in place that seeks to limit the adverse effects on the financial performance of the Company by monitoring all risks and in particular the levels of debt finance and the related finance cost. The Company does not use derivative financial instruments to manage interest rate costs.

The company uses derivative financial instruments such as forward currency contracts and options to hedge its risks associated with foreign currency fluctuations.

The policies set by the Board of Directors are implemented by the Company's finance department. The department has a policy and procedures manual that sets out specific guidelines to manage commodity price risk, credit risk, liquidity risk, exchange rate risk and interest rate risk.

Commodity Price Risk

The Company is exposed to commodity price risk as a result of its operations. The Company enters into forward copper commitment contracts through the central Group treasury company Prysmian Treasury S.r.l, to manage the copper price risk.

Prysmian Cables & Systems Limited

DIRECTORS' REPORT (continued)

For the year ended 31 December 2019

Financial Risk Management (continued)

Credit Risk

The Company's policy is to credit insure customers and to ensure that appropriate cover is available on potential new customers before orders are accepted. Procedures are in place to ensure that specific requirements of the credit insurance policy are complied with so that, in the event of a customer default, the Company is able to successfully recover the insured percentage from the credit insurer. Credit risk in relation to cash and deposits with financial institutions is minimised through effective cash management and the application of central treasury management procedures.

Liquidity Risk

The Company actively monitors its gearing ratios and also the availability of debt finance compared to requirements in order to ensure that the Company has sufficient available funds for operations.

Exchange Rate Risk

The Company has significant exposures to exchange rate risk both in terms of purchases and sales denominated in foreign currency. Forward exchange contracts are entered into through a central Group treasury company as seen necessary in order to manage this risk and fix the exchange rate relating to the exposure, as and when it arises.

Interest Rate Risk

Under the Company's policy, interest rate risk is not hedged.

Creditors Payment Policy

It is the Company's policy to agree appropriate terms and conditions with each of its suppliers and then to make payment in accordance with the agreed terms provided the supplier has met its obligations. At 31 December 2019 the Company had an amount of 74 days (2018: 74) days' purchases outstanding in trade creditors.

Directors

The directors of the Company who were in office at the date of signing the financial statements are shown on page 1.

Mr M Del Brenna, Mr L Caserta and Mr F Romeo held office throughout the year.

Directors' qualifying third party and pension indemnity provisions

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is in force at the date of signing the financial statements. The Prysmian Group also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of the Company and its directors.

Research and Development ("R&D")

During 2019, the Company continued to invest in many R&D programmes, covering products for the construction, telecom, utilities and offshore renewables markets. The products included power cables, optical cables, network components such as joints and terminations and optical connectivity components.

Prysmian Cables & Systems Limited

DIRECTORS' REPORT (continued)

For the year ended 31 December 2019

Research and Development ("R&D")(continued)

In the telecom market, significant investments were made for development of new or improved products to support UK and overseas customers with their roll out of fibre optic broadband networks, with the development of several new optical cables together with a range of the associated connectivity (joints, terminations, and exchange equipment). Work continued developing ultra-compact optical cables to enable these to be over-blowing into existing utilised underground ducts, allowing telecom network operators to reinforce their current networks in a quick and cost-efficient way, including providing training and installation support to network installers.

There was further investment made in the High Voltage Laboratory in terms of test equipment to increase the capability for testing of high voltage submarine and land power cables as well as submarine telecom cables systems order to support the Prysmian Group R&D developments and testing of contracts for submarine cables for various interconnector and offshore wind farm connection projects around the globe.

New designs of high voltage accessories from the Prysmian Group were successfully launched in the UK high voltage transmission and distribution market during 2019 and will continue to be rolled out during the next few years.

Significant R&D effort was also spent on driving cost reduction initiatives in the mature market segments of power distribution and construction, improving materials technologies and processes.

Employees

The Board acknowledges the contribution of all employees during the year and is committed to their development and well-being.

Employment Policies and Corporate Social Responsibility

Sustainability plays a central role in Prysmian and in 2019 a UK Sustainability Committee was formed; the purpose of this Committee is to act as an advisory board and to make recommendations to the UK Management Team on sustainability related matters that affect the Company moving forward.

Additional to the above, one of the pillars of the Group's Sustainability Strategy is to 'Contribute to people and community's development'. Prysmian in 2019 has focused specifically on the donation of our employee's' hours via Company volunteering in support of this pillar, launching a UK Volunteering Programme.

Prysmian Group Human Resources Strategy is aligned to the changing business requirements and continues to focus on People Development, Talent Management and improved recruitment processes. Recruitment of Graduates, and individuals via targeted programmes for Operations, Commercial and Finance continues.

Prysmian Group is committed to improving Gender Diversity. Gender Diversity KPI's and targets are deployed aimed at improving representation between genders at all levels.

The Prysmian Group people performance management system P4 has been launched which supplements the P3 system. P4 focuses on the identification and development of talent and will form the foundation of promotion decisions.

Prysmian Cables & Systems Limited

DIRECTORS' REPORT (continued)

For the year ended 31 December 2019

Employment Policies and Corporate Social Responsibility (continued)

The Prysmian Group Graduate Scheme continues with the UK participating in 2019 with the 8th Wave of intake of Graduates via this programme. Graduates following their 2-year international assignment are now returning into UK roles predominately within Engineering strengthening our succession plan pipeline.

The Company continues to actively support Apprenticeships and welcome the introduction of the Apprenticeship Levy Scheme, supported by the increase in range of Apprenticeship development programmes available.

The Company has a policy of promoting employee engagement, loyalty and business awareness in relation to the financial and economic factors that affect the performance of the Company through the YES employee share scheme (see note 11). The Share Incentive Plan first launched in 2013 in an important aspect of employee engagement and participation in the scheme remains around 30% of eligible employees.

The Company has a policy of consulting employees or their representatives on a regular basis so that the views of employees can be considered in making decisions that are likely to affect their interests. The UK Information and Consultation Forum is a key tool to inform and consult with employees at a UK level. This is to ensure that information and consultation takes place with the appropriate timing, method and content to enable reasoned opinions and responses to be formulated and exchanged between the Company and employee representatives. The UK Information and Consultation Forum is additional to existing local arrangements in place at each of the UK Sites.

Health and Safety is a key area of focus within the business for Prysmian employees. The Company has been working since 2017 on a behavioural safety programme and in 2019 the benefit and focus of this programme was visibly seen with a reduction on Lost Time Accidents and FI and GI index reductions.

Post Balance sheet events

On 30 January 2020, the spread of the novel Coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation. On 11 March 2020, the UK government announced social distancing measures, working restrictions and closure of retail outlets in reaction to the spread of the virus.

Prysmian Cables & Systems Limited has seen an improvement in recurring EBITDA starting from Q3 2020 versus the very low second quarter and the forecast is supported by a gradual recovery of the order intake across all business units to the end of 2020. Cashflow generation is also expected to gradually increase as a consequence of the higher profitability and the management of the working capital and capital expenditure. In scenarios when the company is limited to a breakeven EBITDA, sufficient liquid cash resources are available to maintain operations.

The Company's defined benefit pension scheme is also exposed to the impact of this pandemic through fluctuations in the pension scheme asset values and also changes in financial assumptions used to determine the pension scheme obligations. Given the complexity of the situation, it is not practicable as at the date of approval of these financial statements to reliably make a quantified estimate of the potential impact on the Company related to the accounting surplus/(deficit) of the Company's defined benefit pension scheme due to the impact of COVID-19.

Prysmian Cables & Systems Limited

DIRECTORS' REPORT (continued)

For the year ended 31 December 2019

Post Balance sheet events (continued)

The Directors are aware of the High Court ruling regarding GMP Equalisation made in November 2020 and are working with the Schemes Trustees and Advisors to calculate the impact of this on the company.

In July 2020, Prysmian Group and Scottish Power entered into a confidential Deed of Settlement. Pursuant to a consent order dated 30 July 2020, all further proceedings in this claim have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

In November 2020, Prysmian Group and National Grid entered into a confidential Deed of Settlement. Pursuant to a consent order dated 10 November 2020, all further proceedings in respect of both National Grid claims have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

As there are proceedings ongoing in relation to the same European Commission decision with other claimants, it would be prejudicial to the business and wider group to disclose the particulars of the settlement agreements referred to above.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* (FRS 102), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable U.K. Accounting Standards comprising FRS102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Prysmian Cables & Systems Limited

DIRECTORS' REPORT (continued)

For the year ended 31 December 2019

Statement of Directors' Responsibilities (continued)

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

Disclosure of Information to Auditors

In the case of each of the persons who are directors at the time of signing these financial statements:

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

The auditors, Ernst & Young LLP have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board



Digitally signed by Del Brenna Marcollo
(mailto:delbrenna@prysmian.com)
DN: cn=Del Brenna Marcollo (delbrenna001),
o=Prysmian Cables & Systems Limited,
ou=UK, email=delbrenna@prysmian.com
Reason: I attest to the accuracy and integrity of this
document
Loc: West Winchester
Date: 2020.12.23 10:34:45 +0100

M Del Brenna

Director

23 December 2020

Registered Office:

Chickenhall Lane, Eastleigh

Hampshire SO50 6YU

United Kingdom

Prysmian Cables & Systems Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRYSMIAN CABLES & SYSTEMS LIMITED

Opinion

We have audited the financial statements of Prysmian Cables & Systems Limited for the year ended 31 December 2019 which comprise Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 28, 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 FRS 102 "The Financial Reporting Standard applicable in the UK" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit 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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of matter – Effects of Covid 19

We draw attention to the note 3 and note 28 to the financial statements which describe the economic and social consequences the company is facing as a result of the Covid 19 matter which is impacting the supply chains, customers and financial markets. 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.

Prysmian Cables & Systems Limited

Other information

The other information comprises the information included in the annual report set out on pages 1 - 56, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 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 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 set out on pages 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Prysmian Cables & Systems Limited

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://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.

Ernst & Young LLP

David Hales
for and on behalf of Ernst & Young LLP, Senior Statutory Auditor
Southampton
23 December 2020

Prysmian Cables & Systems Limited

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	5	498,389	511,455
Cost of sales		(429,056)	(439,965)
Gross profit		69,333	71,490
Net operating expenses	6	(52,205)	(51,147)
Exceptional costs	7	(15,361)	(8,757)
Operating profit	8	1,767	11,586
Interest receivable and similar income	9	1,735	1,590
Interest payable and similar charges	10	(2,621)	(1,790)
Other finance cost		(1,612)	(1,533)
Loss)/profit on ordinary activities before taxation		(731)	9,853
Tax (charge) on ordinary activities	12	(431)	(2,381)
(Loss)/profit for the financial year	24	(1,162)	7,472

Prysmian Cables & Systems Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 £000	2018 £000
(Loss)/profit for the financial year	(1,162)	7,472
Other comprehensive (Loss)/income:		
Actuarial (Loss)/gain recognised in the pension scheme (note 25)	(12,483)	2,738
Movement on deferred tax relating to actuarial gain/(Loss) (note 21)	2,122	(465)
Deferred tax charge relating to land and other timing differences	-	(32)
Cash Flow Hedges	266	(501)
Transfer on sale of revalued land	(24)	-
Total comprehensive (Loss)/income for the year	(11,281)	9,212

Prysmian Cables & Systems Limited

BALANCE SHEET

as at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	13	6,107	8,808
Tangible assets	14	61,978	61,328
Investments	15	1,584	1,584
		<u>69,669</u>	<u>71,720</u>
Current assets			
Inventories	17	46,916	42,803
Debtors	18	273,212	267,401
Cash at bank and in hand		1,729	4,525
		<u>321,857</u>	<u>314,729</u>
Creditors: amounts falling due within one year:	19	(148,592)	(153,782)
Net current assets		173,265	160,947
Total assets less current liabilities		242,934	232,667
 Creditors: amounts falling due after more than one year	19	-	(102)
Provisions for liabilities	20	(44,716)	(33,803)
Net assets excluding pension deficit		198,218	198,762
Pension deficit	25	(66,007)	(55,270)
Net assets including pension deficit		132,211	143,492
Capital and reserves			
Called up share capital	23	113,901	113,901
Revaluation reserve	24	24,210	24,192
Profit and loss account	24	(6,166)	5,399
Cash flow hedge reserve	24	266	-
Total shareholders' funds		132,211	143,492

The notes on pages 21 to 56 are an integral part of these financial statements.

The financial statements on pages 17 to 56 were approved by the Board of Directors on 21 December 2020 and signed on its behalf by:



M Del Brenna
Director

Digitally signed by Del Brenna Marcello
(delbrenna001)
DN: cn=Del Brenna Marcello (delbrenna001),
ou=Administrative, O=Prysmian Group,
email=delbrenna@prysmiangroup.com
Reason: I attest to the accuracy and integrity of this
document
Location: Winchester
Date: 2020.12.23 10:35:11 +0100

Prysmian Cables & Systems Limited

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	<i>Note</i>	<i>Called Up Share Capital £000</i>	<i>Revaluation reserve £000</i>	<i>Profit and loss account £000</i>	<i>Cash Flow Hedge Reserve £000</i>	<i>Total £000</i>
At 1 January 2018		113,901	24,150	(4,272)	501	134,280
Profit for the financial year		-	-	7,472	-	7,472
Other comprehensive income for the year		-	-	2,241	-	2,241
Transfer from revaluation reserve		-	42	(42)	-	-
Financial derivatives		-	-	-	(501)	(501)
Total comprehensive income/(loss) for the year		-	42	9,671	(501)	9,212
At 31 December 2018		113,901	24,192	5,399	-	143,492
At 1 January 2019		113,901	24,192	5,399	-	143,492
(loss) for the financial year		-	-	(1,162)	-	(1,162)
Other comprehensive (loss) for the year		-	(24)	(10,361)	-	(10,385)
Transfer from revaluation reserve	24	-	42	(42)	-	-
Financial derivatives	24	-	-	-	266	266
Total comprehensive income/(loss) for the year		-	18	(11,565)	266	(11,281)
At 31 December 2019		113,901	24,210	(6,166)	266	132,211

The revaluation reserve arose on the historic revaluation of certain fixed assets.

Profit and loss account represents accumulated comprehensive income for the year and prior periods plus share based payments, adjustments and related tax credits, transfers from the revaluation relating to depreciation realised on revaluations less dividends paid.

Prysmian Cables & Systems Limited

Notes to the Financial Statements

For the year ended 31 December 2019

1. General Information

The Company is a wholly-owned subsidiary of Prysmian UK Group Ltd. and is included in the consolidated financial statements of Prysmian SpA, which are publicly available.

The Company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Chickenhall Lane, Eastleigh, Hampshire.

2. Statement of Compliance

The financial statements of Prysmian Cables & Systems Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Exemptions for qualifying entities under FRS 102

The Company is a wholly owned subsidiary company of a group headed by Prysmian SpA, and is included in the consolidated financial statements of that company, which are publicly available.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 11 Financial Instruments paragraphs 11.41 to 11.48A;
- the requirement of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

See note 27 for details of the ultimate parent company and from where its consolidated financial statements may be obtained.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Consolidated Financial Statements

As the Company is a wholly-owned subsidiary of Prysmian UK Group Ltd. and is included in the consolidated financial statements of Prysmian SpA, which are publicly available, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Going Concern – effects of Covid-19

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future.

A further going concern analysis has been performed to analyse the impact of the Covid-19 pandemic on the company and establish if the company will encounter additional business risks due to lockdown measures in the UK, this included revisiting existing forecasts compared to budget and adjusting where appropriate, determining downside scenarios in which a breakeven Recurring EBITDA would be realised and assessing the cashflow impact these scenarios would then have.

The company's forecast and downside scenarios continue to indicate positive cash balances. The company is working to further reduce its cost structure to mitigate any potential longer-term impacts of Covid-19 on volume reduction. The company expects to continue to generate positive cash flows.

Cash balances are held centrally in the Prysmian group to maximise interest and cash movements and are disclosed as intercompany receivables. The company is entitled to immediate access to these funds under a legally binding cash pooling agreement which the company expects to continue for at least 12 months from the signing of the financial statements.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Foreign Currencies

The Company's functional and presentation currency is the pound sterling.

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

At each period end monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Non-monetary items measured at historic cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured at the exchange rate where 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 profit and loss account except where deferred in other comprehensive income as qualifying cash flow hedges.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Financial Instruments (continued)

Derivatives, including forward foreign exchange contracts and commodity hedges for metals, are entered into through a fellow Group company, Prysmian Treasury S.r.l., to manage exchange risk and the copper price risk.

Derivatives that are not designated as effective hedging instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit and loss in finance cost or income as appropriate.

Financial Instruments

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. Effectiveness of the hedging instrument is then monitored through to maturity of the instrument.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss.

Amounts taken to other comprehensive income are transferred to the profit and loss account when the hedged transaction, such as when a forecast sale or purchase, occurs.

Where the Company enters into debtor factoring arrangements, the asset is derecognised where substantially all the risks and rewards of the ownership of the asset are transferred to another party.

Revenue from sale of goods and services

Turnover is the amount derived from goods supplied and services provided. Turnover is reported net of Value Added Tax, rebates and trade discounts awarded to customers. For most sales, revenue is recognised on the date that the goods are despatched, unless the sales contract states that title passes to the customer on a different date. Where sales are subject to bill and hold arrangements, title passes to the customer and the sales are recognised on the billing date. For sales of supertension cables and associated accessories, revenue is recognised once the customer has accepted the test results, the invoice has been raised, and the cable is ready to be installed. This is in accordance with standard cable industry practice.

Revenue from long term contracts

For contract work, turnover is the sales value of work done, calculated by reference to percentage of completion. This is calculated on cost incurred as a percentage of estimated cost at completion. In the case of both short-term and long-term contracts provision is made for any anticipated losses.

Exceptional Items

The Company classifies certain one off charges or credits that have a material impact on the Company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Company.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Taxation including deferred tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(1) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Taxation including deferred tax (continued)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax legislation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(2) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probably that they will be recovered against the reversal of tax liabilities or other future taxable profit.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of timing differences.

Research and Development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred, except for expenditure on related fixed assets which is capitalised and written off in accordance with the Company's depreciation policy.

Dividends

Interim and final dividends are recognised when they are paid. Income from fixed asset investments is recognised as other income.

Intangible Fixed Assets

Goodwill is capitalised and amortised over its useful economic life. Negative goodwill represents the excess of the fair value of assets acquired in a business acquisition over the purchase consideration and is capitalised as a negative asset. It is subsequently released to the profit and loss account over the periods in which the non-monetary assets acquired are realised.

Purchased patent rights, patent licences and trademarks are amortised through the profit and loss account over estimates of their useful economic lives.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Tangible Fixed Assets

Freehold properties are stated at cost (or deemed cost held at valuation at the date of transition to FRS 102) less accumulated depreciation and accumulated impairment losses.

The Company previously adopted a policy of revaluing freehold land and buildings and they were stated at their revalued amount less any subsequent depreciation and accumulated impairment losses. The Company has adopted the transition exemption under FRS 102 paragraph 35.10(d) and has elected to use the previous revaluation as deemed cost in the last year upon transition to FRS 102.

Tangible Fixed Asset (continued)

The difference between depreciation based on the deemed cost charged in the profit and loss account and the assets original cost is transferred from the revaluation reserve to retained earnings. The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is provided on completed fixed assets on a straight line basis at such rates as will write off the cost or valuation of the various assets over the periods of their expected useful economic lives, and then held at their deemed residual value.

The principal annual rates of depreciation used are as follows:

Freehold land	Nil
Freehold buildings	3%
Plant, machinery and vehicles	7% - 33%
Fixtures, fittings and equipment	5% - 33%
Assets under construction	Nil

Assets under construction are not subject to depreciation until such time as the completed asset has been successfully commissioned.

Leased Plant and Equipment

All leases are operating leases and the lease payments are charged to the profit and loss account on a straight line basis over the lease term.

Government Grants

Government grants in respect of capital expenditure are accounted for under the accrual model and are included under creditors in the balance sheet and released to the profit and loss account over the expected useful lives of the assets to which they relate.

Fixed Asset Investments

Fixed asset investments are stated at cost but provision is made for any impairment in their value.

Associated companies are trading companies, other than subsidiary companies, in which the Company holds a participating interest and over whose operating and financial policies it exercises significant influence.

The equity accounting method is used for the associate Rodco Ltd.

Impairment reviews are performed annually by management.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Inventories and Long-term Contracts (continued)

Manufacturing inventories are stated at the lower of cost and estimated selling price less costs to complete and sell.

'Cost' is determined on the basis of first-in, first-out and represents materials, direct labour and an appropriate proportion of factory overhead expenses.

Provision is made where appropriate for obsolete, slow moving and defective inventories. Inventories of copper, aluminium and lead are valued at the weighted three month average cost. The average purchase cost of inventory is considered appropriate for this inventory as it eliminates the differences in timing between the physical purchase of metal, the settlement of related derivatives and the transformation of product and sale.

Short-term contract work in progress is valued at direct cost plus a proportion of contract related overheads, except where the individual contract is material, when the contract is accounted for as a long-term contract.

Long-term contract work in progress is stated at total cost incurred net of amounts transferred to the profit and loss account in respect of work carried out to date, less foreseeable losses and applicable payments on account.

Profit is taken on long-term contracts, the outcome of which can reasonably be foreseen, in proportion to the stage of completion reached. This is calculated on cost incurred as a percentage of estimated cost at completion. In the case of both short-term and long-term contracts provision is made for any anticipated losses.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account. Where payments on account have been received in excess of turnover recognised then the excess is included in other creditors.

Provisions

Provisions are recognised for losses and liabilities whose existence is certain or probable but the timing or amount of the obligation is uncertain as of the balance sheet date. A provision is recognised only upon the existence of a present legal or constructive obligation as a result of past events that are expected to result in a future outflow of resources. The amount of provision accrued represents the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Retirement benefits

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays a fixed contribution into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Retirement benefits (continued)

Up to 28 July 2005, the Company operated three pension schemes providing benefits of both the defined contribution and defined benefit types, the assets of which were held in a combined trustee administered fund. Employers' contributions in respect of the defined contribution section were charged to the profit and loss account in the periods in which they fell due. For the defined benefit sections of the schemes, the cost of providing benefits recognised in the income statement was determined using the projected unit method. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses.

Further to the sale by the Pirelli Group of its worldwide cable activities on 28 July 2005, the existing schemes were closed to new members and a new fund was set up by the Company providing mirror-image rights to existing employed members of the defined benefit and defined contribution schemes.

Pirelli U.K. Limited assumed responsibility for funding the closed schemes and the Company is responsible for funding the new scheme.

From 29 July 2005 to 31 July 2008, the Prysmian scheme provided benefits of both the defined contribution and defined benefit types, the assets of which are held in a combined trustee administered fund. With effect from 31 July 2008, the Company closed the defined benefit section of the Prysmian Pension Scheme for future accrual. All benefits earned to that date are preserved and members were offered the opportunity to join the defined contribution section of the scheme, with effect from 1 August 2008.

On 4 April 2012, Prysmian acquired Draka U.K. Limited and consequently the Draka U.K. pension arrangements which provide benefits of both the defined contribution and defined benefit types. Employers' contributions in respect of the defined contribution sections are charged to the profit and loss account in the periods in which they fall due.

For the defined benefit section of both the Draka U.K. and Prysmian scheme, the cost of providing benefits recognised in the income statement, and the defined benefit obligation at the balance sheet date, have been determined using the projected unit method by independent actuaries. The liability or asset recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the rate of interest on a high quality corporate bond, less the fair value of the plan assets. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses in the period in which they occur. With effect from 1 January 2014, the Company has closed the defined benefit section of the Draka Pension Scheme for future accrual. All benefits earned to that date have been preserved and members were offered the opportunity to join the defined contribution section of the Prysmian scheme, with effect from 1 January 2014.

Share Based Payments

The ultimate parent company, Prysmian SpA, operates an equity settled share option scheme in which certain of the Company's employees participate. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding entry to the intercompany account held with the parent.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Share Based Payments (continued)

During 2016 the ultimate parent company, Prysmian SpA, launched the renewal of the share ownership plan called YES - Your Employee Shares. It has been implemented in the UK through Prysmian UK Group Limited, the Company's immediate parent. Anyone who is an employee of a Prysmian UK Group company is eligible to join the Plan, subject to a six month qualifying period of service. A new plan was launched in the UK in May 2019 and will run until May 2022. As at 31 December 2019, Prysmian Cables and Systems Limited had 228 (2018: 371) employees making regular contributions toward the purchase of shares in Prysmian SpA, during what is termed an accumulation period. The employee contributions have been paid into a Trust set up for the purpose. There are three accumulation periods over a three year period, the final one ended in April 2019. The Company provides free matching shares according to the number of shares purchased by the employee. The aggregate amount of contributions made into this scheme is not material for the year to 31 December 2019

4. Critical Accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Defined benefit pension scheme

The evaluation of the defined benefit pension scheme's future obligations include actuarial assumptions including life expectancy, asset valuations and discount rates which are detailed in note 25.

Amortisation of tangible and intangible assets

The depreciation and amortisation expense is the recognition of the decline in the value of the asset and allocation of the cost of the asset over the expected useful life. Judgements are made on the estimated useful life of the assets, which are regularly reviewed to reflect the changing environment.

Provisions

The Company accounts for provisions in accordance with FRS 102. Provisions are evaluated using the latest available information and by their nature contain an estimate of future events. The Company provides for obsolete, slow moving and defective inventories (note 17), impairment of debtors (note 18), and further provides for warranty provisions, dilapidations, claims, restructuring and goods returns (note 20).

Installation projects

The Company uses an estimate of the cost to complete on major installation projects in order to calculate revenue under the stage of completion method.

Going concern analysis

A going concern analysis was performed based on forecasts and known future outcomes to establish potential business risks. Given the impact of the Covid-19 pandemic on the wider UK and global economies, the going concern assessment performed by management is considered to be a significant judgement.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

5. Turnover

	2019	2018
	£000	£000
<i>Geographical market supplied:</i>		
United Kingdom	366,145	376,509
Rest of Europe	43,396	37,291
Middle East	29,537	24,150
Africa	2,618	5,697
Americas	2,077	3,248
Asia	54,616	64,560
	498,389	511,455
	2019	2018
	£000	£000
<i>By category:</i>		
Sale of goods	449,936	452,291
Services	48,453	59,164
	498,389	511,455

All of the Company's turnover, results and net assets are attributable to the Company's cable manufacture & installation operations and project management activities, which are all based in the United Kingdom, and are considered to be one integral business.

6. Net Operating Expenses

	2019	2018
	£000	£000
Distribution and selling costs	(20,435)	(16,636)
Administrative expenses	(31,789)	(34,628)
	(52,224)	(51,264)
Other operating income	19	117
	(52,205)	(51,147)
Operating exceptional restructuring costs	(15,361)	(8,757)

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

7. Exceptional Items

	2019 £000	2018 £000
Operating exceptionals:		
Reorganisation costs	(1,935)	(848)
Legal Claim provision	(10,600)	(4,440)
Legal costs incurred	(2,826)	(2,267)
GMP Equalisation costs	-	(1,202)
	<hr/>	<hr/>
Operating exceptional restructuring costs	(15,361)	(8,757)

During 2015, the British operators National Grid and Scottish Power filed actions in the High Court in London against certain cable manufacturers, including the Prysmian Group, to obtain compensation for damages allegedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in the decision adopted in April 2014. The Company was notified of this initial court filing during the month of May 2015 and presented their defence in October 2015, along with the summons of other parties censured in the European Commission's decision. Among the parties involved in this action, Pirelli & C. S.p.A. has requested the London High Court to decline its jurisdiction or nonetheless to stay the proceedings in its regard pending the outcome of the civil action previously brought by Pirelli & C. S.p.A. against Prysmian Cavi e Sistemi S.r.l. in the Milan Courts, in which it demands to be held harmless for all claims made by the European Commission in implementation of the latter's decision and for any expenses related to such implementation. The proceedings have since been stayed, as agreed between the parties, pending the outcome of the action brought by Pirelli in the Milan Courts. A similar agreement has also been reached with The Goldman Sachs Group Inc., another company involved in the actions discussed above. The other actions brought by Prysmian Group companies against other cable producers censured in the European Commission decision have in turn been suspended pending the outcome of the main action brought by National Grid and Scottish Power. In 2019, Greater Gabbard Offshore Winds Limited and various SSE companies also filed actions in the High Court in London against companies in the Prysmian Group, to obtain compensation for damages allegedly suffered as a result of the alleged anti-competitive practises.

The above legal claims have led to the recognition of provisions in 2014 to 2018 totaling £32.6m and a further £10.6m provision was recognized in 2019. The remainder of the operating exceptional costs relate to legal costs and costs associated with one off restructuring.

In July 2020, Prysmian Group and Scottish Power entered into a confidential Deed of Settlement. Pursuant to a consent order dated 30 July 2020, all further proceedings in this claim have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

In November 2020, Prysmian Group and National Grid entered into a confidential Deed of Settlement. Pursuant to a consent order dated 10 November 2020, all further proceedings in respect of both National Grid claims have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

8. Operating Profit

	2019 £000	2018 £000
<i>Operating profit is stated after crediting:</i>		
Rent receivable	19	117
<i>and after charging:</i>		
Depreciation and amounts written off fixed assets:		
- tangible fixed assets - owned (note 14)	4,085	3,827
Amortisation of goodwill on acquisition (note 13)	2,701	2,701
Operating lease rentals:		
- land and buildings	146	108
- plant and machinery	152	275
- other	1,675	1,843
Research and development expenditure	2,598	2,839
Change in trade receivables impairment provision	332	(78)
Inventories recognised as expense	353,006	358,011
Change in inventory impairment provision (included in 'cost of sales')	(221)	(194)
Auditors' remuneration:		
- audit services	74	66

9. Interest Receivable and Similar Income

	2019 £000	2018 £000
Interest receivable from group undertakings	1,735	1,590
	1,735	1,590

10. Interest Payable and Similar Charges

	2019 £000	2018 £000
Interest payable to group undertakings	-	-
Factoring charge	930	978
Other interest payable and similar charges	1,691	812
	2,621	1,790

Changes in the fair value of derivatives are included in other interest payable and similar charges.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

11. Directors and Employees

	2019	2018
	£000	£000

Directors - inclusive of all key management personnel

Emoluments:

Aggregate emoluments

968	841
968	841

During the year, retirement benefits accrued to £Nil (2018: £Nil) for directors under a defined contribution or a defined benefit pension scheme.

	2019	2018
	£000	£000

Highest paid director:

Aggregate emoluments

767	381
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The highest paid director for both 2019 and 2018 is not a member of the pension scheme and has no entitlement to pension benefits in the future.

The highest paid director exercised share options amounting to £Nil during 2019 under the Prysmian SpA share based incentive plan described below in Share Based Payments (2018 £Nil).

	2019	2018
	£000	£000

Employees

Staff costs during the financial year:

Wages and salaries	40,693	38,268
Social security costs	4,412	4,143
Other pension costs (note 25)	219	120
Pension cost defined contribution	5,040	4,792
Share based payments	-	206
	50,364	47,529

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

11. Directors and Employees (continued)

	2019 Number	2018 Number
<i>The average monthly number of persons (including executive directors) employed by the Company during the year by activity was:</i>		
Administration and support	60	55
Commercial and logistics	202	196
Manufacturing and installation	810	781
	1,072	1,032

The Directors' Report contains further information regarding the employment policies of the Company.

Share Based Payments

In 2015 Prysmian SpA, implemented a share based incentive plan in which some of the Company's employees participate.

This new plan is intended for the Groups' key managers who, at the Company's discretion, have the managerial skills to affect Group growth. The Plan, which develops over a period of three years, envisages that upon achieving certain pre-set Performance Conditions, the Participants are assigned shares of the Company.

Participation in the Plan is voluntary. The purchased shares will be subject to a retention period during which time they cannot be sold and/or transferred. The Plan envisages three purchasing cycles: in 2017, 2018 and 2019.

Prysmian SpA recharge the relevant cost to the Company.

During 2016, Prysmian U.K. Group Limited implemented an employee share ownership plan – it has been called YES - Your Employee Shares. Anyone who is an employee of a Prysmian U.K. Group company is eligible to join the Plan, subject to a six month qualifying period of service.

The plan involves the employee making regular contributions during what is termed an accumulation period. At the end of the accumulation period, those contributions are used to purchase shares in Prysmian S.p.A. There has been three accumulation periods over a three year period, the final one ending in April 2019, a new scheme has since started in 2020 for a further three years with the same terms. The Company provides free matching shares according to the number of shares purchased by the employee.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

12. Tax on (loss)/profit on ordinary activities

	2019 £000	2018 £000
Analysis of charge for the year		
Corporation tax:		
UK corporation tax on profit for the year	-	-
Adjustments in respect of previous years	59	280
Group relief	292	775
	<hr/>	<hr/>
Total current tax charge	351	1,055
	<hr/>	<hr/>
Deferred tax:		
Origination and reversal of timing differences	163	1,619
Adjustments in respect of previous periods	(83)	(293)
	<hr/>	<hr/>
Total deferred tax	80	1,326
	<hr/>	<hr/>
Tax on profit on ordinary activities	431	2,381
	<hr/>	<hr/>

The tax assessed for the financial year is higher (2018: higher) than the standard rate of Corporation tax in the U.K. for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below.

Reconciliation:		
(loss)/profit on ordinary activities before taxation	(731)	9,853
	<hr/>	<hr/>
(loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19%)	(139)	1,872
Effects of:		
Tax losses utilised	-	-
Expenses not deductible for tax purposes	614	712
Adjustments in respect of previous years	(24)	(13)
Depreciation in excess of capital allowances	7	7
Other short term timing differences	(27)	(197)
Dividends received	-	-
	<hr/>	<hr/>
Total tax charge for the year	431	2,381
	<hr/>	<hr/>

The adjustments in respect of previous years relates to an overestimate (2018: overestimate) in prior years of tax liabilities.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

13. Intangible Assets

	<i>Patents £000</i>	<i>Goodwill £000</i>	<i>Total £000</i>
<i>Cost:</i>			
At 1 January and 31 December 2019	1,000	51,743	52,743
<i>Accumulated amortisation:</i>			
At 1 January 2019	1,000	42,935	43,935
Charge for the year	-	2,701	2,701
at 31 December 2019	1,000	45,636	46,636
<i>Net book value:</i>			
At 31 December 2019	-	6,107	6,107
At 31 December 2018	-	8,808	8,808

Goodwill is amortised on a straight line basis over the directors' estimate of its useful economic life of ten years.

The Company acquired the trade and all assets and liabilities of Draka U.K. Limited on 4 April 2012 and the acquisition method of accounting was adopted.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

14. Tangible Assets

	<i>Freehold land and buildings £000</i>	<i>fittings and equipment £000</i>	<i>machinery and vehicles £000</i>	<i>Assets under construction £000</i>	<i>Total £000</i>
<i>Cost or valuation:</i>					
At 1 January 2019	47,956	9,405	94,075	1,803	153,239
Additions/Reclassifications	-	1,042	3,546	215	4,803
Disposals	(25)	(2)	(173)	-	(200)
At 31 December 2019	47,931	10,445	97,448	2,018	157,842
<i>Accumulated depreciation:</i>					
At 1 January 2019	3,110	8,124	80,677	-	91,911
Depreciation and amounts written off	790	519	2,776	-	4,085
Eliminated in respect of disposals	-	(2)	(130)	-	(132)
At 31 December 2019	3,900	8,641	83,323	-	95,864
<i>Net book value:</i>					
At 31 December 2019	44,031	1,804	14,125	2,018	61,978
At 31 December 2018	44,846	1,281	13,398	1,803	61,328

The net book value of freehold land at 31 December 2019 is £24,110,000 (2018: £24,135,000).

On transition to FRS 102, the Company applied the transitional arrangements of Section 35 of FRS 102 and used a previous valuation as the deemed cost for freehold land and buildings. The properties are being depreciated from the valuation date. As the assets are depreciated or sold, an appropriate transfer is made from the revaluation reserve to retained earnings.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

14. Tangible Assets (continued)

Analysis of the land and buildings valuation using the deemed cost exemption:

	2019 £000	2018 £000
Historical cost equivalent	19,821	20,654
Revaluation	24,210	24,192
Net book value	<u>44,031</u>	<u>44,846</u>

The last revaluation of the Company's freehold land and buildings was at 31 December 2011 and was performed by independent qualified valuers. The valuations were on the basis of existing use value or open market value as appropriate. In the view of the directors, there is no material difference between this value and the current value.

No provision has been made for any tax on capital gains that might arise on disposal of the Company's properties at their balance sheet amounts.

15. Investments

	<i>Subsidiary companies</i> £000	<i>Associated companies</i> £000	<i>Total</i> £000
Cost:			
At 1 January and 31 December 2019	<u>22,994</u>	<u>2,004</u>	<u>24,998</u>
Impairment:			
At 1 January 2018 and at 31 December 2019	<u>22,857</u>	<u>557</u>	<u>23,414</u>
Net book value:			
At 31 December 2019	<u>137</u>	<u>1,447</u>	<u>1,584</u>
At 31 December 2018	<u>137</u>	<u>1,447</u>	<u>1,584</u>

The directors believe that the carrying value of the investments is supported by their underlying net assets.

There are no listed investments.

All holdings are directly owned.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

15. Investments (continued)

The companies in which Prysmian Cables & Systems Limited held any class of share capital during the year are set out below:

	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Proportion held at 31 December 2019</i>
<i>Subsidiary companies:</i>			
Cable Makers Properties and Services Limited	England	Provision of services to the cable industry	75%
Prysmian Cables (2000) Limited	England	Dormant	100%
Prysmian Construction Company Limited	England	Dormant	100%
<i>Associated company:</i>			
Rodco Limited	England	Dormant	40%

The net asset value of Rodco Limited at 31 December 2019 is £5,000,000 (2018: £5,000,000) and its result for the current year is £ Nil (2018: £ Nil).

The capital of each of the subsidiary companies and of the associated company listed above comprises ordinary shares only.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

16. Commitments and Contingent Liabilities

	2019 £000	2018 £000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,465	513

Guarantees given in the normal course of business to third parties which had not expired by the year end amounted to £17,065,000 (2018: £13,895,000). No provision in respect of this amount is considered necessary.

17. Inventories

	2019 £000	2018 £000
<i>Inventories comprise:</i>		
Raw materials	10,979	11,147
Work in progress	10,157	9,676
Finished goods	25,780	21,980
	46,916	42,803

The Company has consignment inventory arrangements with certain of its raw material suppliers in the ordinary course of business. Title to such inventory only passes to the Company once it has been drawn down or, in certain instances, once an agreed period of time has lapsed following delivery to the Company. The value of such inventory, at cost, which has been excluded from the balance sheet at 31 December 2019, amounted to £1,126,000 (2018: £1,105,000).

The value of inventories is not materially different to the value under the replacement cost method.

Inventories are stated after provisions for impairment of £3,816,000 (2018: £3,792,000)

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

18. Debtors

	2019	2018
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade debtors	31,799	27,089
Trade debtors subject to financing agreement	55,498	80,103
Less financing charge	(188)	(271)
Less non returnable amounts received	(55,310)	(79,832)
Net trade debtors subject to financing agreement	-	-
Amounts owed by group undertakings	13,215	15,925
Other debtors	3,280	3,675
Deferred tax asset (note 21)	4,271	2,229
Loans to fellow group undertakings	213,652	211,101
Amounts recoverable on contracts	5,904	6,055
Prepayments and accrued income	1,002	1,268
	273,123	267,342
<i>Amounts falling due after more than one year:</i>		
Trade debtors	89	59
Amounts owed by group undertakings	-	-
	89	59
	273,212	267,401

Loans to fellow group undertakings includes an intercompany treasury facility with Prysmian Treasury Srl of £127.7m (2018: £125.1m) repayable on demand and attracted an interest rate of LIBOR+0.25% at 31 December 2019 (2018: LIBOR+0.25%).

Loans to fellow group undertakings also includes loans to Prysmian Treasury Srl and Prysmian Powerlink Services Ltd of £86.4m (2018: £86.5) repayable on demand and attracted an interest rate of 0.46% at 31 December 2019 (2018: 0.48%).

The Company has factored £55.5m of debt to a third party as of 31 December 2019 (2018: £80.1m).

Trade debtors are stated after provisions for impairment of £762,000 (2018: £430,000)

Financial Assets arising from Derivatives of £2,107,000 (2018: £258,000) are reported in Amounts owed by group undertakings.

At 31 December 2019, the Company had entered into forward contracts with a fellow group company relating to the sale and purchase of foreign currencies amounting to the pound sterling equivalent of £17,274,000 (2018: £16,212,000) and £24,798,000 (2018: £22,100,000) respectively. It has also entered into forward contracts with Prysmian Treasury S.r.l relating to the sale and purchase of metals with a net sale value of £630,000 (2018: £376,000).

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

19. Creditors

	2019	2018
	£000	£000
<i>Amounts falling due within one year:</i>		
Payments received on account	9,784	2,170
Trade creditors	86,447	91,754
Amounts owed to group undertakings - unsecured	28,505	27,626
Other creditors	14,559	14,469
Taxation and social security	1,435	1,706
UK corporation tax and overseas tax	530	733
Amounts owed to associated companies - unsecured	3,526	2,776
Bank borrowings & overdrafts	1,302	1,468
Accruals and deferred income	2,504	11,080
	148,592	153,782

Group payables during the year attracted an interest rate of 1.31% at 31 December 2019 (2018: 1.5%). The amounts are repayable on demand and are unsecured.

Financial Liabilities arising from Derivatives of £1,680,000 (2018: £178,000) are reported in Amounts owed to group undertakings.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

20. Provisions for Liabilities

	<i>Cable Maintenance and Contract</i>		<i>Claims Provision</i>	<i>Wrexham Fire</i>	<i>Restructuring</i>	<i>Goods returns</i>	<i>Total</i>
	<i>Claims</i>	<i>Dilapidations</i>	<i>Provision</i>				
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2019	250	870	32,640	-	7	35	33,802
Utilised in the financial year	-	-	-	(104)	(747)	-	(851)
Released to profit and loss account	(220)	-	-	-	-	-	(220)
Charged to the profit and loss account	-	-	10,600	495	880	10	11,985
At 31 December 2019	30	870	43,240	391	140	45	44,716

The cable maintenance and contract claims provision is for maintenance and rectification costs. It is calculated on long term projects and is set aside to meet claims reasonably expected to materialise within 2 years.

Dilapidations provisions relate to the potential costs required to restore leased depots to their original condition at the end of the lease term, which range from 1 to 5 years.

The claims provision is with regard to a number of UK energy operators having filed actions in the High Court in London against certain cable manufacturers, including Prysmian Group, to obtain compensation for damages allegedly suffered as a result of the alleged anti-competitive practices condemned by the European Commission in the decision adopted in April 2014.

The Company was notified of an initial court filing from National Grid and Scottish Power during the month of May 2015. In April 2019 the company was notified of initial court filings from Greater Gabbard Offshore Winds Limited and various SSE companies.

On 22 March 2019, National Grid communicated that it had brought a new action in the High Court of London against certain Group companies in which it claims compensation for damages purportedly suffered through alleged anti-competitive practices employed over a period running from the 1970s until 1997. On 12 June 2019, a writ of summons was served in which National Grid further detailed its claim for damages, which it also quantified.

The above events have led to the recognition of provisions in 2014 to 2018 totaling £32.6m and a further £10.6m provision was recognized in 2019. The remainder of the operating exceptional costs relate to legal costs and costs associated with one off restructuring.

The outcome of appeals and subsequent legal process is anticipated to be concluded in between 1 and 5 years. Uncertainty exists regarding the outcome of the ongoing legal process.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

20. Provisions for Liabilities (continued)

In July 2020, Prysmian Group and Scottish Power entered into a confidential Deed of Settlement. Pursuant to a consent order dated 30 July 2020, all further proceedings in this claim have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

In November 2020, Prysmian Group and National Grid entered into a confidential Deed of Settlement. Pursuant to a consent order dated 10 November 2020, all further proceedings in respect of both National Grid claims have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

As there are proceedings ongoing in relation to the same European Commission decision with other claimants, it would be prejudicial to the business and wider group to disclose the particulars of the settlement agreements referred to above.

The Wrexham fire provision represents a provision for the repair of part of the Wrexham factory that was damaged by a fire during 2019.

The restructuring provision represents employee termination costs which are committed to at the year end. The provision at 31 December 2019 is expected to be fully utilised during 2020.

The goods returns provision has been created to enable the Company to meet its obligations with regard to consignment inventory held for a customer who under the terms of their contract make regular returns to inventory. The provision is expected to be utilised by the end of 2020.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

21. Deferred Tax

	2019	2018
	£000	£000
Capital Gains	3,823	3,823
Capital allowances in advance of depreciation	3,435	3,504
Other, including short-term timing differences	(308)	(160)
Pensions	(11,221)	(9,396)
Total deferred tax (asset)	(4,271)	(2,229)
At 1 January	(2,229)	(4,020)
Deferred tax credit in profit and loss account (note 12)	80	1,326
Deferred tax before SOCI movements	(2,149)	(2,694)
Deferred tax (credit)/charge in the statement of comprehensive income (SOCI)	(2,122)	465
Total deferred tax (asset)	(4,271)	(2,229)

According to legislation enacted at 31 December 19 the corporation tax rate would have reduced to 17% from 1 April 2020. The company considers that the timing differences included in the deferred tax calculation will for the most part reverse after 1 April 2020 and therefore the deferred tax asset has been calculated using the 17% rate.

The UK Government has subsequently enacted legislation cancelling the planned reduction in the corporation tax rate to 17% from 1 April 2020. The corporation tax rate will therefore remain at 19% from 1 April 2020. If the legislation keeping the corporation tax rate at 19% had been enacted as at 31 December 2019 this would have increased the deferred tax charge to the Profit and Loss account by £756,000 and increased the deferred tax credit posted to Other Comprehensive Income by £1,258,000.

Due to uncertainties over its recoverability, no deferred tax asset relating to corporation tax losses has been recognised.

Deferred tax on pension

	2019	2018
	£000	£000
At 1 January 2018	9,396	9,913
Deferred tax (credited)/charged in profit and loss account	(297)	(52)
Deferred tax credited/(charged) to the statement of comprehensive income - on actuarial (gain)/loss	2,122	(465)
At 31 December 2019	11,221	9,396

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

22. Commitments under Operating Leases

At 31 December 2019, the Company has lease agreements in respect of properties, vehicles, plant and equipment, for which payments extend over a number of years.

	2019	2018
	£000	£000
<i>At 31 December, the Company had payments under non-cancellable operating leases as follows:</i>		
<i>Land and buildings:</i>		
Expiring within one year	19	22
Expiring between two and five years	156	54
Expiring in five years or more	694	1,673
	869	1,749
<i>Other:</i>		
Expiring within one year	34	152
Expiring between two and five years	3,346	4,032
Expiring in five years or more	193	325
	3,573	4,509

23. Called up Share Capital

	2019	2019	2018	2018
	Number	£000	Number	£000
<i>Allotted called up and fully paid:</i>				
Ordinary Shares of £1 each	113,901,120	113,901	113,901,120	113,901

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

24. Reserves

	<i>Revaluation reserve £000</i>	<i>Profit and loss account £000</i>	<i>Cash Flow Hedge Reserve £000</i>	<i>Total £000</i>
At 1 January 2019	24,192	5,399	-	29,591
Loss for the financial year	-	(1,162)	-	(1,162)
Actuarial loss on pension schemes	-	(12,483)	-	(12,483)
Transfer on sale of revalued land	(24)	-	-	(24)
Deferred tax in respect of actuarial gains and losses	-	2,122	-	2,122
Derivatives	-	-	266	266
Deferred tax charge relating to land & other	-	-	-	-
Transfer from revaluation reserve	42	(42)	-	-
At 31 December 2019	24,210	(6,166)	266	18,310

The revaluation reserve arose on the historic revaluation of certain fixed assets.

Profit and loss account represents accumulated comprehensive income for the year and prior periods plus share based payments, adjustments and related tax credits, transfers from the revaluation relating to depreciation realised on revaluations less dividends paid.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes

Prysmian U.K. Scheme

With the change in ownership of the Company on 28 July 2005, the Company set up a new Prysmian U.K. pension fund effective from 29 July 2005 providing mirror-image rights to existing employed members of the defined benefit and defined contribution schemes that were closed and the responsibility for the liabilities of which were transferred to Pirelli U.K. Limited. Both the employing Company and the members make contributions. The assets of the scheme are held separately from those of the Company in a combined trustee administered fund.

The defined benefit section of this new scheme was closed to new members from inception and closed for future accrual with effect from 31 July 2008. All benefits earned to that date are preserved and members were offered the opportunity to join the defined contribution section of the scheme, with effect from 1 August 2008. Following thorough consultation with the Trustee, the members and their representatives, the transition was effected smoothly with over 97% of the defined benefit members transferring to the defined contribution section.

The defined benefit section of the scheme provides benefits to existing members according to years of service and pensionable pay at the earlier of the date of retirement or at 31 July 2008. The pension cost of this section was assessed on the advice of an independent consulting actuary and the funding of the scheme will be based on triennial actuarial valuations, the first of which was performed at 31 March 2006.

At 31 December 2019, the actuary has estimated that the market value of the assets of the scheme was £23,549,000 (2018: £20,905,000) and was equal to 76.3% (2018: 82.0%) of the present value of benefits accrued to members.

The pension cost for 2019 is £5,004,000 (2018: £4,792,000) relating entirely to the defined contribution scheme. Amounts outstanding in respect of Company contributions to the defined contribution scheme at 31 December 2019 were £460,044 (2018: £420,000).

Composition of the Defined Benefit Scheme

The defined benefit scheme has been valued at 31 December 2019 by a qualified independent actuary in accordance with the requirements of FRS 102. The principal assumptions used in this valuation were:

	2019	2018
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions in payment	2.5%	2.5%
Rate of increase in deferred pensions	2.4%	2.4%
Discount rate	3.0%	3.0%
Inflation	3.6%	3.6%

N/A - Not applicable – the scheme closed for future accrual on 31 July 2008.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes (continued)

The mortality assumptions used in the Company actuarial valuations are based on S2PMA CMI_18 [1.00%] (2018: S2PMA CMI_16 [1.25%]). The mortality assumptions used in the valuation of the defined benefit pension liabilities of the Company U.K. plans are summarised in the table below:

	2019	2018
	Years	Years
Longevity at age 40 for current pensioners	47.3	47.1
Longevity at age 65 for current pensioners	22.3	22.1

The assumptions used by the actuary are chosen, in accordance with the principles set out in FRS102, from a range of possible actuarial assumptions that, due to the timescale covered, may not necessarily be borne out in practice. These assumptions are recommended by the actuary and approved by the Company.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	2019	2019	2018	2018
	£000	%	£000	%
Bonds	8,306	35.3	7,373	35.3
Other quoted securities	14,983	63.6	13,301	63.6
Cash	260	1.1	231	1.1
Total market value of assets	23,549	100	20,905	100

Reconciliation of present value of scheme liabilities

	2019	2018
	£000	£000
1 January	25,476	27,315
Current service cost	-	-
Interest cost	759	733
Contributions paid by members	-	-
Actuarial loss/(gain)	5,257	(1,868)
Benefits paid	(639)	(704)
31 December	30,853	25,476

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes (continued)

Reconciliation of fair value of scheme assets

	2019 £000	2018 £000
1 January	20,905	22,149
Expected return on scheme assets	621	596
Actuarial gain/(loss)	2,462	(1,336)
Contributions paid by the Company	200	200
Benefits paid	(639)	(704)
31 December	23,549	20,905

Scheme assets do not include any of the Company's own financial instruments, or any property occupied by the Company.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at 31 December. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £3,083,000 (2018: (£740,000)).

Analysis of the amount (charged)/credited to other finance cost:

	2019 £000	2018 £000
Expected return on pension scheme assets	621	596
Interest on pension scheme liabilities	(759)	(733)
Net return	(138)	(137)

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes (continued)

	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Defined benefit obligation	(30,853)	(25,476)	(27,315)	(28,996)	(22,676)
Plan assets	23,549	20,905	22,149	21,744	21,243
(Deficit)	(7,304)	(4,571)	(5,166)	(7,252)	(1,433)
Deferred tax recognised	1,242	777	878	1,233	258
(Deficit) after deferred tax	(6,062)	(3,794)	(4,288)	(6,019)	(1,175)
Difference between expected and actual return on plan assets:	2,462	(1,336)	450	145	(518)
Experience gains and losses on scheme liabilities:	-	-	354	511	79
Changes in assumptions underlying the present value of the scheme liabilities	(5,257)	1,868	1,267	(6,625)	723
Total amount recognised in statement of comprehensive income:	(2,795)	532	2,071	(5,969)	284

The amount of actuarial gains recognised this year in the Statement of Comprehensive Income is £2,795,000 (2018: £532,000).

The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income is £10,627,000 (2018: £7,832,000).

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes (continued)

Draka U.K. Scheme

On 4 April 2012 the Company purchased the trade and all assets and liabilities of Draka U.K. Limited. Included within these was a pension plan as noted below.

The Company is the principal employer of the Draka U.K. Section of the Draka U.K. Pension Plan (the "U.K. Plan"). The U.K. Plan is a defined benefit pension scheme operating in the U.K. The scheme is closed to new members and from 1 January 2014 closed for future accrual.

The last valuation of the U.K. Plan was completed as at 31 December 2015.

In 2013 the company paid 14% of Pensionable Salaries for former ex DCC Plan members and 13% of Pensionable Salary for all other members. In addition the Company has paid £3,376,000 (2018: £3,049,000) in respect of deficit funding contributions.

At 31 December 2019, the actuary has estimated that the market value of the assets of the U.K. Plan was £77,289,000 (2018: £70,715,000) and was equal to 56.8% (2018: 58.2%) of the present value of benefits accrued to members.

The defined benefit pension cost for 2019 is £255,000 (2018: £174,000). Amounts outstanding in respect of Company contributions to the defined benefit scheme at 31 December 2019 were £nil (2018: £nil).

Composition of the Defined Benefit Scheme

The defined benefit scheme has been valued at 31 December 2019 by a qualified independent actuary in accordance with the requirements of FRS 102. The principal assumptions used in this valuation were:

	2019	2018
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions in payment	3.3%	3.3%
Rate of increase in deferred pensions	3.4%	3.2%
Discount rate	3.0%	3.0%
Inflation	3.6%	3.6%

The mortality assumptions used in the Company actuarial valuations are based on S2PMA CMI_18 [1.00%] (2018: S2PMA CMI_15 [1.25%]). The mortality assumptions used in the valuation of the defined benefit pension liabilities of the Company U.K. plans are summarised in the table below:

	2019	2018
	Years	Years
Longevity at age 40 for current pensioners	47.3	47.1
Longevity at age 65 for current pensioners	22.3	22.1

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes (continued)

The assumptions used by the actuary are chosen, in accordance with the principles set out in FRS102, from a range of possible actuarial assumptions that, due to the timescale covered, may not necessarily be borne out in practice. These assumptions are recommended by the actuary and approved by the Company.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	2019	2019	2018	2018
	£000	%	£000	%
Equities	13,200	17.1	12,078	17.1
Bonds	29,687	38.4	27,161	38.4
Cash	2,842	3.7	2,601	3.7
Property	2,357	3.0	2,157	3.1
Other quoted securities	29,203	37.8	26,718	37.8
Total market value of assets	77,289	100	70,715	100

Reconciliation of present value of scheme liabilities

	2019	2018
	£000	£000
1 January	121,414	129,103
Current service cost	219	174
Past service cost	-	1,202
Interest cost	3,603	3,452
Actuarial loss/(gain)	15,895	(6,663)
Benefits paid	(5,139)	(5,854)
31 December	135,992	121,414

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes (continued)

Reconciliation of fair value of scheme assets

	2019 £000	2018 £000
1 January	70,715	75,956
Expected return on scheme assets	2,130	2,056
Actuarial gain/(loss)	6,207	(4,457)
Contributions paid by the Company	3,376	3,014
Benefits paid	(5,139)	(5,854)
31 December	77,289	70,715

Scheme assets do not include any of the Company's own financial instruments, or any property occupied by the Company.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at 31 December. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £8,337,000 (2018: (£2,401,000)).

Analysis of the amount charged to operating profit:

	2019 £000	2018 £000
Current service cost	219	174
Plan loss on benefit charges for GMP equalisation	-	1,202
Total operating charge	219	1,376

Of the total operating charge £219,000 (2018: £120,000) is included within net operating expenses and £nil (2018: £54,000) is included within exceptional items.

Analysis of the amount credited to other finance cost:

	2019 £000	2018 £000
Expected return on pension scheme assets	2,130	2,056
Interest on pension scheme liabilities	(3,603)	(3,452)
Net return	(1,473)	(1,396)

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

25. Pension Schemes (continued)

History of experience gains and losses

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Defined benefit obligation	(135,992)	(121,414)	(129,103)	(138,963)	(107,732)
Plan assets	77,289	70,715	75,956	74,898	67,667
Deficit	(58,703)	(50,699)	(53,147)	(64,065)	(40,065)
Deferred tax recognised	9,980	8,619	9,566	11,532	7,212
Deficit after deferred tax	(48,723)	(42,080)	(43,581)	(52,533)	(32,853)
Difference between expected and actual return on plan assets:	6,207	(4,457)	1,855	5,630	(753)
Experience gains and losses on scheme liabilities:	-	-	1,300	891	697
Changes in assumptions underlying the present value of the scheme liabilities	(15,895)	6,663	6,904	(31,522)	3,184
Total amount recognised in statement of comprehensive income:	(9,688)	2,206	10,059	(25,001)	3,128

The amount of actuarial gains recognised this year in the Statement of Comprehensive Income is £9,688,000 (2018: £2,206,000).

The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income is £38,517,000 (2018: £28,829,000).

26. Related Parties

The Company has used the exemption under paragraph 1.12(e) from the provision of Financial Reporting Standard No. 102 as a subsidiary undertaking (where 100% of the voting rights are controlled by its ultimate parent company) not to disclose transactions with other entities that are part of, or investees of, the Prysmian SpA group. Consolidated financial statements of Prysmian SpA are publicly available at www.prysmiangroup.com.

27. Ultimate Parent and Controlling Party

The Company's immediate parent Company is Prysmian U.K. Group Limited. The ultimate parent company and controlling party is Prysmian SpA, which heads the smallest and largest group for which consolidated financial statements are prepared.

Prysmian U.K. Group Limited is incorporated in England and Prysmian SpA is incorporated in Italy.

Copies of the consolidated financial statements of Prysmian SpA can be obtained from The Company Secretary, Prysmian SpA, Via Chiese 6, 20126, Milan, Italy.

Prysmian Cables & Systems Limited

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

28. Post Balance sheet events

On 30 January 2020, the spread of the novel Coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation. On 11 March 2020, the UK government announced social distancing measures, working restrictions and closure of retail outlets in reaction to the spread of the virus.

As a result of this, the business has experienced lower sales in the 1st half of 2020, but in the month of June the order intake in both the Energy and Telecom business started to improve. With the construction industry continuing to work through the crisis, we have seen greater resilience in the Utilities (maintenance and projects) and Telecom business due to the development of the broadband network.

The immediate impact of Covid-19 was mitigated by reducing the workforce and utilising the furlough scheme in Q2 but has since returned to full capacity. The company is working to further reduce its cost structure and mitigate the impact of Covid-19 volume reduction and has utilised elements of the UK government deferrals of VAT, PAYE and Corporation tax payments temporarily to manage cash position. The company expects to continue to generate positive cashflow.

On 5 November 2020, the UK government introduced further measures restricting population movement due to a second wave of the spread of Covid-19, similar restrictions were also introduced in Wales and Scotland.

The company has not experienced any significant effects due to these restrictions on production or sales. All key customers and industries were permitted to continue operating allowing sales to remain in line with forecast. Production experiences some disruption through absence due to the virus, however this was covered through overtime and minimised by an effective company health & safety procedure.

The Company and wider Group was and continues to be in a strong position as the largest manufacturer in the cable industry and as a world leader. With our diversified business products and geographical presence, risk is spread. It is managements view that the company is flexible enough to react to significant changes in demand and put in place the right measures to mitigate the negative effect of a prolonged weak market, which the company has proven in previous economic downturns.

The company has performed a going concern assessment based on a rolling forecast, cashflow projection and sensitivity analysis, including downside and breakeven EBITDA scenarios for the next 12 months to December 2021.

Prysmian Cables & Systems Limited has seen an improvement in recurring EBITDA starting from Q3 2020 versus the very low second quarter and the forecast is supported by a gradual recovery of the order intake across all business units to the end of 2020. Cashflow generation is also expected to gradually increase as a consequence of the higher profitability and the management of the working capital and capital expenditure. In scenarios when the company is limited to a breakeven EBITDA, sufficient liquid cash resources are available to maintain operations.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

28. Post Balance sheet events (continued)

The Company's defined benefit pension scheme is also exposed to the impact of this pandemic through fluctuations in the pension scheme asset values and also changes in financial assumptions used to determine the pension scheme obligations. Given the complexity of the situation, it is not practicable as the date of approval of these financial statements to reliably make a quantified estimate of the potential impact on the Company related to the accounting surplus/(deficit) of the Company's defined benefit pension scheme due to the impact of COVID-19.

The Directors are aware of the High Court ruling regarding GMP Equalisation made in November 2020 and are working with the Schemes Trustees and Advisors to calculate the impact of this on the company.

In July 2020, Prysmian Group and Scottish Power entered into a confidential Deed of Settlement. Pursuant to a consent order dated 30 July 2020, all further proceedings in this claim have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

In November 2020, Prysmian Group and National Grid entered into a confidential Deed of Settlement. Pursuant to a consent order dated 10 November 2020, all further proceedings in respect of both National Grid claims have been stayed except for the purposes of carrying the terms of settlement into effect. The settlement is within the amounts provided.

As there are proceedings ongoing in relation to the same European Commission decision with other claimants, it would be prejudicial to the business and wider group to disclose the particulars of the settlement agreements referred to above.