

ELEXON

ANNUAL REPORT &
FINANCIAL STATEMENTS

31 MARCH 2021



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**Officers and Professional
Advisers**

Directors

Michael Gibbons	(Chair)
Mark Bygraves	(Chief Executive Officer)
Clare Duffy	(Non-executive)
Anne Heal	(Non-executive)
David Rigney	(Non-executive)
David Titterton	(Non-executive)
Sara Vaughan	(Non-executive)

Company Secretary

Nicholas Brown

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Bankers

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Chartered Accountants
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55 Baker Street
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REPORT FROM THE CHAIR

Michael Gibbons CBE
Chair, Elexon Ltd and the BSC Panel

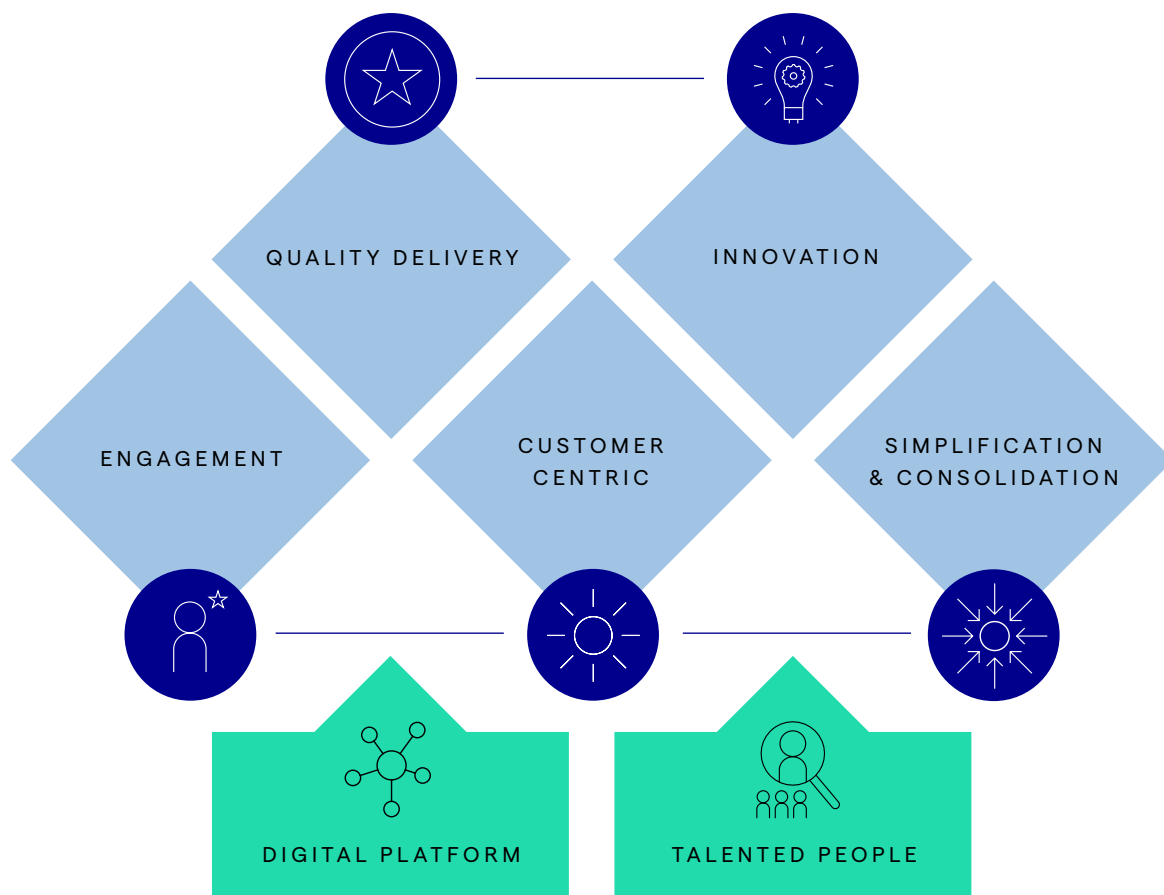


In December 2020 we developed a new corporate purpose 'Serving at the heart of the energy industry, building a path to net zero'. Before you read this review of Elexon's performance over 2020/21, I would like to reflect on how we have been translating this into action.

Over the past year we have made important contributions to progress towards net zero, including our work on Modification P375 'Metering behind the Boundary Point', and our leadership of preparatory work for MHHS implementation.

As a clear example of our alignment with our new corporate purpose, I point to our continued support for Suppliers in managing the impact of COVID-19. We have allowed the majority of the derogations on Settlement rules that were instigated from April 2020 to continue, so far, into 2021. The report by Elexon's Chief Executive, Mark Bygraves, has more detail about this.

At the point of the first lockdown we put our customers at the forefront of our considerations and quickly established what we could do to help Suppliers with the unprecedented circumstance of a significant reduction in energy demand. We worked quickly, alongside the BSC Panel and the Performance Assurance Board, to agree derogations, demonstrating our culture of being customer centric and a commitment to serving the industry.



"We have been developing a new culture and set of values. An essential part of this is the sense that, across Elexon, we are one team, in which people support, collaborate and are inclusive of one another."

During 2021 we have been developing a new culture and set of values for all colleagues to share. They define who we are as an organisation, what is important to us, and the qualities we expect all colleagues to demonstrate when approaching their work. An essential part of this is the sense that, across Elexon, we are one team, in which people support, collaborate and are inclusive of one another.

At Elexon we have been working to promote diversity across the organisation over the past few years. A group of colleagues voluntarily created a Diversity Forum, the members of which include two of our Executive team. The whole organisation, including the Board, have attended unconscious bias training, the partner for which was selected by the Diversity Forum itself. In addition the group has undertaken other programmes of work. On International Women's Day (May 2021) Elexon joined other organisations in sharing our experiences of women in the energy sector.

There has been a far greater focus on the mental wellbeing of people at work during the past year, across the economy, given the pressures of the pandemic. At Elexon we have worked hard to understand and appreciate the additional pressures that our colleagues have been under with managing working from home, combined with other factors such as home schooling, or the need to care for others. The Elexon Executive instigated a Mental Health First Aider programme and a number of volunteers from

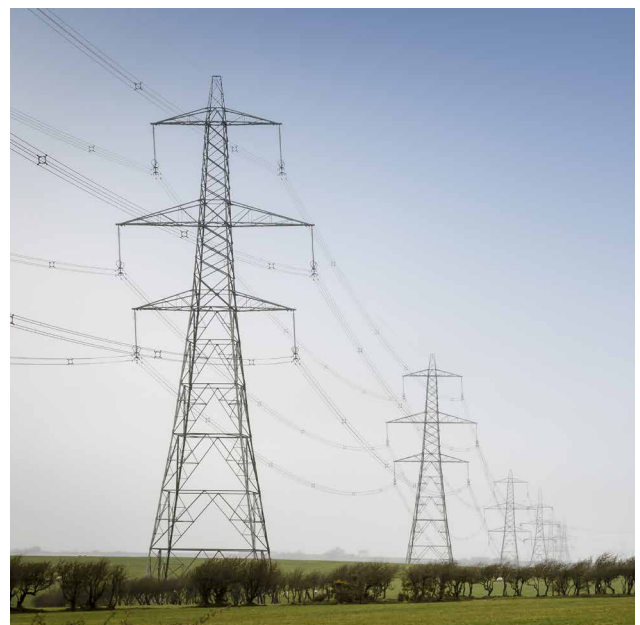
across the business put themselves forward to be trained and act as mental health first aiders.

Maintaining value for money for our services has always been a priority, and over the past year there was a clear need to demonstrate this given the difficult financial conditions that our customers are experiencing. This is why we decided not to award any pay rise in 2020/21. We also identified savings arising from the closure of the office since mid-March 2020, combined with other efficiency savings and returned these to BSC Parties in early September. The principle is important – we do not use more resources than we need to, to deliver our work and we supported our customers at a time of real pressure.

Later this year it is expected that the Government will announce the next steps for reforming the energy codes and central services. Just as the energy sector is transforming, bodies like ours must also change. The examples I have given here show what can be done.



Michael Gibbons CBE
Chair
2 June 2021



REPORT FROM

THE CHIEF EXECUTIVE

Mark Bygraves
Chief Executive Officer



Our latest annual report covers the period (from 1 April 2020 to 31 March 2021) in which the sector has continued to face major challenges in managing the impact of COVID-19.

The national lockdowns have continued to affect demand for electricity, as well as how, and when it is used. National Grid ESO has faced increased costs for balancing a system in which, at times, record-breaking levels of renewable energy have been produced. Suppliers have had to manage higher costs for bad debt as customers have struggled to pay bills.

Elxon has been focussed on supporting our customers through this difficult period. Colleagues across the company have worked as a team to continue seamless delivery of our services to manage the Balancing and Settlement Code (BSC). We have also made progress against our overarching objective of supporting the industry on the road to net zero.

Elxon's work on ground-breaking changes to the BSC

In this report you will find information about how Elxon has performed during 2020/21, with a particular emphasis on our spending against budget. Our annual BSC report for 2020/21 details the work we have delivered in line with our business plan. I will summarise some of this here.

In March 2021, Ofgem approved the BSC Modification P375 'Metering behind the Boundary Point'. This is a major stepping stone towards a more open and competitive electricity system where a wider range of participants have opportunities to earn revenue from helping to keep supply and demand in balance.

P375 will allow the activity of smaller asset owners at multi-use sites behind the 'boundary point' to be recognised in Settlement. This will be achieved through the fitting of individual 'asset meters' which provide granular information on the capabilities of these assets to produce, or use electricity when needed. This is a major breakthrough, as previously the activity of asset owners at these sites was only available on an aggregated basis.

Colleagues across Elxon have worked closely with Flexitricity, the proposer of P375, to develop the reforms. There was strong support in the Modification Workgroups for this change and I would like to thank everyone who helped to shape it.

The reforms build on the implementation of P344 in December 2019, which opened up the Balancing Mechanism (BM) to 'Wider Access' so that independent aggregators could participate in it.

P375 will be implemented in June 2022 and the benefits of it are not confined only to smaller asset owners. P375 will also help Licensed Distribution System Operators (LDSOs) to manage congestion on their networks more efficiently, as they could be provided with access to clearer information on how smaller asset owners could be called on to resolve supply and demand bottlenecks.

Elxon is the custodian of the most comprehensive data sets available on the wholesale electricity market, and we were an enthusiastic participant in the Energy Data Task Force.

Our response to the findings of the taskforce was to consider what we could do to adhere to 'open data' principles. We worked closely with the BSC Panel which raised Modification P398 'Increasing access to BSC Data'. P398 requires that all data held by Elxon is assumed to be openly available, unless the Panel decides otherwise. Following Ofgem's approval, P398 was implemented in June 2021, around a year after the Taskforce's recommendations were published. We are looking forward to making more BSC data available to more organisations in the coming years, with no additional charges. We believe access to this data will support progress to net zero and help in the development of new products and services for the sector.

"We have also worked to further improve and streamline the BSC for our customers. Reviewing how different codes and code bodies responded and were able to adapt to the impact of COVID-19 should also form an input to this review."

Supporting innovators and flexibility platforms

The need for Elexon and other code bodies to support innovation will only increase in the coming years. In July 2020 we were pleased to finally launch our BSC Sandbox service. This followed Ofgem's completion of a review of its own innovation support services. We are the first code body to provide a Sandbox, which allows innovators and entrepreneurs to trial concepts in a live market environment, without having to meet all the usual BSC rules.

In February 2021 we consulted on the first proposal to use the Sandbox. Emergent Energy, a renewable energy supplier is looking to trial technology to perform on-site aggregation calculations on private wire networks. Ofgem approved the proposal in May 2021, following the Panel's recommendation. The benefits of it include improvements in access to the retail market for households on private wire networks.

During 2020/21 we have also continued to help developers of flexibility platforms. In November 2020 we proposed in a policy view that nationwide flexibility platforms should be established so that demand-side response, spare capacity and other flexibility offers could be openly traded. The availability of flexibility offers can help network companies to manage the grids more efficiently in areas of Britain which experience supply and demand constraints. Making flexibility offers more openly available can also reduce electricity system costs for consumers and increase the amount of renewables connected to the system.

We have been supporting TraDER, a consortium which won Government funding for trialling flexibility exchanges. Over the past year, TraDER has demonstrated market-based trading for generation and consumption to help Orkney, an area that has experienced network constraints for a number of years. The next steps include exploring metering and assurance considerations for market participants, drawing the project to a close and reporting findings back to BEIS.

Delivering Elexon Kinnect – our new digital platform

The technical architecture of the BSC Central Systems is now 20 years old. It has served BSC Parties well but we have been clear on the need to replace it with a cloud platform that is flexible and scalable, to meet the needs of a decentralised energy market.

We have been building up to the replacement of existing systems since 2017, and over 2020/21 we made significant progress. In January 2021 we launched the Kinnect Customer Solution, which as a first for an energy code, has digitised forms from 11 Balancing and Settlement Code Procedures (BSCPs) to handle the market entry and the asset registration processes for participants. This ultimately makes it simpler and less resource intensive for our customers to manage their BSC accounts. Feedback from BSC Parties has been positive so far and we continue to develop the functionality of the Customer Solution. Since the launch we have completed 16 accessions to the BSC in just a matter of months. Customers are able to register as authorised signatories in as little as eight minutes and we have onboarded 890 customers, with 259 actively using the platform on a regular basis.

Continuing support for delivering major regulatory reforms

An important part of our work over the past few years has been to support Britain's participation in Project TERRE (Trans-European Replacement Reserves Exchange). In 2020 we completed testing on the Settlement systems that support TERRE. We were obliged to do this even given the uncertainty of whether Britain would participate in TERRE after Brexit. The Settlement functionality we introduced in December 2019 to support TERRE was deployed with implementation of Modification P344 in December 2019. P344 'Wider Access' is based on the new Kinnect architecture.

There is no premise in the post-Brexit UK and EU Trade and Cooperation Agreement for GB's participation in TERRE. However we have been working with National Grid ESO to assist with determining the next steps, as this includes the ESO undertaking a cost-benefit-analysis on whether to implement a GB-only Replacement Reserve product. The Settlement functionality could therefore be re-used to support this if needed.

Continuing to support implementation of major industry reforms remains a priority for us. The outcomes of Ofgem's Targeted Charging Review (TCR) affect the way that transmission and distribution network charges are set. These changes are being introduced in stages between 2021 and 2022. In support of this, we are overseeing the introduction of a much larger Market Domain Data (MDD) set, which underpins the operation of the Supplier Volume Allocation arrangements and network charging.

The distribution charge aspects of Ofgem's reforms are being introduced from April 2022 resulting in the numbers of Line Loss Factor Classes (LLFCs) and valid set combinations in MDD effectively doubling to around 31,000 and 420,000 respectively.

On 20 January 2021, all of the host LDSO's MDD sets went live, which included the vast majority of the changes needed to meet Ofgem's TCR requirements. Industry testing was carried out and completed at the end of February, with central system testing completed in March 2021. The testing highlighted that changes to central systems need to be made to handle the expected increased data volumes successfully. It is estimated, that this work could take four months, completing in July 2021. This highlights the need to continue to work to replace central systems with Elexon Kinnect. The flexibility and scalability of our new platform would allow us to implement this sort of change more quickly in the future.

The required changes will need to be implemented and tested before the IDNO Change Requests are approved/progressed. Subject to successful testing, as agreed with the Energy Networks Association (ENA) and the Independent Distribution Network Operators (IDNOs), we will look to progress IDNO combinations in line with the ENA's migration plans. This will ensure that all migrations can take place before the April 2022 deadline.

Our leadership on preparation for Market-wide Half Hourly Settlement (MHHS)

On 19 April Ofgem made a long-awaited decision to implement MHHS. This will be one of the biggest changes to the energy retail sector since competition was introduced in the late 1990s, with the Settlement systems being redeveloped to accommodate using half hourly meter readings from all metering points. The major benefit of this development for BSC Parties is a faster, more accurate Settlement process, including a reduction in timescales from 14 to four months. MHHS also enables new business models such as electric vehicle to grid schemes and the next generation of time of use tariffs. In short, MHHS is critical for the sector's ability to progress to net zero.

We were very pleased that Ofgem decided that Elexon will be the Senior Responsible Owner (SRO) and Programme Manager (PM) for MHHS implementation. We believe that this decision reflects confidence in our capability and expertise in delivering major industry changes. These roles will involve us co-ordinating the activities of around 180 organisations across the energy sector, to develop, test, and integrate MHHS. We are looking forward to working closely with BSC Parties and other stakeholders on this.

Over the past year we have continued to prepare the industry for MHHS implementation by chairing, and providing technical leadership for, two industry working groups. Both groups have been further developing aspects of the MHHS Target Operating Model (TOM). The Code Change and Development Group (CCDG) is identifying the changes needed to electricity codes to support MHHS. In December 2020 we published the CCDG's consultation on the detailed areas of the TOM design and the expected code impacts. In April 2021 we published a high level view from the CCDG on feedback to the consultation, and we are now working on the next steps.

The Architecture Working Group (AWG) has developed a reference architecture which will set the framework for suitable data integration for the new MHHS services set out by the TOM. In April 2021 we published the AWG's consultation on the reference architecture and we have been engaging with the industry to gather feedback. Both the CCDG and AWG workstreams are critical to the success of MHHS, as they will ensure that the right processes, code changes and architecture are put in place to support implementation.

Our latest views on code consolidation and reforming of the System Operator (SO) roles

We continue to make the case for consolidation and simplification of energy codes and the central market landscape to support progress to net zero. In our latest policy view published in February 2021 we outlined options for reforms where the gas and electricity SOs would be merged, and a separate 'market operator' would be created as a single body to manage all energy codes. In our view, this will revolutionise the management of the energy system.

Last December the Government published its Energy White Paper which set out the policies that will steer progress to net zero. We were encouraged to see that the Government plans to consult later this year on energy code governance arrangements, and review the organisational structure for the electricity SO. We look forward to seeing more detail on the proposals.

Ofgem and BEIS consulted on reforming the codes in 2019 but since then progress has been limited. We believe that there is now a golden opportunity for reforming the electricity and gas SO roles and consolidating the energy codes. An example of how reforming arrangements for central services can assist progress to net zero is that it would allow for cross-cutting changes to codes to be made, which provide quicker support for innovation.

Until reforms are in place we will continue to look for ways to simplify the BSC. Over the past year we have supported development of the new Retail Energy Code (REC) by working with the Retail Energy Code Company (RECCo) and Ofgem to identify where and how certain arrangements relating to governance of industry metering should reside within the REC and BSC.

Responding to a cyber-attack on our internal IT systems

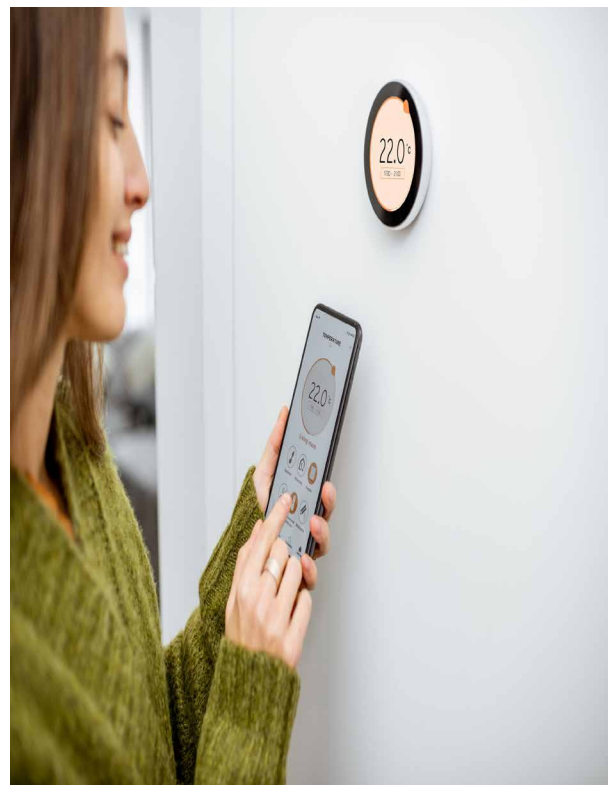
Elexon experienced a cyber-attack in May 2020 which impacted the company's internal systems, but not those that deliver our core BSC and EMR settlement activities. This is described in more detail later in this report. From the outset we acted transparently, keeping industry (and the appropriate authorities) fully informed and have conducted a number of sessions with industry to share our experiences of dealing with such an event.

Performance against our Budget in 2020/21

This year, COVID-19 restrictions have had an impact on Elexon's costs resulting in savings on office overheads and delayed project timescales. These have directly contributed to the budget underspend. Overall, outturn for the group in 2020/21 is £49.3m, compared with a budget of £55.8m. For more details on our performance during 2020/21, please refer to the 2021/22 Annual BSC Report which will be published before 30 June 2021. The report will be available on the Elexon website.

Working to improve our customer service

We now serve 532 BSC signatories and we are dedicated to maintaining our high levels of performance for customer service. This is ever more important in the rapidly changing energy system. Although the results of our customer satisfaction 2020 survey show that overall satisfaction with our service in 2020 dipped slightly (66% of respondents scoring eight or more out of 10) from a three year high in 2019 of 71%, our average service ratings remain consistently high.



More than 50% of respondents said they highly rated our adaptability and it was good to see recognition of the support we have given customers in managing the impact of COVID-19.

Following the outbreak of COVID-19 we moved quickly to ensure that all of our services could be seamlessly delivered online. We have maintained services to our historic high standards by making best use of technology platforms.

Following the announcement of the first lockdown in March 2020, Elexon, the BSC Panel and the Panel's Performance Assurance Board (PAB) put measures in place in less than 10 days to support Suppliers. These measures included:

- Derogations allowing Suppliers to provide estimated consumptions for use in Settlement that reflect the realities of the lockdown, recognising that Suppliers could not obtain meter readings to demonstrate that businesses were closed
- Suspending Error and Failure Resolution (EFR) targets, to ensure that Suppliers' operational teams were able to prioritise other work
- Suspending the charges Suppliers would normally face if they do miss certain Settlement performance targets, in light of the extremely challenging circumstances the Suppliers were facing.

We recognise that the past year has been especially challenging for Suppliers, and we remain committed to supporting them in managing the impact that the national lockdowns have had, for example on access to premises to read meters, and changing demand patterns. Only the EFR targets have resumed. The other two derogations have remained in place and are being reviewed by the PAB on a quarterly basis, or more regularly if required in response to any significant Government announcements.

At Elexon we look to continually improve our customer service. In July 2020 we reorganised our internal teams into a new structure to promote greater agility, accountability and customer centricity throughout. As part of this we have developed a new 'Voice of the Customer' approach to improve the way we act on feedback from our customers. If we are asked to improve our service in a specific way, we will now investigate the viability of the request and set up workshops, user groups and other feedback mechanisms to debate the issue. Through this we aim to have a more methodical, and considered decision-making process for assessing requests.



Digitalising the BSC

Until code consolidation is achieved we must work to make the BSC more accessible and understandable for our customers. Over the past year we have been working to digitise the entire BSC and Code Subsidiary documents, approximately 9,000 pages of text in total. Through this ambitious project we have been applying learnings from financial institutions.

The digital BSC will allow users to perform complex searches of the documents to understand how the rules apply to their particular business. This quicker, more interactive process will also help Elexon colleagues to retrieve information more quickly to help customers. We also plan to use technology to automatically update legal text for code documents so that it is in line with changes implemented to the BSC. This will save time and resources for manually drafting changes. We expect to deliver the digitalised code in phases, offering an initial trial version by the end of the year so that some of our customers can test it.

Celebrating 20 years of the BSC and looking to the future

27 March 2021 marked the 20th anniversary of the BSC, which was launched as part of NETA (the New Electricity Trading Arrangements). Elexon's proactive management of the BSC and our administration of the wholesale market arrangements plays a vital role at the heart of Britain's energy system. I am proud to be leading an organisation which is dedicated to supporting the needs of BSC Parties both today, and in the future.

Our not-for-profit ethos drives our focus on providing best value for money for our customers. The major changes that are being made to the BSC demonstrate what can be achieved when Elexon, the Panel and stakeholders work together. However some of these changes can take years to deliver, and therefore it is clear that we must increase the speed of the reform process across the codes, to progress to net zero.

The industry needs clarity on how the codes and SO arrangements will be reformed. Without reform the arrangements will hinder progress and slow down deployment of innovation. It is now over to the Government to decide what the next steps should be. We want to see significant change to the arrangements for central services and we are ready to work with the Government to implement this.



Mark Bygraves
Chief Executive Officer
2 September 2020



STRATEGIC REPORT



COVID-19

The largest change impacting Elexon and the wider industry this year is COVID-19. Up-to-date information on all of Elexon's initiatives and the company's response to COVID-19 is available on [Elexon's website](#).

Elexon's focus has been:

- doing everything to assure industry of the continuity of the services provided under the BSC and EMR;
- helping to ease the burden of BSC Parties who may be experiencing difficulties at this time by progressing urgent BSC modifications and derogations, to address operational and financial issues and setting out a clear approach to the prioritisation of BSC Modifications during the current circumstances; and
- ensuring our staff are safe and able to work as efficiently as possible through various restrictions

Our staff have responded well to various challenges this year and we continue to look for ways to adapt to the new ways of working that COVID has introduced. Elexon's remote working arrangements have proven very effective, which has enabled Elexon to continue to operate business as usual services, whilst also introducing new processes to support the BSC Parties.

The viability statement on page 23 includes further information on the Company's long term viability taking into account the impact of COVID-19.

Market-wide Half Hourly Settlement

We were delighted with Ofgem's decision to recognise Elexon's skills and expertise and to appoint Elexon as the SRO and PM for MHHS implementation. Co-ordinating the transition to MHHS is the largest change to Elexon's role in 20 years and will involve co-ordinating the development, testing, integration and transition activities of around 180 organisations across the energy sector.

We consider this role is complementary to our existing high quality analytical and delivery role and look forward to the challenge. We will now start to mobilise the programme and we will be seeking input from industry on programme set up, industry engagement and resultant budget.

Ransomware Attack

On the night of 13/14 May 2020, bespoke ransomware was deployed on Elexon's internal network, encrypting documents and servers. This sophisticated criminal attack was specifically targeted at Elexon. Unfortunately, during the attack some data was also extracted from the Company's systems. The ransomware did not impact our core settlement systems for BSC or EMR. The systems affected were those internal to Elexon, which enable Elexon to analyse data and produce reports, consultations and run Elexon as a business. Hence, core settlement was not interrupted.

We immediately engaged an external cyber incident response team, comprised of experts, to undertake a forensic investigation of how the attackers had gained access and what activities they had conducted on our network. This was a significant and lengthy exercise but we were able to contain the incident very quickly and immediately verified the attackers were no longer in our network.

On 14 May, we reported the incident to the relevant authorities (National Cyber Security Centre, Information Commissioner's Office, Metropolitan Police) and informed industry via BSC Bulletin and on our website. We also directly contacted Ofgem, BEIS, NGESO and other code bodies. We also participated in industry forums to talk about the ransomware attack and how it was resolved.

Elexon took a number of steps to notify impacted individuals and provided guidance on what steps they could take in order to mitigate any enhanced risk of stolen data. We also compiled a detailed report for the Information Commissioner's Office which has now closed its investigation and determined that, not least given the facts of the case and the remedial measures that Elexon took (and continues to take), no regulatory action was necessary.

Throughout 2020 Elexon continued to reach out to industry groups and other infrastructure providers to discuss the lessons we learned from this experience and share best practice. We have subsequently renewed our ISO90001 certification and are confident our systems are ready for challenge and secure.

Brexit

Elxon liaised with BEIS and Ofgem throughout 2020 to be ready for any potential changes to the BSC resulting from Brexit. In addition, we looked at potential changes that would impact our staff as well as changes to VAT regulations, and requirements for post-Brexit customs declarations on behalf of BSC Parties. The Trade and Cooperation Agreement (TCA) has had no impact on the operation of the BSC, but some changes to the Code that were still in the development stage were discontinued, namely participation in the EU initiatives of TERRE, MARI and alignment with Imbalance Settlement Harmonisation methodologies. The process for Market Entry was delayed for a very short period for EU based organisations wishing to trade in the GB market as it took a little time to establish new software security arrangements. Market monitoring data no longer goes to EU bodies. This was a very quick system change and had no effect on BSC Parties in any way.

There is a requirement to change some references in the BSC from EU bodies to their UK equivalent as well as amending reference legislation to reflect that it is retained EU law. However, this is very much a 'tidying-up' process and has no impact on the operation of the BSC in any way.

There is still a lot of work required across the UK Energy Industry to implement the TCA and we continue to liaise with GB stakeholders to ensure we're ready to support when required. We are also continuing to monitor changes to EU energy policy so that we can be ready for any alignment that may be required in the future.



Strategic management

Our business model

Elxon is a data platform and data services company that is vital to the smooth operation of the wholesale electricity market. We administer the electricity balancing and settlement arrangements for Great Britain. These affect all the companies who generate and supply electricity and the 28 million households who use it. Elxon compares how much electricity generators and suppliers said they will produce or consume with actual volumes. We work out a price for the difference and invoice and credit funds accordingly. This involves processing 1.25 million meter readings every day and handling customers' funds each year. Many charges across the industry are derived from our data.

In addition, the Elxon Group provides other services for the industry. Most significant of these are the settlement services provided by EMR Settlement Limited to the Low Carbon Contracts Company, and to the Electricity Settlements Company, to enable the development of low carbon generation, via Contracts for Difference, and to maintain security of supply via the Capacity Market.

We are a non-profit organisation and the value that we generate for our stakeholders is based on our delivery of reliable, cost effective and efficient services; our support for, and enablement of, market change and innovation; and the expertise of our people.

Consequently, we generate and preserve value over the longer term by:

- engaging with stakeholders in developing our strategic objectives and ensuring that our stakeholders continue to support those objectives;
- investing in technology to create a platform that is scalable, flexible and stable to support new services in an open and accessible way, and is an essential information asset for the industry and beyond, enabling new innovative products and services;
- leveraging our existing skills and experience to enable us to explore new market opportunities;
- continuing to focus on the personal development of our people in order to build capability in the business to support the BSC and EMR, in a rapidly changing energy market, and to aid the Government in their net-zero ambition.

We do this by:

- providing training, coaching and mentoring to ensure we achieve the right balance between a high degree of flexibility and the robust, predictable service delivery for which Elxon is recognised;
- maintaining our focus on knowledge sharing and transfer to enable our experts for tomorrow.

Our purpose and mission

In 2020 we updated our purpose to: **Serving at the heart of the energy industry; building a path to net zero**, which sits alongside our mission that **"We will build on our valued market design expertise to create trusted and open services using our flexible platform, enabling innovation and competition."**

We remain committed to ensuring that our 'meter to bank' arrangements are world class, and the reliable delivery of energy remains our focus. We felt it was important to reflect our continued focus on the needs of our customers and that our efforts are for their, and our wider stakeholders benefit. Similarly, we wanted to underline that ultimately our efforts are to enable the change and innovation necessary for the UK to achieve the stated aims of net zero.

We have also been working on a cultural change initiative with our staff to help embed new ways of working, which put the customer at the heart of our decisions and also ensure that we are able to meet our new purpose. This should engage all of our team in understanding what we are hoping to achieve and how we will accomplish it in line with our values.

"We will build on our valued market design expertise to create trusted and open services using our flexible platform, enabling innovation and competition".

Strategic management

(Continued)

Our strategy

Exelon's vision is to create the leading provider of central services to the GB energy sector, for the benefit of market participants and their customers. Our strategy for achieving this is to simplify and consolidate complex and fragmented services, develop new market solutions and actively facilitate innovation, with the support of our stakeholders and partners, for the benefit of GB energy markets and the UK economy.

Our strategic objectives remain to:

- retain our existing roles as BSC code manager, and BSC and EMR settlement provider, by continuing to deliver BSC and EMR services to a market leading standard. Exelon's BSC role is our core business and we produce an Annual BSC Report, available on our website www.exelon.co.uk
- secure new settlement related activities. We were pleased to see that Modification P390 "Allowing extensions to Exelon's business and activities, subject to additional conditions" was approved by Ofgem in 2021, which will allow Exelon, subject to Ofgem agreement, to bid for work to secure for additional roles
- deliver the simplification and consolidation of the central bodies' space for the benefit of industry and its customers. You can read more about our proposals for this in our [February 2021 Policy view](#)
- enable innovation by leading on central market design issues where they relate to or impact settlement, demonstrating our expertise and insight, design and delivery capability.

"Our strategy is guided by a number of factors and has to adapt to changing Government policy and other developments."

Market trends and factors

Our strategy is guided by a number of factors and has to adapt to changing Government policy and other developments. The GB energy system, and in particular the power sector, faces a number of significant challenges, in particular the need to move to a net zero economy by 2050. The Government's Energy White Paper that was published last year (December 2020) was a milestone for the energy sector setting out the full scope of changes under consideration. At Exelon, we share the Government's net zero ambition and are looking for ways to meet the challenge. In 2021 and going forward we are mindful of the following significant challenges which will continue to inform our strategy:

- an increasing industry demand for settlement reform, and the ongoing Market-wide Half Hourly Settlement (MHHS) Programme
- the growth of renewable energy sources in the GB energy mix and the need to accommodate distributed generation, battery storage and electric vehicles.
- the complex landscape in energy governance and the ongoing reform of the institutions in the energy sector
- alignment with EU energy market principles in a post-Brexit period and the need to harmonise continued network participation from Interconnectors
- ensuring settlement arrangements enable and accommodate the development of innovative business models (including in relation to flexibility, storage, electric vehicles and batteries).
- roll-out of smart metering
- demand-side flexibility and the development of smart grids
- system integration and harmonisation (bringing out the synergies) between the power sector and other economy vectors/sectors such as heat and transport
- importance of establishing a more digitalised energy system
- recognising the UK's Presidency at COP26, enhancing the nation's position as a world-leader in the move towards a global reduction of carbon emissions.

Business performance

Elxon and its subsidiaries form a not-for-profit group which (save for our subsidiary EMR Settlement) recoups its costs from BSC Parties in accordance with the terms of the BSC. All licensed electricity generators and suppliers in Great Britain are obliged to become signatories to the BSC. Other companies may choose to do so. EMR Settlement recoups its costs under a contract for services with LCCC and ESC.

The BSC requires Elxon to produce an Annual BSC Report by no later than 30 June each year. The Annual BSC Report includes full details of Elxon's performance as BSCCo during 2020/21 including performance against our budget and a range of financial and non-financial key performance indicators. The Annual BSC Report for 2020/21 is available on the Elxon website (www.elxon.co.uk).

Turnover of the Group for the year to 31 March 2021 was £55.7m (2020: £46.7m) including £5.8m (2019: £5.3m) of EMR income see note 11.2. Excluding the EMR income, turnover in relation to BSC was £49.9m compared with £41.4m in the previous year. The increase in turnover (or expenditure) of the Group from £46.7m to £55.7m was mainly due to our increased resources and investment into delivering our Kinnect Programme.

After taking account of directly recoverable pass through costs (communication lines and EMR costs), the total costs to be recovered through BSC Section D charges was £49.3m, compared to the 2020/21 annual BSC budget of £55.8m (both net of EMR).

Table 1:
Five-year comparison figures

	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2019	Year ended 31 March 2018	Year ended 31 March 2017
	£'000	£'000	£'000	£'000	£'000
BSC Turnover	49,943	41,422	40,531	35,261	31,747
EMR Turnover	5,833	5,307	4,844	4,984	5,401
Cost of Sales	(55,783)	(46,777)	(45,390)	(40,249)	(37,156)
Net Interest Income	7	48	15	4	8

This year, COVID-19 restrictions have had an impact on Elxon's costs resulting in savings on office overheads and delayed project timescales. These have directly contributed to the budget underspend. For more details on our performance during 2020/21, please refer to the 2021/22 Annual BSC Report which will be published before 30 June 2021. The report will be available on the Elxon website.

Looking forward, the Group budget for 2021/22 has been set at £69.1m. For more details of our budget for 2020/21, please refer to our 2021/22 Business Plan on the [Elxon website](http://www.elxon.co.uk).

As the Group is not-for-profit, costs and interest charges are exactly matched by turnover for the year. During the year, based on our forecasting, we adjust our charges (rather than continuing to charge the equivalent of our budget) seeking to match our revenue to our costs. However, as forecasting cannot be entirely accurate, there is, for the 2020/201 financial year, as in every year, a reconciliation of BSC costs charged to Trading Parties based on the final audited costs and interest charges shown in this report. Consequently a credit of £2.2m for the 2020/21 financial year will be returned to BSC Trading Parties in August 2021.

This is Elxon's twentieth full year of operation. Since the start of the balancing and settlement arrangements Elxon's BSC costs, net of interest, have fallen from £71.8m (this is historic cost which includes £13.2m NETA go live set-up costs) in 2001 to £49.9m (this represents group turnover of £55.7m less EMR income of £5.8m).

Corporate social responsibility

Our Corporate Social Responsibility (CSR) Strategy is built around four themes (Environment, Community, Workplace and Marketplace). The strategy ensures that we behave in a sustainable, socially and environmentally responsible manner while supporting our ambition, values, brand and business objectives.

Environment

Through our environmental policy we provide our staff and visitors with clear guidance on how we manage our impact on the environment in our day-to-day work activities. We also offer guidance on their responsibility to help deliver the policy.

We aim to reduce our environmental impact through staff awareness campaigns, and by monitoring our energy consumption and recycling our waste. We also offer staff opportunities to use environmentally friendly means of transport. This includes our cycle to work scheme, where Elexon employees can spread the cost of purchasing a new bike through salary contributions.

By using lighting controls, managing the running times of air conditioning units and turning off IT equipment, when it is not in use, we are reducing our bills. The energy supply to Elexon's office is 100% renewable and our office has an A+ rating for energy efficiency. We work closely with our Mechanical & Electrical contractor to continually improve our energy usage and implement energy saving adjustments. We have also worked with our cleaning contractor to reduce the usage of harsh or hazardous chemicals in our office and to reduce the waste created from cleaning our premises.

This last year has been unprecedented due to the COVID-19 pandemic and the temporary closure of our offices. Our employees have been required to work from home since March 2020 which has made a big difference to the environmental impact of our office space. Whilst these savings are temporary we hope to continue to embrace some of these positive impacts by supporting and encouraging our people to work flexibly where possible, reducing the impact of their travel. We are investing in our technology to enable our people to attend meetings and events remotely to avoid unnecessary travel.

Climate change

For the period 2020/21 our annual energy consumption is 208,712 kWh (period 2019/20, 301,485kWh).

The energy consumption is based on meter readings from the Group's office, our renewable electricity tariff is certified by the Carbon Trust to be compliant with the Greenhouse Gas Protocol Scope 2 Guidance. This means Elexon can report zero carbon emissions for purchased electricity when reporting using the market-based method. This is a Carbon Trust method which allows companies to quantify their emissions based on how much carbon is emitted by generation of electricity that they purchase from suppliers. Elexon's energy usage is 3747 kWh per £1 million of revenue.

Due to COVID-19 restrictions, the group has been unable to conduct improvements over and above regularly maintaining our equipment and lighting. For further information on our mission to net zero, and our initiatives to reduce our impact on the environment, can be found on the Chair's report on page 3 and the CEO's report on page 6.

Community

At the beginning of January 2020, we started a three-year partnership with two charities, Cancer Research UK and the Mental Health Foundation, which were both chosen by Elexon staff. This year, although limited somewhat because of COVID-19 restrictions, we still managed to raise more than £1,100 for each charity.

As well as supporting the charities through fundraising we encourage our employees to use volunteering days, or to participate individually in charitable activities. From running marathons to charity boxing matches, and cycling, our staff are frequently willing to raise money for both the company's chosen charities and personal causes. In addition to the £1,100 mentioned above, in March 2021 a member of the Metering team ran 100 miles for Sands charity and was supported by many Elexon colleagues. He managed to raise over £1,000. Another colleague from our legal team also raised an additional £1,100 between January and March 2021 for Atlas Children, a children's charity from Morocco.

Corporate social responsibility

(Continued)

Workplace

As a business, we believe our people are our greatest asset, and we depend on the skills and commitment that they bring to the organisation.

At the beginning of April 2020 we appointed a Chief People Office to focus on our People Strategy. We have also recently appointed a Head of Resourcing. We aim to continue to attract and retain highly skilled staff in order to assure delivery of our industry leading customer service, robust processes and systems. The Head of Resourcing will lead on Elexon's talent strategy and align it to our overall objectives.

We recognise that to provide a great place to work, we need to retain our focus on health, wellbeing, and personal development. The support we offer to staff includes promoting advice from the Mental Health Foundation and our Employee Assistance Programme. This year, our initiatives and campaigns have had a key focus on wellbeing, stress awareness, and diversity and inclusion.

We also now have several qualified Mental Health First Aiders at Elexon who hold drop in sessions on Wednesdays and Fridays every week for colleagues that might need some guidance or even just to talk to someone.

All Elexon staff have been working from home since 13 March 2020, following the impact of COVID-19. We did not furlough any of our staff and nor have we used any of the Government support schemes. We continue to reassess our ways of working to ensure that we support staff in continuing to deliver our services to the same standard.

Helping colleagues to develop in their career

We generate and preserve value over the longer term by continuing to focus on developing our people's expertise. This is so we can build capability in the business as we gain a better understanding of the skills our people need to perform in a rapidly changing energy market. It also means we are helping staff to develop in their career and improving Elexon's contribution to energy market challenges.

We do this by:

- Providing training, coaching and mentoring to ensure we achieve the right balance between a high degree of flexibility and the robust, predictable service delivery for which Elexon is recognised
- Building on our Silver Investor in People accreditation and continuing to work with Investors in People to enhance our approach
- Maintaining our focus on knowledge sharing and transfer to enable our experts of tomorrow We communicate and maintain good employee relationships by ensuring that:
- A staff survey which is undertaken each year, with any issues found forming part of an action plan for the forthcoming year
- Colleagues having regular contact with senior managers and members of the Executive team. This includes, for example, the regular 'web talks' where CEO Mark Bygraves and the Executive team update staff on key issues, and engage with them
- Producing a weekly newsletter for colleagues.

Marketplace

We seek to ensure that all our suppliers and vendors follow ethical practices. This includes considering their values, CSR responsibilities and environmental practices. We actively look to raise awareness of CSR and influence the practices of our own suppliers. We have also confirmed that our London based contractors pay their staff at least the London Living Wage

We require continuous improvements in CSR from our existing service providers and suppliers. This includes early adoption of new technologies, staying informed and implementing any new requirements resulting from legislation changes.

Through our marketplace and commercial activities, we are committed to exceeding our legal, moral and corporate obligations to our customers, suppliers and colleagues.

"We recognise that to provide a great place to work, we need to retain our focus on health, wellbeing, and personal development."

Principal Risks and Uncertainties

The Directors have undertaken a robust assessment of the principal risks facing the company. The table below sets out the principal risks faced and outlines how those risks have been mitigated.

Risk	Risk description	Managing and mitigating the risk
Delivery risk of BSC Releases impacting BSC Central Systems	There is a risk that BSC Releases impacting BSC Central Systems cannot be delivered on time or to quality due to the volume and complexity of both business and BSC Changes resulting in non-compliance with the BSC and/or other legal requirements.	<ul style="list-style-type: none"> • Close monitoring of risk and escalation of issues as required • Managing the prioritisation of business and BSC Change internally and with suppliers • Enhanced commercial and prioritisation arrangements with key suppliers
Unable to achieve our strategy due to external circumstances	There is a risk that the achievement of our strategy is frustrated by external circumstances such as: Codes Review: political negative sentiment towards codes or a different view of what Code Managers should be doing in light of new COVID-19 working arrangements; industry attitude towards Elexon and settlement; which may result in the diminution of our role.	<ul style="list-style-type: none"> • Monitor relevant legislation or regulation changes that may impact Elexon's strategy • Annual stakeholder survey to assess satisfaction with our services, and review Ofgem's survey to assess our continued licence to operate • Monitor, participate and lead on industry changes. Maintain awareness of developments in market and commercial arrangements, and in technology developments • Consistent communications approach to stakeholders • Monitor tender options and assess the right time to invest in business development resource. • Progress improvements e.g. governance changes, enable change and innovation, demonstrate leadership and vision • Integrate and align internal success criteria
Delivery risk of migration to new digital platform	There is a risk that migration of legacy agent services to Elexon Digital platform will be delivered late, resulting in damage to our reputation with industry	<p>Following TERRE, we will no longer make delivery of industry change dependent on migration of complex BSC Agent systems to reduce risk of impact on Parties:</p> <ul style="list-style-type: none"> • Programme risk management and governance approach • Utilise independent assurance to support due diligence and risk mitigation • Build aligned accountabilities and capabilities into operating model • Robust contingency planning • Adoption of multi-source development model
Staff availability significantly reduced due to COVID-19	As a result of the COVID-19 pandemic, there is a risk that availability of our staff reduces significantly due to illness, isolation, caring for others, or home schooling, leading to a failure to deliver and meet our BSC obligations and impacting on our reputation.	<ul style="list-style-type: none"> • Clear employee communication and engagement regarding current protocols and long-term plans • Remote working and a continued flexible approach to new working practices and arrangements • Weekly COVID-19 update meetings including monitoring of staff absence

Business environment

(Continued)

Risk	Risk description	Managing and mitigating the risk
Increase in the volume and complexity of Modifications	There is a risk that a sudden increase in the volume and complexity of Modifications could place a burden on Elexon that poses a risk to our ability to process the change	<ul style="list-style-type: none"> Establish and maintain excellent engagement with industry to enable Elexon to anticipate change, manage expectations of Parties to smooth demand where possible, efficient utilisation of internal resource and scale using external resource as required Portfolio prioritisation
Cyber attack at Elexon or service providers	There is a risk that Elexon may not be able to carry out its key business processes and/or some BSC obligations should a cyber attack impact critical Elexon systems or external services which may have a negative impact on our reputation with industry	<ul style="list-style-type: none"> Maintain a business continuity and disaster recovery solution at Elexon and at its Service Providers as a contingency mitigation against a cyber-attack The Company continues to maintain ISO27001 and Cyber Essential Plus certification and implements identified improvements Third party annual penetration testing at Elexon and its Service Providers and implement any corrective actions identified Systems in place to continuously identify and implement improvements Maintain expert external provider to provide critical response facility in the event of a cyber-attack Utilisation of threat intelligence portal to monitor cyber security risks that may pose a threat to Elexon and respond using proposed mitigating actions accordingly Regular patching and updating in place
Failure to manage adequately the renewal or tendering of existing and/or new contracts	There is a risk that Elexon fails to adequately manage the renewal or tendering of existing and/or new contracts which may result in inefficient and costly extensions to existing arrangements or a Service Provider not appointed to deliver the service. This may result in Elexon failing to meet its BSC obligations to re-procure Agent contracts every 5 years; and to ensure that an Agent is appointed at all times for Agent Services.	<ul style="list-style-type: none"> Maintain and apply procurement procedures and contract signing procedure
BSC operational failure	There is a risk that there is a BSC operational failure which could impact the BSC service and have a negative impact on our reputation with industry	<ul style="list-style-type: none"> Significant Operational Issue Procedure and processes in place Operational staff training Operational risk register in place linked to BSC obligations Operating Model design ensures a clear line of sight and ownership of risk for mitigation
Emerging risk: PM role for Half Hourly Settlement Systems	New emerging risk relates to Elexon's new role in the Half hourly settlement programme, which may expose the business to some new and emerging risks in relation to the programme delivery.	<ul style="list-style-type: none"> The Executive will continue to monitor any emerging risks following mobilisation and as part of our ongoing role in supporting the Half Hourly Settlement programme

Business environment

(Continued)

Viability Statement

Taking account of the Company's current position and principal risks, the Directors have assessed the prospects of the Company over a period of three years. The Directors believe three years to be an appropriate period as this is the period in respect of which the Company undertakes financial projections as part of its business planning process.

The funding arrangements for the Company are set out in Section D of the BSC. As a result of the BSC funding arrangements, there is no risk of Exelon failing to meet its liabilities. The BSC funding arrangements ensure that all of the Company's BSC costs are funded by BSC Parties.

The Directors therefore have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. This assessment is based on the assumption that Exelon's funding model remains unchanged. We have no expectation of any change to our funding arrangements.

A modification to the BSC is currently being progressed by industry which if approved would allow BSC Parties to appeal particular cost items within Exelon's budget for the following year (but not the whole budget), provided the BSC Party does so within 10 Working Days of the budget being approved by the Board (Modification P416). The appeal, which would need to meet certain appeal criteria, would be determined by Ofgem. This could result in planned expenditure in the year to which the budget relates having to be cancelled, with the risk that the Company incurs additional costs as a result of the need to de-mobilise activities and terminate contracts. This BSC modification, if approved by Ofgem, would not change Exelon's funding model and any de-mobilisation and termination costs would be recoverable through the BSC funding arrangements. The company therefore believes it will be able to continue to meet its liabilities.

The Company has been undertaking regular stress and scenario cash flow analysis with regards to the impact of COVID-19 on the viability of the business. COVID-19 has had minimal disruption to our business and cash flow.



Section 172 ⁽¹⁾ statement

The Directors consider that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the matters set out in section 172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 March 2021.

In respect of the promotion of the success of the Company for the benefit of our members as a whole, the Directors also have regard to the following:

- The purpose of the company is to perform the functions which are ascribed to BSCCo in the Balancing and Settlement Code or otherwise permitted in the BSC. Consequently, and in accordance with section 172(1) of the Companies Act 2006, the Directors consider that their duty is to promote the success of the Company for the achievement of these purposes;
- As a single member company, the Directors do not consider the factor set out in section 172(1) (f) (need to act fairly between the members of the company) is relevant to the performance of their duty under section 172.

Likely consequences of any decision in the long term

Board decisions are taken in the context of the Company's strategy and developments in the UK electricity market, both of which necessitate a long term view. For more details of how we have regard to the likely consequence of any decision in the long term, please see the following:

- Throughout the Reports of the Chair and the Chief Executive Officer Strategic Report
- Our purpose and mission (page 16)
- Our strategy (page 17)
- Market trends and factors (page 17)
- Viability Statement (page 23).

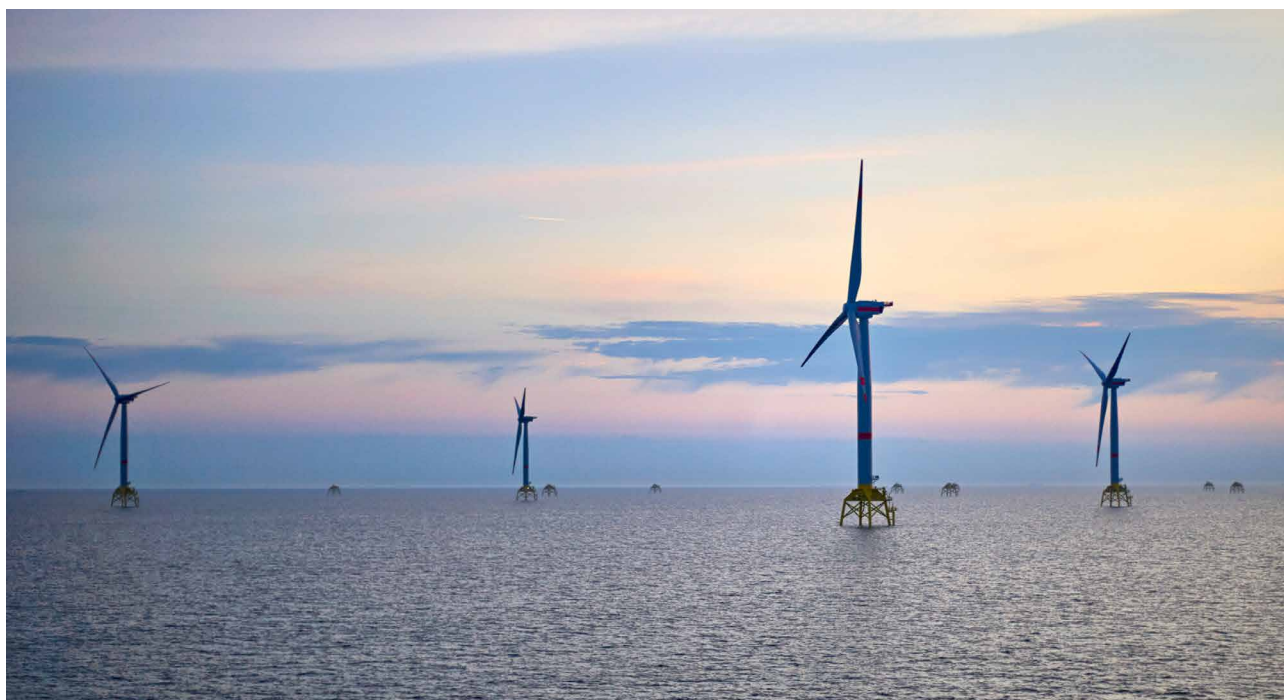
Corporate Governance Statement

- Board Leadership and Company Purpose – sustainability of business model (page 35)

Interests of the Company's employees

Elexon's employees are key to our success and the Board is committed to having an effective engagement strategy with the workforce. For more details of how we take the interests of employees into account please see the following:

- Report from the Chair (page 03)



Section 172 ⁽¹⁾ statement

(Continued)

Strategic Report

- Our Business Model (page 16)
- Corporate Social Responsibility (page 19)

Corporate Governance Statement

- Board Leadership and Company Purpose – culture (page 35)
- Board Leadership and Company Purpose – engagement with the workforce (page 36)
- Nomination Committee Report – diversity (page 45)

Fostering the Company's business relationships with suppliers, customers and others

The Company has business relationships with a broad range of stakeholders. Elexon's relationship with BSC Parties, as the Company's funding parties, is particularly key, but we also have critical strategic relationships with NGESO, Ofgem and BEIS. For more details of how we take the interests of stakeholders into account please see the following:

- Report from the Chair (page 3)
- Report from the CEO (page 6)

Strategic Report

- Our Business Model (page 16)
- Our strategy (page 17)

Corporate Governance Statement

- Board Leadership and Company Purpose – engagement with the shareholders and stakeholders (page 35)

As regards suppliers, there is regular engagement by the senior management team with suppliers which is reported to the Board where relevant. In terms of promoting ethical business practices, the Board has reviewed the Company's Modern Slavery statement and page 19 of the Report (Corporate Social Responsibility) sets out further information of how the Company supports business relationships with suppliers through the promotion of an ethical supply chain.

The impact of the Company's operations on the community and the environment

As regards the environment, and as set out in the Chair's report on page 3 and the CEO's Report on page 6 facilitating the achievement of the UK's net zero target is absolutely central to the Company's operations. Details of the Company's approach can be found in those reports. In addition, the Board

is committed to reducing the environmental impact of the Company's activities and to making a positive impact in the community. Further information on these can be found in the Corporate Social Responsibility Report on page 19.

Maintaining a reputation for high standards of business conduct

Considering the reputational impact of Board decisions is a key element of Board discussions on those matters. As regards business conduct, the Board considers this through a number of areas set out elsewhere in this Report including:

Strategic Report

- Corporate Social Responsibility Report (page 19)
- Business Environment – Principal Risks and Uncertainties (page 21)

Corporate Governance Statement

- Board Leadership and Company Purpose – culture (page 35)
- Board Leadership and Company Purpose – whistleblowing (page 36)
- Audit, Risk and Internal Controls – risk management and internal controls (page 42)

Approved by the Board of Directors and signed on behalf of the Board.



Nicholas Brown
Company Secretary
2 June 2021

"The Company has business relationships with a broad range of stakeholders. Elexon's relationship with BSC Parties, as the Company's funding parties, is particularly key, but we also have critical strategic relationships with NGESO, Ofgem and BEIS"

DIRECTORS' REPORT



The Directors present their annual report and the audited financial statements for the year ended 31 March 2021.

Going concern

The Group has arranged a £0.1m overdraft facility for Elexon and a £1.0m overdraft facility for Elexon Clear respectively with Barclays PLC at the variable rate of 2.25 percent above the bank's base rate. The Board believe that this provides a secure financial base for the Group for the foreseeable future. Financial risks are also mitigated by the nature of the debtor balances owed, with the BSC providing for other BSC Parties to meet the liabilities of any debtor in default; and the provision of the BSC whereby Elexon recovers its costs one month in advance.

Due to the effects of the COVID-19 pandemic, we rightly are being extra vigilant with regards to our cash flow. We have modelled different scenarios and are confident that Elexon will remain solvent. In particular the rules within the code around mutualisation of any payment defaults, coupled with our ability to defer any non-essential spend re-affirms confidence in our cash flow. Subsequently, the Group has a positive cash flow closing balance in each scenario within the rolling twelve month cash flow forecasts. Elexon's business is entirely domestic and, given the nature of the central services that we provide to the electricity industry, Brexit is not expected to present a financial risk to our business. As a result, the Board considers that there is a reasonable expectation that the Group will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements.

Employees

See Note 11.3 for details on the number of employees and related costs.

Dividends

Under the terms of the BSC, the Company has no power or authority to declare or pay any dividends.

Charitable and political contributions

During the year, the Company made no charitable or political contributions.

Financial Instruments

During the year, the Company made no use of financial instruments.

Important Events and Future Developments

Details of important events that have affected the Company since the end of the financial year and future developments are included in the Strategic Report

Qualifying Third Party Indemnity Provisions

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

The directors that served throughout the year were as follows:



Michael Gibbons

Elxon Board and BSC Panel Chair

Michael was appointed as the Chair of the Elxon Board and Balancing and Settlement Code (BSC) Panel in October 2013 and reappointed for three more years in November 2016 and again in 2019.

He spent 11 years at director level with Powergen and has since held a number of other roles. He was Chair of the Government's independent Regulatory Policy Committee from 2009-2017, and in 2007 was the author of the government-sponsored review (the Gibbons Review) of Employment Dispute Resolution Regulations. Michael relinquished chairmanship of the Carbon Capture and Storage Association in 2018. He was President of the Energy Industries Club from 2017 to 2019.

He was appointed to Officer of the Order of the British Empire (OBE) for services to regulatory reform in 2008 and the Commander of the Order of the British Empire (CBE) in 2015. He is a Fellow of the Energy Institute (FEI).

Board roles:

*Chair; Chair of Nomination Committee;
Member of Remuneration Committee*



Mark Bygraves

Chief Executive Officer

Mark is the Chief Executive of Elxon. In November 2016, Mark was appointed as a member of the Elxon Board.

He brings over 20 years' experience in the energy sector of leading businesses, engaging and influencing stakeholders and challenging colleagues to deliver BAU and strategic initiatives, drawing on his skills gained in a career as a Lawyer, Director of M&A, Investment Banker, Commercial Director and CEO.

Prior to joining Elxon in 2011, Mark was an investment banker advising many of the world's leading utilities. This followed 10 years at E.ON in the UK where he led as Director of Mergers & Acquisitions.

At a time of major change in the electricity sector, Elxon continues to deliver these essential services and to support stakeholders including BEIS, Ofgem and industry, in evolving the market arrangements to address current and future challenges.

The directors

(Continued)



Clare Duffy

Industry non-executive director

Clare Duffy is the Network Development and Electrification Manager for ESB Networks. As part of the senior management team in ESB Networks, her key responsibilities include planning electricity distribution network asset investments, planning distribution customer connections (e.g. demand, renewables, flexibility, generators) and security of supply of the national distribution network. Clare was appointed to the Elexon Board on 1 November 2015.

Clare is also accountable for Innovation and Electrification activities across ESB Networks. Clare is a chartered engineer with almost 25 years' experience working in the power industry. ESB is a leading independent generator and supplier in the GB market as well as a generator, supplier, network owner and DSO in Ireland.

In addition to her roles with ESB and Elexon, Clare sits on the Executive Board of Engineers Ireland and previously chaired Energy UK's Strategic Policy Committee. She has post-graduate qualifications in accounting, finance, marketing and management.

Board Roles:

Member of Audit and Risk Committee, Remuneration Committee, Transformation Committee and Nomination Committee



Anne Heal

Independent non-executive director

Anne Heal was appointed to the Elexon Board on 1 October 2017. She also chairs the Market Operator Services Limited (MOSL), is a board member of ORR, the rail and road regulator, a lay member of the General Dental Council, and an independent member of the Bank of England Enforcement Decision Making Committee and the FCA Regulatory Decision Committee. She is also a non-executive director at the London Design and Engineering UTC.

She was previously Director of Regulatory Affairs for BT Group, leading the regulatory negotiations that led to the creation of Openreach, where she then became MD, Strategy. She has also been a board member of Ofqual, the qualifications regulator.

Anne chairs a charity, Volunteering Matters, is a trustee of BalletBoyz, and sits on the Governance and Nomination Committee of Diabetes UK.

Board Roles:

Chair of Remuneration Committee; Member of Nomination Committee

The directors

(Continued)



David Rigney

Senior independent director

David is a member of the Elexon Board, is the Chair of the Audit Committee at Elexon and is Senior Independent Director. David joined the Board in May 2013.

He is currently a Non-Executive Director at the Principality Building Society, LINK Scheme Holdings Limited and LINK Scheme Limited and Spelthorne Gymnastics.

David is a qualified accountant with wide ranging experience across Finance, IT, Customer Service and Corporate Governance. He was previously Group Operations Director at Nationwide Building Society.

Board Roles:

Senior Independent Director; Chair of Audit and Risk Committee; Member of Nomination Committee



David Titterton

Industry non-executive director

David is an industry non-executive director at Elexon. He is an engineer by background and has over 34 years' experience in the energy industry. David has held many senior roles in Npower, most recently as Energy Services Director (until November 2019), and prior to that Scottish Power; in all parts of the energy retail business including Customer Service & Field Operations, Sales & Marketing and Trading.

David Titterton was appointed to the Elexon Board on 6 March 2019. He brings a wealth of experience in initiating and developing business strategy, business development, acquisitions, business integration, divestment, transformation, leading people through major change and senior stakeholder engagement. David is also a Governor/Director of The Aspire Academy, an alternative provision school whose aim is to reduce the rate of permanent exclusion in key stage 4 pupils.

Board Roles:

Chair of the Transformation Committee; Member of Remuneration Committee and Nomination Committee

The directors

(Continued)



Sara Vaughan

Industry non-executive director

Sara Vaughan was appointed to the Elexon Board on 6 March 2019. Sara was Political & Regulatory Affairs Director at E.ON in the UK until January 2021. She started her career as a lawyer at Slaughter and May before moving to Powergen (as it then was) as a competition lawyer.

She subsequently broadened her experience through taking on a number of additional responsibilities such as regulation, compliance, energy policy, and external affairs including CSR, legal and company secretariat, HSSE and engineering governance. She was appointed to the E.ON UK Board as Strategy & Regulation Director in 2012.

Sara is a fellow of the Energy Institute. She is a member of the Energy Advisory Panel. She is also a local Parish Councilor.

Board Roles:

Member of Audit and Risk Committee, Transformation Committee and Nomination Committee



Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

The Directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position, performance, business model and strategy.

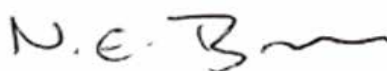
Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board.



Nicholas Brown
Company Secretary
2 June 2021

CORPORATE GOVERNANCE STATEMENT



Corporate Governance

Elexon occupies a unique position of accountability and responsibility to the electricity industry and the Company's Board therefore recognises the importance and value of good corporate governance. Consequently, whilst Elexon is not a listed company so the UK Corporate Governance Code (2018) is not applicable to the Company, we do seek to follow best practice including those principles in the Corporate Governance Code that are relevant to the Company. A general narrative statement relating to the governance of the Group appears below.

Board Leadership and Company Purpose

Sustainability of business model

There is a description of the Board's assessment of how the Company generates and preserves value over the long-term on page 11.

The Board considers and addresses opportunities and risks to the future success of the business through:

- Receiving regular reporting on and discussing the strategic activities, routes and pillars that are in place or underway;
- Developing thinking on opportunities and risk through bi-annual strategy meetings which include specific focus on the sustainability of the company's business model;
- The Audit and Risk Committee regularly considering risk management, as detailed on page 33, including focussing on risks to the future success of the business.

Culture

This year, Elexon undertook an audit of its culture as part of the process for defining a future culture and articulating a new set of values. This future culture, and the new values, build on Elexon's existing strengths in order to facilitate the delivery of Elexon's vision, mission and corporate purpose.

As part of its ongoing role of assessing and monitoring culture, the Board:

- Monitors staff survey responses and the actions being taken to address any issues;
- Interacts with the workforce including regular 'breakfast briefings' with different groups amongst the workforce;
- Monitors of staff turnover, wellbeing and health through KPIs and narrative reporting to the Board;
- Monitors feedback from regular CEO floor talks;
- Reviews relevant policies, including the Company's Code of Ethics and Whistleblowing Policy;
- Receives through the Audit and Risk Committee internal audit updates on fraud and whistleblowing;
- Monitor the nature and extent of workforce engagement with internal and external audits;
- Strives, through Board members' own behaviours, to set the 'tone from the top' for management and the workforce in sharing and living the purpose, values and strategy.

Investing in and rewarding the workforce

Chief People Officer, Geraldine Buckland, has been leading the development of a 5 year people strategy for Elexon. The people strategy aims to retain and attract people to enable Elexon to maintain high customer service standards and deliver products to our customers. Key parts of our people strategy include supporting diversity, inclusion and the wellbeing of Elexon's workforce, more details of which can be found on page 19 (Corporate Social Responsibility report).

The Company's approach to rewarding the workforce is set out in the staff remuneration policy approved by the Board and which is based on the following principles:

- Ensuring equal treatment as regards pay and benefits;
- Endeavouring to pay above the 50th percentile for benchmarked roles in comparable sectors;
- Taking into account the costs to the workforce of living and working in London;
- Endeavouring within reason to reflect remuneration best practice.

The Board has also appointed the Chair as its designated workforce non-executive director who, amongst other things, ensures that the 'employee voice' is considered in discussions about remuneration.

Engagement with shareholders and stakeholders

The rights and responsibilities of the Company's sole shareholder, NGESO, are constrained by the BSC.

Having regard to the role of Elexon under the BSC and its position as a central body for the electricity industry, the Company undertakes a dialogue with a broad range of stakeholders. Elexon's relationship with BSC Parties, as the Company's funding parties, is particularly key. In recognition of that, and in order to ensure the accountability of the Board to BSC Parties, BSC Parties have the collective right to remove Board members and to vote on their re-election.

Board leadership and company purpose

(Continued)

The dialogue between the Board and stakeholders is conducted through a number of channels including:

- The Chair of the Board also chairs the BSC Panel;
- The Chief Executive also attends the BSC Panel;
- Three of Elexon's Non-Executive Directors are appointed from industry so are able to provide a stakeholder perspective at Board meetings;
- The Chair and Chief Executive hold regular meetings with stakeholders including BEIS, Ofgem and the ESO. These meetings are highlighted in advance and discussed by the Board with the outcome of these meetings then are reported to the Board;
- Attendance by Board members at occasional Panel meetings and informal Panel events;
- During the year, the Company seeks the comments from stakeholders on its Business Strategy and Budget for the forthcoming year;
- The Company conducts an annual customer survey which is considered by the Board, including any issues and concerns raised by BSC Parties;
- There are regular meetings between members of the Executive team and BSC Parties which are reported, where relevant, to the Board;
- The BSC provides for an Annual BSC Meeting where BSC Parties can ask questions of the Board and the BSC Panel;
- Every 6 months the Chair writes to BSC Parties describing the work of Elexon's Board and invites feedback from Parties.

Engagement with the workforce

The Board actively engages with the workforce using the following mechanisms:

- The Board has appointed the Chair as its designated workforce non-executive director. The Chair fulfils this role through formal engagement with the workforce at staff events, informal engagement with colleagues and participation in Elexon's internal social media platform. The Chair ensures that workforce interests are taken into account in relevant Board decision making;
- Board members engage directly with the workforce through participation in breakfast briefings with smaller groups of employees.
- The Board reviews the annual staff survey results;
- The Company's Chief People Officer attends various meetings of the Board and its Committees, including when the Board considers the annual staff survey and annual pay reviews.

Engagement mechanisms

The Board regularly considers whether its engagement mechanisms remain effective and what other mechanisms could be used to understand the views of different stakeholders.

Whistleblowing

The Board has established a whistleblowing policy. The policy and procedures for handling whistleblowing are reviewed annually by the Audit and Risk Committee. The Audit and Risk Committee considers the policy and the procedures for the investigation of such matters to be proportionate and independent.

Directors' Conflicts of Interest

Directors declare interests where relevant on Board discussions. Conflicts of interests are managed by the Chair and Board determining the extent to which a conflicted Director should participate in Board discussions on the relevant matter. The company secretary maintains a register of interests that is updated whenever new interests are reported and circulated at least biannually.

Noting of Directors' Concerns

The Chair encourages openness and debate. Furthermore, there is an opportunity after every meeting for Directors to raise any concerns in a more informal setting. Should Directors have concerns about the operation of the Board or the management of the Company that cannot be resolved, their concerns would be recorded in the minutes of that meeting. If, on resignation, any Non-Executive Director had such concerns they would be invited to provide a written statement to the Chair, for circulation to the Board.

Division of responsibilities

The Board

The Board is comprised of a Non-Executive Chair, the Chief Executive Officer and five independent Non-Executive Directors. It therefore satisfies the requirement for at least half the Board, excluding the Chair, to be Non-Executive Directors whom the Board considers to be independent.

Independence of Non-Executive Directors

The Board considers that all of the Non-Executive Directors are independent.

Clare Duffy is a senior employee of ESB (Electricity Supply Board) and, Sara Vaughan was, during the course of the year, a director of E.ON. As BSC Parties, ESB and Eon have a material business relationship with the Company. These matters are relevant to the criteria identified in the UK Corporate Governance Code relating to Directors' independence but the Board nonetheless considers each of those Non-Executive Directors to be independent. The rationale for this is that appointing industry Non-Executive Directors from amongst BSC Parties is an important element in ensuring that Elexon has the appropriate balance of skills, experience, independence and knowledge on the Board. The Board has considered the contribution of these Directors to the discussions and decisions of the Board and determined that they continue to demonstrate independence of judgement and character.

Senior Independent Director

David Rigney is the Senior Independent Director. The main responsibilities of the Senior Independent Director are to:

- provide a sounding board for the Chair and to serve as an intermediary with other Directors when necessary;
- be available to stakeholders if they have concerns where contact through the normal channels of Chair, Chief Executive Officer or the Executive team has failed to resolve or for which such contact is inappropriate;
- meet with other Non-Executive Directors without the Chair present at least annually in order to appraise the Chair's performance.

Scrutinising the Performance of Executive Directors

Elexon only has one Executive Director, the Chief Executive Officer, whom the Non-Executive Directors are responsible for appointing and removing. The Board, through its Nomination Committee, also reviews appointments to the Executive Team proposed by the Chief Executive Officer.

The Non-Executive Directors set performance objectives for the CEO and Executive Team and hold management to account against these objectives. The Chief Executive Officer provides a monthly report setting out all material matters affecting the group during the previous month with a particular focus on the progress of the Company's strategic objectives.

The performance of the CEO is assessed by the Remuneration Committee comprised of Non-Executive Directors. These discussions are held without the CEO present.

Division of Responsibilities

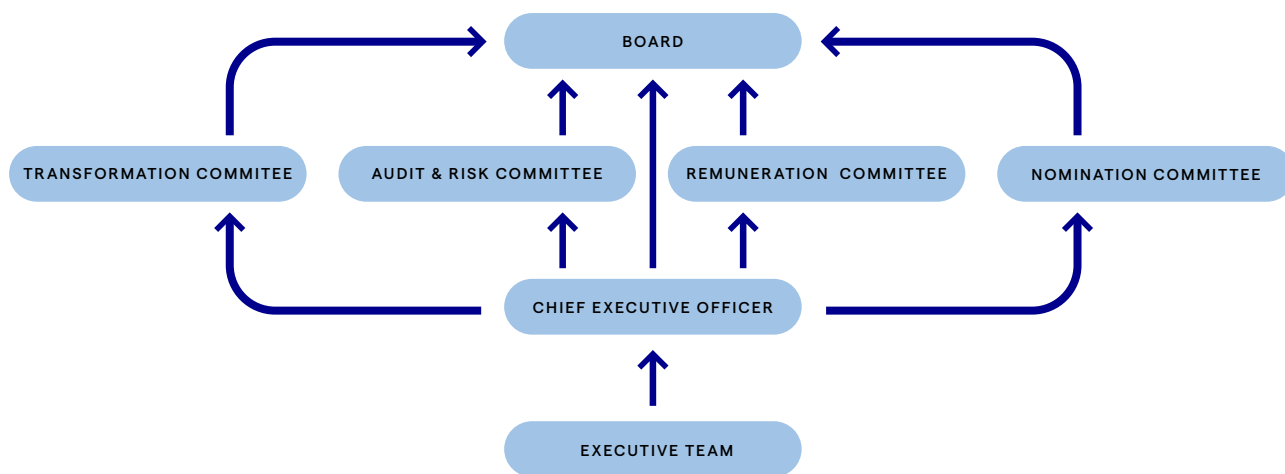
The Board has a written division of responsibilities between the Chair and Chief Executive Officer which is available on the Company's website. The Chair is responsible for running the Board and ensuring its effectiveness in all aspects of its role, whilst the Chief Executive Officer has executive responsibility for running the Company. The Non-Executive Directors provide constructive challenge and help develop proposals on strategy. They are responsible for scrutinising the performance of management, determining appropriate levels of remuneration for the Executive team and satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

Division of responsibilities

(Continued)

Governance Framework

The Governance framework at Elexon is set out in the diagram below.



The Board has a formal schedule of reserved matters which is available on Elexon's website. The role of the Board at Elexon is to:

- provide effective and entrepreneurial leadership of the Company, promoting its long-term sustainable success;
- satisfy itself that Elexon's culture is aligned to its purpose, values and strategy, including by acting with integrity, leading by example and promoting the desired culture;
- ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them;
- ensure that the Company has a framework of prudent and effective controls, which enable risk to be assessed and managed;
- in order for the Company to meet its responsibilities to stakeholders, ensure effective engagement with, and encourage participation from, these parties
- ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success
- provide constructive challenge, strategic guidance, specialist advice;
- scrutinise and hold to account the performance of management and individual Executive Directors against agreed performance objectives.

Each of the Board's Committees has formal terms of reference. There are descriptions of the role of the Audit and Risk Committee (page 43), Nomination Committee (page 44), Remuneration Committee (page 45) and the Transformation Committee (page 47).



Division of responsibilities

(Continued)

Attendance at Meetings

The Board, and each of its Committees, hold regular meetings scheduled throughout the year and ad hoc meetings as required. All Directors are expected to attend all Board and relevant Committee meetings. During the course of 2020/21, all meetings were held remotely. Details of attendance by Directors at Board and Committee meetings during 2020/21 are set out in the table below.

Notes for the meeting attendance table below

1. Numbers in brackets show the number of meetings that each Director was a member of the Board or a Committee. Board and Committee membership is on pages 29 to 32.
2. Numbers with asterisks show how many Committee meetings a Director attended in whole or in part where they were not a member of that Committee. Non-members are invited to attend Committee discussions where this will enhance the efficiency of decision making.

Information and support

The Chair is responsible for promoting a culture of openness, challenge and scrutiny on the Board, and ensuring constructive relations between Executive and Non-Executive Directors. The Chair, supported by the Company Secretary, also ensures that the Board receives accurate, timely and clear information.

Every Board meeting is followed by an informal wrap-up session which provides an opportunity for the Directors to discuss, amongst other things, the openness of debate and the quality of information flows with a view to ensuring that standards are maintained or enhanced.

The formal agenda for each Board and Committee meeting is circulated, together with papers relating to each of the matters on the agenda, one week in advance. For significant matters, a member of the Executive team will contact each of the Directors in advance. A record of actions is created following each meeting and discussed at the following meeting. Formal minutes of all Board and Committee meetings are circulated to all Directors before the next Board or Committee meeting and are considered for approval at that Board meeting.

All of the Company's Directors are entitled to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary.

Name of Director	Board	Audit and Risk Committee	Remuneration Committee	Nominations Committee	Transformation Committee
Total number of meetings	11	3	10	1	8
Michael Gibbons	11 (11)	3*	10 (10)	1 (1)	-
Clare Duffy	11 (11)	3 (3)	10 (10)	1 (1)	6 (8)
David Rigney	11 (11)	3 (3)		1 (1)	-
Mark Bygraves	11 (11)	3*	10*	1*	8*
Anne Heal	11 (11)	-	10 (10)	1 (1)	-
Sara Vaughan	11 (11)	3 (3)		1 (1)	8 (8)
David Titterton	11 (11)	-	10 (10)	1 (1)	8 (8)

Composition, succession & evaluation principles

Nomination Committee

The Board has established a Nomination Committee which leads the process for making appointments and makes recommendations to the Board as well as for succession planning. A report on activities of the Nomination Committee can be found on page 45.

The Nomination Committee is comprised of all Non-Executive Directors though, for convenience when making appointments to the Board, a smaller sub-group comprised of the Chair and two Non-Executive Directors undertake shortlisting and interviewing. The Committee is chaired by the Company Chair, but would be chaired by the Senior Independent Director if the appointment related to the role of the Chair. In any such appointment, the Senior Independent Director would also liaise with the deputy Chair of the BSC Panel to agree whether to appoint the same person to chair the Board and the BSC Panel and to co-ordinate the appointment process.

The terms of reference of the Nomination Committee are available on Elexon's website. These require, amongst other things, that appointments to the Board use open advertising and/or an external search consultancy.

Board Composition

The Directors collectively bring a combination of skills, experience and knowledge to the Company. The Board regularly reviews its skills matrix to ensure that there remains an appropriate balance on the Board. The next refreshing of Board membership will take place in 2022 when both Michael Gibbons (Chair) and David Rigney (Senior Independent Director and Chair of Audit Committee) step down at the end of September and June respectively. The Company is developing detailed succession plans to facilitate this change in Board composition which will include the Senior Independent Director leading the appointment process for a new Chair before stepping down himself.

No appointments were made to the Board during 2020/21.

Annual re-election

The provisions of the BSC require only those Directors who have been appointed, or reappointed, during the previous year to be subject to re-election at the next Annual BSC Meeting. However, the Board has resolved all Directors will seek re-election on an annual basis.

Chair

The current Chair, Michael Gibbons, was appointed to his role on 1 October 2013. His appointment was extended for a further three year term on 1 October 2019 at the end of which he will have served for nine years. As set out above, the appointment process for a new Chair will begin in good time to ensure that the current Chair's term does not exceed nine years.

Evaluation and effectiveness

The last externally facilitated evaluation was completed in June 2018. The Board has therefore appointed an external evaluator and is in the process of undertaking a full effectiveness review, the outcome of which will be reported next year.

The 2020/21 effectiveness evaluation is ongoing and is being conducted as an internal review, focused on individual performance. This evaluation is based on questionnaires prepared by the Company Secretary which will provide a 360 assessment on each Director and which will be followed up by a meeting with the Chair. For the Chair, the Senior Independent Director will be responsible for providing feedback.

As part of its work on developing the Company's culture, the Board and the Executive Team engaged in an externally facilitated exercise designed to strengthen the relationship and refine working practices.

The Board also holds an informal wrap-up session after each meeting which provides an opportunity for the Board to reflect on its effectiveness on a meeting-by-meeting basis.

Composition, succession & evaluation principles

(Continued)

Development

The Chair, along with the Company Secretary, is responsible for the induction of new directors. As part of their induction, new directors receive an induction programme that is tailored to their individual needs and includes:

- meetings with the Chief Executive and the Executive team on Elexon's business, our strategy and stakeholders and the challenges facing the business;
- meetings with the Company Secretary on Elexon's corporate governance and the HR Manager on Elexon's people;
- a comprehensive directors' information pack; and
- an introduction to the BSC Panel (including attending a Panel meeting) and the Balancing and Settlement Code.

To strengthen the Directors' knowledge and understanding of the Company, Board members attend briefing sessions with different teams within the Company. Board meetings also regularly include briefings on specific topics of relevance to the Company's activities. During the course of this year, topics covered have included diversity and inclusion training and presentations on the transition to Distribution System Operators.



Audit, Risk & Internal Controls

Audit and Risk Committee

The Audit and Risk Committee is comprised of three independent Non-Executive Directors and is chaired by David Rigney who has recent and relevant financial experience. All members of the committee are competent in the sector in which the Company operates.

The Company Chair is not a member of the Committee, although he is invited to, and does attend, Committee meetings.

More information on the role of the Audit and Risk Committee and its activities during the year can be found in the Committee's report on page 44.

Going Concern and Viability Statement

Elxon's Going Concern statement can be found on page 28 in the Directors' Report. The Viability Statement can be found on page 24 in the Strategic Report.

Risk Management and Internal Control

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. Further details of the principal risks facing the Company are set out on page 21 to 23.

The Board, supported by the Audit and Risk Committee, is responsible for:

- determining the nature and extent of the principal risks that the Company is willing to take in achieving its objectives;
- the Company's system of risk management and internal control; and
- reviewing the effectiveness of those systems

Recognising that risk is an inevitable part of being in business, and that it is not possible to entirely eliminate risk, the Group's risk management and internal control system is designed to identify, monitor and mitigate risks rather than eliminate them.

The corporate risk register is reviewed by the Audit and Risk Committee on a quarterly basis. The Audit and Risk Committee also undertakes periodic deep dives into the management of specific risks and at least twice per year reviews all risks on the corporate risk register.

Risks are assessed monthly by the responsible individuals assigned to the risk. The monthly assessment considers whether the risk is reducing or increasing as a result of inherent risk factors or the mitigation applied. Any new risks are also considered and added as necessary to the corporate risk register and any risk that are no longer relevant are closed.

Risk changes are collated by internal audit and reported to the monthly Executive meeting. The Executive team assess which risk changes or events merit inclusion in the risk section of the monthly Chief Executive's Report which is presented to the Board.

In addition, the Company's project management approach involves project teams identifying, analysing, evaluating and addressing risks associated with each project. Each project maintains its own risk register with significant project risks escalated to the corporate risk register. In addition, the Company maintains a project portfolio that ensures that risks and issues on one project which impact on other projects are identified and managed. Transformation programme risks are also reported to the Transformation Committee quarterly.

Elxon has an internal audit function that provides the Audit and Risk Committee with independent, objective assurance regarding internal controls and risk management processes as part of the Company's risk management and assurance regime. The Audit and Risk Committee agrees a programme of internal audit work annually and reviews progress at each of its meetings with the internal audit manager. All members of the Committee are provided with the reports prepared by the internal audit manager as part of the internal audit work plan.

In 2021 Elxon engaged with an external advisor to support our regular risk management processes, bring an external perspective and enhance our risk management capabilities. During 2021/22 we are planning to continue to improve and refine our risk management processes to reflect the changes to our business through transformation and market changes and to continue to align with good practices. These improvements include a more comprehensive approach to Board risk appetite, risk benchmarking, refinements to our methodology and further deep dives into specific risk areas.

Remuneration

Remuneration Committee

The Remuneration Committee is comprised of three independent Non-Executive Directors and the Company Chair. The Committee is chaired by Anne Heal who had been a member of Elexon's Remuneration Committee for 15 months prior to her appointment as Committee Chair.

The Committees' Terms of Reference are available on the Company's website.

The Committee is responsible for recommending to the Board the remuneration policy and setting the performance objectives and remuneration for the Executive team in accordance with the remuneration policy, and the remuneration for the Chair. The Committee is also responsible for recommending the workforce remuneration policy to the Board. The Committee therefore takes workforce remuneration and policies into account when setting the policy for Executive remuneration.

The Report of the Remuneration Committee on pages 46 to 47 outlines the activities of the Committee during the year and sets out excerpts of the Directors' remuneration policy.

Remuneration of Non-Executive Directors

The remuneration of the Non-Executive Directors is determined by the Chief Executive Officer and the Company Chair. The level of remuneration reflects the time commitments and responsibilities of the role as well as taking into account the need to attract and retain individuals with the necessary skills and experience. Directors' fees are benchmarked periodically taking into account the fees paid by comparable organisations.



Report of audit & risk committee

The Audit and Risk Committee is chaired by David Rigney who has recent, relevant and significant financial experience. The other members of the Audit and Risk Committee are Clare Duffy, and Sara Vaughan who have relevant experience in the electricity industry.

Purpose

The Terms of Reference for the Audit and Risk Committee are available on Elexon's website. Its main responsibilities include monitoring the integrity of the financial statements of the Company, reviewing and monitoring the external auditor's independence and objectivity, in particular, the provision of non-audit services that they provide, and determining the nature and extent of the principal risks that the Company is willing to take in achieving its objectives, establishing the Company's system of risk management and internal control and reviewing the effectiveness of those systems.

In discharging these responsibilities, the Audit and Risk Committee considers reports from the external auditor, internal auditor and from management, and monitors the implementation of any necessary actions including an independent review of nominated areas of internal control.

Report

The key items considered by the Committee during the year were:

- the 2020 annual report
- the 2020 audit report from BDO LLP
- the 2021 audit work plan and accounting policies
- an annual review of the effectiveness of the Company's external auditors
- the results of reviews carried out by the Company's internal auditor
- the principal risks and uncertainties faced by the Company, which are reviewed on a quarterly basis
- a review of the Company's risk management system
- quarterly reviews of the Company's information security arrangements
- a review of the Company's gifts and hospitality register
- a review of the Company's whistleblowing arrangements.

Risk management has been a particular focus of the Committee in 20/21, with further details of set out on page 33.

During the course of the year, in respect of the ransomware attack on Elexon in May 2020, the Board undertook a review of lessons learned and considered a report on enhancements to Elexon's cyber security defences. These matters have subsequently been incorporated into the quarterly information security reviews by the Committee.

Significant issues

The Committee did not consider that there were any significant issues in relation to the financial statements that needed to be addressed.

Effectiveness of the External Audit Process

The Audit and Risk Committee undertakes an annual assessment of the independence and effectiveness of the annual audit process. This involves the completion of a comprehensive questionnaire by the Chief Financial Officer in consultation with the Audit and Risk Committee. The external auditors, BDO LLP, were appointed in October 2017 following a competitive tender

Non-Audit Services

Note 11.4 to the financial statements includes a description of non-audit services performed by Elexon's external auditor during the year. The objectivity and independence of the auditor are safeguarded by limiting the value of non-audit services performed by the external auditor, the periodic rotation of the lead audit partner, independent reporting lines from the auditors to the Committee and the opportunity to meet with the Committee privately.

Report of the Nomination Committee

The Nomination Committee is chaired by Michael Gibbons. Its other members are Clare Duffy, David Rigney, Anne Heal, Sara Vaughan and David Titterton.

Purpose

The Terms of Reference for the Nominations Committee are available on Elexon's website. Its main responsibilities include:

- reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board
- succession planning
- identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Report

The Committee met once during the year and considered:

- Ensuring that the Company has in place adequate succession plans, with particular focus on the CEO and Executive Team
- a review of Non-Executive Director independence
- Board membership will be refreshed during 2022 so Board succession planning is expected to be a key focus for the Committee during 2021/22.

Evaluations

The Board is responsible for the annual evaluation process. More details of this can be found on page 31.

Diversity

As regards the gender balance of the Board and senior management, the Board is comprised of four male and three female Directors and the Executive Team is comprised of three males and three females.



Remuneration Committee

The Remuneration Committee is chaired by Anne Heal. Michael Gibbons, Clare Duffy and David Titterton are all members of this Committee.

Purpose

The Terms of Reference for the Remuneration Committee are available on Elexon's website. Its main responsibilities include:

- making recommendations to the Board on the Executive Team Remuneration Policy and the Staff Remuneration Policy
- Determining objectives for the performance related element of Executive remuneration and determining the extent to which such objectives have been achieved
- Determining Executive remuneration. In determining Executive remuneration the Committee adheres to a formal and transparent procedure.

Report

The focus for the Remuneration Committee has been a review of Executive remuneration, including salary, bonus and longer term incentives. The Remuneration Committee has been supported in this work by the appointment of remuneration consultants, MCR Consulting.

The review of remuneration has included the development of a remuneration strategy for the whole organisation and an Executive remuneration policy. As at the current date the remuneration policy is under development but will form the basis of the Remuneration Committee's reporting in next year's statements.

Note 11.3 to the financial statements sets out the Directors' remuneration for the year.

Remuneration Consultants

The Committee appointed MCR Consulting to assist with its review of Executive remuneration referred to above.

Strategic Incentive Plan

Elexon is not-for-profit, it has only a nominal share capital and its shares are not traded. It is therefore not possible for the Company to have a remuneration scheme that promotes long term shareholding in the Company by the Executive Team, as required

by the Corporate Governance Code. However, the Remuneration Committee has developed a strategic incentive plan in order to better align the interests of the Executives with the long term performance of the company in the interests of stakeholders.

Process

In determining Executive remuneration the Committee adheres to a formal and robust procedure. The Committee is comprised entirely of independent Non-executive Directors who determine Executive remuneration in accordance with a policy that has been set by the Board. This Remuneration Committee is currently reviewing the remuneration policy, but Executive remuneration is currently based on the position summarised below. Remuneration is set within the scope of the Company's total annual budget. Prior to approving the annual budget, the Board seeks comments from the Panel and BSC Parties.

Remuneration Committee

Policy

The policy relating to the remuneration of the Executive team is currently under review by the Committee and the pre-existing policy has been suspended. The following statements are based on the position under the suspended policy. Details of the new policy and strategy will be published in next year's report.

The remuneration of the Executive team is designed to promote the long term success of the Company. Their remuneration consists of a base salary plus taxable benefits (including private health insurance and dental insurance), a defined contribution pension scheme (unless already a member of the legacy defined benefit scheme) and an annual performance bonus.

Only the basic salary of Executive Team members is pensionable and the Executive Team's contribution rates or the availability of payments in lieu of a contribution are the same as are available to the workforce. The benefits available to the Executive Team are also the same as those available to the workforce.

Total remuneration has been benchmarked against a comprehensive data set.

The annual Executive bonus is determined by reference to performance against objectives. Bonus awards are determined as a percentage of salary.

The Strategic Incentive Plan sets longer term objectives focussing on key strategic objectives in order to better align the interests of the Executives with the long term performance of the company in the interests of stakeholders.

The notice periods of the Executive Team members is no more than 6 months. The Remuneration Committee's discretion in setting the various elements of Executive Team remuneration ensures that poor performance is not rewarded.

The rationale underlying suspended remuneration policy and practices at Elexon was to attract and retain suitable calibre individuals for Executive roles and paying a level of remuneration that is commensurate with the complexity of the roles. In particular:

- The Company aligns remuneration to company strategy through the annual bonus scheme and strategic incentive plan;
- Performance metrics are considered in detail by the Remuneration Committee having regard to the particular nature of the organisation and reflected in annual and longer term objectives;
- The Committee has implemented a Strategic Incentive Plan;
- Stakeholders views are reflected in remuneration decision through the membership of industry Non-Executive Directors and the Company Chair (who is also the BSC Panel Chair) on the Remuneration Committee. This allows for a robust industry perspective to be reflected in the Company's approach to Executive remuneration;
- The Committee is undertaking a review of its reward strategy supported by MCR Consulting to ensure policy achieves the intended objectives;
- The Committee reserves flexibility to apply discretion, in order to align stakeholder and Executive interests.

Report of Transformation Committee

The Transformation Committee is chaired by David Titterton. The other members of the Transformation Committee are Clare Duffy and Sara Vaughan.

Purpose

The purpose of the Committee is to provide oversight of the Company's Digitalisation Programme, to report progress to the Board, to approve investments, contracts and changes that fall within the scope of parameters set by the Board, and to make recommendations to the Board in relation to matters that are reserved to the Board.

Report

Given the strategic importance of the Elexon Kinnect programme, and the size of the investments being made in BSC Systems, the Board established the Transformation Committee in October 2020 in order to provide support and oversight for Elexon's digital transformation programme.

The Committee's work has included:

- Establishing a reporting framework to support the Transformation Committee's monitoring of the delivery of the Kinnect Programme including as regards cost, time, quality and outcomes;
- Key decisions in respect of the Programme, including in respect of investment proposals for Elexon's settlement solution and in respect of Elexon's sourcing model;
- Reviewing the risk profile of the Programme;
- Monitoring the resourcing needs of the Programme;
- Internal and external assurance of the Programme



INDEPENDENT AUDITOR'S REPORT

TO MEMBERS OF ELEXON LIMITED



Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of its result 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.

We have audited the financial statements of Elexon Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 March 2021 which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast

significant doubt on the Group or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual report other than the financial statements and our auditor's report thereon.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

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

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Based on our understanding of the Group and the Parent Company, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and corporation tax. The Group and Parent Company are also subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries.

Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating management's controls designed to prevent and detect irregularities;
- Identifying and testing journals, in particular journal entries posted with unusual account combinations, postings by unusual users or with unusual descriptions.

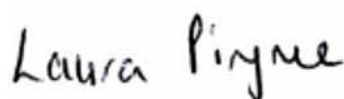
Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the [Financial Reporting Council's website](#). This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signed for and on behalf of BDO LLP, statutory auditor

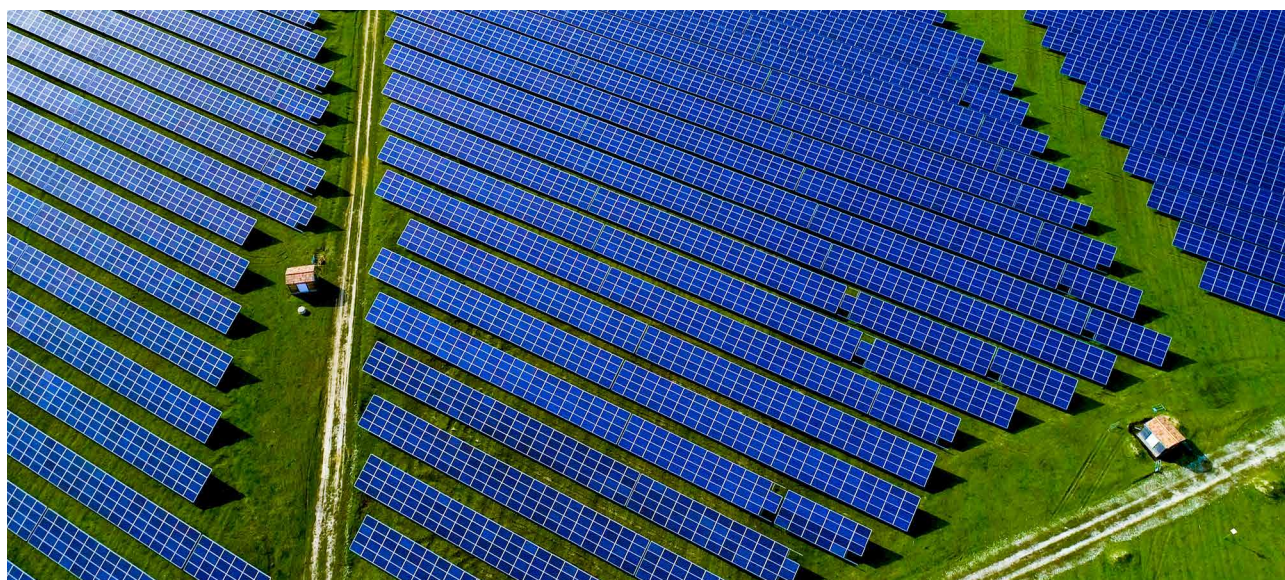


Laura Pingree

Senior Statutory Auditor
*For and on behalf of BDO LLP,
statutory auditor*

London, UK
2 June 2021

BDO LLP is a limited liability partnership
registered in England and Wales
(with registered number OC305127).



Consolidated profit & loss account

	Notes	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Turnover	11.2	55,776	46,729
Cost of sales		(55,783)	(46,777)
Operating result	11.4	(7)	(48)
Interest receivable and similar income	11.5	7	48
Interest payable and similar charges	-	-	-
Result from ordinary activities before taxation		-	-
Tax on result from ordinary activities	11.6	-	-
Result for the financial year	-	-	-
Retained result brought forward	-	-	-
Retained result carried forward	-	-	-

There are no movements in reserves, shareholder's funds, or any other recognised gains or losses and consequently no Statement of changes in equity and Statement of comprehensive income and retained earnings have been presented.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company, Elexon Limited, is not presented as part of these financial statements. The parent Company's result for the financial year was £nil (2020: £nil).

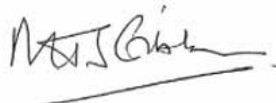
The notes on pages 57-70 form part of these financial statements.

Consolidated balance sheet

	Notes	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Fixed assets			
Tangible assets	11.7	313	551
Intangible fixed assets	11.8	40	79
		353	630
Current assets			
Debtors	11.10	159,882	113,725
	11.11	134,314	89,941
		294,196	203,666
Creditors: amounts falling due within one year	11.12	(294,549)	(204,296)
Net current liabilities		(353)	(630)
Total assets less current liabilities	-	-	-
Creditors: amounts falling due after more than one year	-	-	-
Net assets	-	-	-
Capital and reserves			
Called up share capital	11.13	-	-
Shareholder's funds	-	-	-

The notes on pages 57 to 70 form part of these accounts. These financial statements were approved by the Board of Directors and authorised for issue on 2 June 2021.

Signed on behalf of the Board of Directors
Company Registration Number 3782949



Michael Gibbons
Director

Company balance sheet

	Notes	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Fixed assets			
Tangible assets	11.7	313	551
Intangible fixed assets	11.8	40	79
Investment	11.9	–	–
		353	630
Current assets			
Debtors	11.10	3,001	2,741
Cash at bank and in hand	11.11	5,498	4,871
		8,499	7,585
Creditors: amounts falling due within one year	11.12	(8,852)	(8,215)
Net current liabilities	–	(353)	(630)
Total assets less current liabilities	–	–	–
Creditors: amounts falling due after more than one year	–	–	–
Net assets	–	–	–
Capital and reserves			
Called up share capital	11.13	–	–
Shareholder's funds	–	–	–

The notes on pages 57 to 70 form part of these accounts. These financial statements were approved by the Board of Directors and authorised for issue on 2 June 2021.

Signed on behalf of the Board of Directors
Company Registration Number 3782949



Michael Gibbons
Director

Consolidated cash flow statement

	Notes	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Operating activities			
Net cash (outflow)/inflow from operating activities	11.19	44,402	(11,395)
Returns on investments and servicing of finance			
Interest received		7	48
Net cash inflow from returns on investments and servicing of finance		7	48
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(36)	(295)
Payments to acquire intangible fixed assets		–	–
Receipts from sales of tangible fixed assets		–	–
Net cash outflow from capital expenditure and financial investment		(36)	(295)
(Decrease)/Increase in cash and cash equivalents	11.20	44,373	(11,642)



NOTES TO THE FINANCIAL STATEMENTS



Accounting Policies

11.1

The financial statements are prepared in accordance with United Kingdom law and Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. They have all been applied consistently throughout the year, and to the preceding year, with the exception of intangible fixed assets due to policy change.

The particular accounting policies adopted are described below.

Basis of accounting

Elxon Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 13 to 26.

The financial statements have been prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The financial statements cover the reporting period April 2020 to March 2021.

The functional currency of Elxon Limited is in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Elxon Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in these separate Company financial statements in relation to presentation of a profit and loss and cash flow statement.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries.

Basis of preparation

Arrangements are in place to manage financial risk, as stated on page 21 to 23 of the Strategic Report. As a result the Board considers that there is a reasonable expectation that the Company will continue in operating existence for the foreseeable future. Management have assessed whether COVID-19 will impact the group and the company's ability to continue in its operations and we do not consider a material uncertainty in relation to COVID-19, therefore the going concern basis of preparation has been used. Please refer to the Directors' Report of Going Concern on page 28, Viability Statement on page 19 and the Strategic Report on page 13 for further information.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at original cost, together with any incidental cost of acquisition.

Depreciation is calculated on a straight-line basis over the useful life of the tangible fixed assets. The estimated useful life used for the purpose of these financial statements is:

Fixtures and fittings:

4 years

Office and IT equipment:

3 years

Operational assets – metering equipment:

10 years

Intangible fixed assets

Previous software developments costs have been recognised as intangible fixed assets and are stated at original cost, together with any incidental cost of acquisition. Amortisation is calculated on a straight-line basis over the useful life of the intangible assets. The estimated useful life used for the purpose of these accounts is:

Development cost: Three years

(Continued)

Recognition of revenue

The financial statements have been prepared on the basis of revenue and cost incurred in the year, which are considered to reflect the services provided in the year relating to BSC Parties under the terms of the BSC. Income is therefore recognised over the periods necessary to match it the related costs which it is intended to compensate on a systematic basis.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Deferred taxation

Deferred tax is recognised in respect of all material timing differences that have originated or reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Leases

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term. Rent free periods are spread over the lease term on a straight-line basis.

Pension and other post-retirement benefits

As described in note 11.17, the Group contributes to the NGET section of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. The Group is unable to identify separately its share of NGET's section of the Scheme's underlying assets and liabilities and, accordingly, contributions are accounted for as if it were a defined contribution scheme.

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

Related party transactions

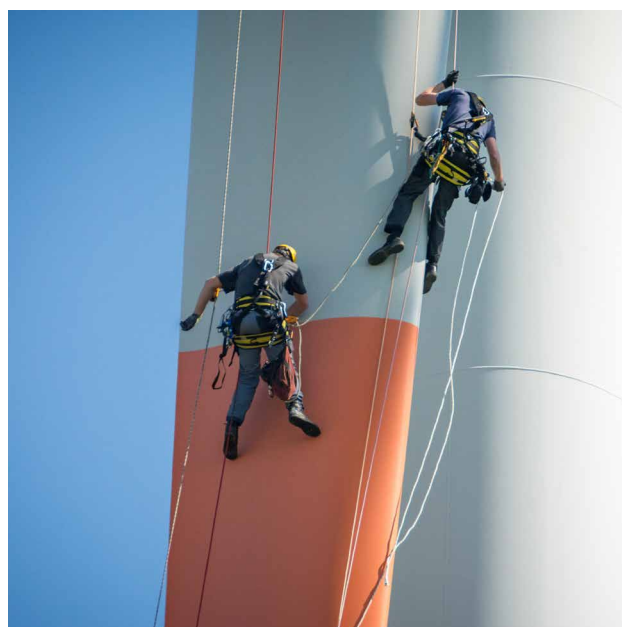
In line with Financial Reporting Standard 102 section 33 (Related Party Disclosures), the Company is not required to disclose transactions with wholly-owned subsidiaries.

Debtors and Creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in profit or loss in other operating expenses.

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements: Determine whether there are indicators of impairment of the company's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance unit.

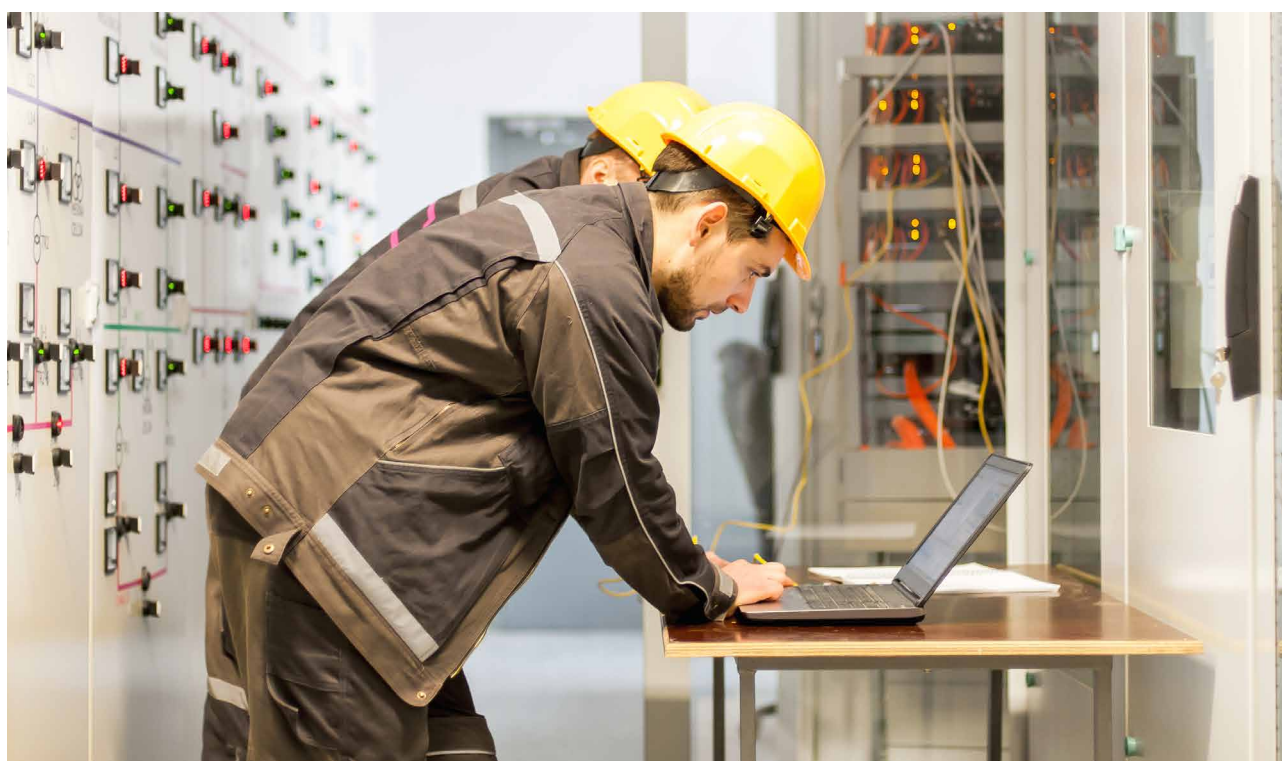


11.2

Turnover in the year primarily represents amounts due from BSC Parties under the terms of the BSC.

There is a reconciliation which charges/credits the difference between amounts invoiced to each BSC Party relating to the financial year and the amount due from each BSC Party under the terms of the BSC. Any difference is deferred or accrued as appropriate. All turnover arises from activities in the UK.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
BSC Section D charges	49,943	41,386
EMR operational levy funded income	5,833	5,307
Other Income	-	36
	55,776	46,729



Information regarding Directors & employees

11.3

11.3

The remuneration of Group Directors for the year ended 31 March 2021 is set out below:

The Directors received benefits of £4,000 from Elexon in 2021 (2020: £4,000).

None of the Directors hold any shares or share options in the Company. In 2020/21, the CEO's three year long term incentive plan matured, which resulted in additional bonus payment in the current year.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Directors' remuneration		
Emoluments (including benefits in kind)	694	639
Remuneration of the highest paid director:		
Emoluments (including benefits in kind)	376	323

Information regarding employees is shown below.

	Year ended 31 March 2021	Year ended 31 March 2020
Average number of persons employed	201	189
Staff costs during the year (including Directors)	£'000	£'000
Wages and salaries	11,954	11,181
Social security costs	1,391	1,245
Pension costs (See note 11.17)	1,857	1,734
	15,202	14,160

Operating result

11.4

Audit fees

Group audit fees payable to BDO LLP were £74,700 (2020: £58,000) of which £63,200 (2020: £54,550) relates to the Company.

	Notes	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Group Operating result is stated after charging			
Fixed Assets Depreciation	11.7	275	331
Amortisation of Intangible	11.8	39	1,100
Operating lease rentals			
– land and buildings		1,924	1,924
– plant and machinery		23	23
Fees payable to the Company's auditor for the audit of the Company's accounts		75	58
Total non-audit fees (tax, assurance and accounting advice)		6	6

Interest receivable & similar income

11.5

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Bank interest	(7)	(48)

Tax on result from ordinary activities

11.6

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
United Kingdom corporation tax at 19% based on the result for the year	-	-

Tangible fixed assets

11.7

Group and company

	Operational assets / Meter Equipment £'000	Office Equipment and Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Costs				
At 1 April 2020	496	1,577	1,229	3,302
Additions	-	16	22	38
Work In Progress	-	-	-	-
Disposals	-	-	-	-
At 31 March 2021	496	1,593	1,251	3,340
Accumulated depreciation				
At 1 April 2020	495	1,142	1,114	2,751
Charge for the year	1	202	73	276
Disposals	-	-	-	-
At 31 March 2021	496	1,344	1,187	3,027
Net book value				
At 31 March 2021	-	249	64	313
At 31 March 2020	1	435	115	551



Intangible fixed assets

11.8

Group and Company

Intangible assets relate to our finance reporting software called Board which went live in April 2019, which allows the organisation access to more timely information. The Board solution, which was purchased in 2018/19, has a carrying amount as at 31 March 2021 of £40k.

These assets are capitalised because they will bring future economic benefit and ensure the stability of the central systems and will mitigate the risks of failure and overall deliver better value for money to BSC parties.

	Intangible assets £'000
Costs	
At 1 April 2020	6,212
Additions	-
Work In Progress	-
Disposals	-
At 31 March 2021	6,212
Accumulated amortisation	
At 1 April 2020	6,133
Charge for the year	39
Disposals	-
At 31 March 2021	6,172
Net book value	
At 31 March 2021	40
At 31 March 2020	79

Investments

11.9

Company investments at cost were £179 at 31 March 2021 (2020: £179).

£157,081,246 (2020: £111,243,069) of the Trading Party balances represents amounts due from trading parties under Section N of the BSC for the 31 days of trading from 1 March 2021 to 31 March 2021. An amount of £157,038,173 (2020: £111,216,024) is included

in Creditors: amounts falling due within one year (see note 11.12). The rest of the Trading Party balances represents advance payments by trading parties as well as defaulted amounts due to be recharged to and collected from non-defaulting trading parties.

	Group	Group	Company	Company
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Trade debtors	146	124	146	124
Trading Party balances	157,081	111,243	-	-
Taxation and social security	379	245	379	191
Prepayments and accrued income	2,268	2,043	2,468	2,329
Other debtors	8	70	8	70
	159,882	113,725	3,001	2,714

Cash at bank & in hand

Group cash of £134,313,611 (2020: £89,941,408) includes security deposits lodged by Trading Parties with Elexon Clear under Section M of the BSC. £11,557 (2020: £657,458) of cash at bank represents advance payments by three trading parties for their trading balances. Amounts lodged as security deposits are the absolute property of Elexon Clear but can only be used as credit cover for trading balances as set out in the BSC. The BSC also sets out the limited instances

whereby security deposits are repaid to Trading Parties. Interest accrued on cash deposits is paid to the lodging parties in accordance with the BSC.

Company cash of £5,497,505 (2020: £4,870,547) comprises of cash at bank only.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Cash at Bank	6,116	5,274
Security Deposits	128,186	84,010
Pre-payment of trading charges	12	657
Borrowing	-	-
	134,314	89,941

Creditors: Amounts falling due within one year

11.12

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Security deposits lodged by Trading Parties (see note 11.11)	128,240	84,694	-	-
Trade creditors	2,448	1,424	2,397	1,392
Trading Party balances (see note 11.10)	157,038	111,216	-	-
Taxation and social security	396	344	378	344
Other creditors	113	143	113	143
Accruals and deferred income	6,314	6,474	5,964	6,335
	294,549	204,296	8,852	8,215

Called up share capital

11.13

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Authorised: 100 Ordinary shares of £1	100	100
Called up, allotted and fully paid: One Ordinary share of £1	1	1

Financial commitments

11.14

Operating lease commitments

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

	Group	Group	Company	Company
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Leases which expire:				
- within one year	1,924	1,924	1,924	1,924
- between one and five years	7,695	7,695	7,695	7,695
- after five years	2,577	4,501	2,577	4,501

Operating lease commitments relate to land and buildings

Ultimate parent Company

11.15

Elxon is wholly-owned by NGESO. The ultimate parent entity of NGESO is National Grid plc.

The Directors are of the opinion that, under Financial Reporting Standard 102 (Accounting for Subsidiary Undertakings), the financial statements of Elxon do not require consolidation within the financial statements of National Grid plc group.

Under Section C of the BSC, NGESO is prohibited from consolidating the financial results of Elxon or its subsidiaries with its own or with any of its affiliated entities.

Related party transactions

11.16

There were no related parties' transactions this financial year (2020: none).

The total pension cost for the year ended 31 March 2021 from all schemes comprised regular contributions of £1,857,456 (2020: £1,662,726). At 31 March 2021, there were accrued pension liabilities of £49,867 (2020: £49,867).

Defined benefit scheme

As of 31 March 2021, 6% (2020: 7%) of the Group's employees were members of NGEG's section of the Electricity Supply Pension Scheme ('ESPS'), a defined benefit scheme. The ratio has reduced and is diluted as the number of staff employed has increased and this pension scheme is closed to new joiners. The assets of the Scheme are held in a separate trustee administered fund. The Scheme is divided into sections, one of which relates to NGEG. NGEG's section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006. The Group's pension contributions are determined on a section-wide basis as advised by the actuary and are fully expensed in the Profit and Loss Account.

For the scheme year 2020/21, Elexon incurred employer pension contribution costs of £951,623 (2020: £904,557) for its defined benefit scheme, of which £601,644 (2020: £598,404) was towards the deficit repair.

The ESPS, in accordance with the Pensions Act 2004, is subject to a full actuarial valuation every three years. An annual review is also performed every year. The last valuation (completed in September 2020) set out the position as at 31 March 2020. The results of the new actuarial valuation is expected in March 2023. The actuary used is Aon Hewitt Limited. The results of this actuarial valuation have been used as the basis for assessing pension costs. In summary, the results of the last full actuarial review available showed that as at 31 March 2020:

- the total assets of the NG Scheme were £3,124m
- liabilities i.e. the cost of providing the pensions/benefits were £3,451.7m
- the deficit was therefore £327.7m, an increase of £90.3m from the deficit of £237.4m identified in the previous 2019 valuation. The NG Scheme assets were calculated as being sufficient to meet 90.5% of its accrued liabilities (at the previous 2019 valuation assets were sufficient to meet 93.0% of accrued liabilities)

The main reasons for the deficit are;

- Negative returns on the Group's return seeking assets
- The changes to financial assumptions principally due to a reduction in the real yields on index linked gilts which have worsened the position (although the increase in liabilities is partly offset by an increase in the value of the Liability Driven investment asset); and
- Company contributions which have improved the position.

Following the last review, employers' contribution is 42.8% (twice members' normal contributions, 2 x 8%, plus 26.8%). Elexon's share of the Deficit Repair continues to be £49,867 per month to 31 March 2022.

Defined contribution scheme

Since 1 September 2006, all new permanent employees have only been offered the option to join a new Elexon Pension Scheme. The Elexon Pension Scheme is a defined contribution Group Stakeholder Pension Plan. Elexon matches employee contributions on a two for one basis to a maximum of 12% of basic salary. All eligible staff were auto enrolled. In the scheme year of 2020/21, Elexon incurred employer's contribution costs of £833,563 (2019/20: £758,169) for its defined contribution scheme.

Additional information on subsidiary undertakings

11.18

The results of all of the above entities are included within the consolidated financial statements.

Poolserco [3646729], BSC Co. Limited [3837126] and Poolit Limited [3646741] have taken advantage of the S448a exemption from preparing individual accounts as they are dormant entities, and the directors of these companies are exempt from the requirement to deliver a copy of the company's individual accounts to the register.

Subsidiary undertaking	Country of registration	Activity	Portion of ordinary shares held %	Physical Address
Poolserco Limited	England and Wales	Dormat	100	4th Floor 350 Euston Road London
Poolit Limited	England and Wales	Holder of intellectual property rights and licences, no-trading	100	
Elxon Clear Limited	England and Wales	Legal counterparty to balance and imbalance transactions per the BSC	100	
BSC Co. Limited	England and Wales	Dormat	100	
EMR Settlement Limited	England and Wales	Undertakes settlement functions for Electricity Market Reform	100	

Reconciliation of operating result to net cash flow from operating activities

11.19

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Operating result	(7)	(48)
Fixed Assets Depreciation	275	331
Amortisation of Intangible	39	1,100
Loss on disposal of fixed assets	-	(0)
(Increase) / Decrease in debtors	(46,157)	24,626
Increase / (Decrease) in creditors	46,706	(23,947)
Increase / (Decrease) in trading deposit	43,546	(13,457)
NET CASH FLOW from OP. ACTIVITIES	44,402	(11,395)

Reconciliation of net cash flow to movement in net cash

11.20

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Net cash at 1 April 2020	89,941	101,583
Increase / (Decrease) in cash	44,373	(11,642)
Net cash at 31 March 2021	134,314	89,941

Subsequent events

There are no events subsequent to 31 March 2021 requiring disclosure.



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E L E X O N