



**UK POWER NETWORKS HOLDINGS LIMITED**

**Registered Number 07290590**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 March 2025**

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### Directors

Andrew John Hunter (Chairman)  
Hing Lam Kam  
Neil Douglas McGee  
Basil Scarsella  
Charles Chao Chung Tsai  
Loi Shun Chan  
Duncan Nicholas Macrae  
Kee Ham Chan  
Edmond Wai Leung Ho  
Simon Ka Keung Man  
Jenny Yu  
Chiu Ng  
Wendy Wai Che Tong-Barnes

### Company Secretary

Andrew Pace

### Auditor

Deloitte LLP  
1 New Street Square  
London  
EC4A 3HQ

### Registered Office

Newington House,  
237 Southwark Bridge Road  
London  
SE1 6NP

## STRATEGIC REPORT

### ABOUT US

#### Who we are

UK Power Networks is the UK's largest electricity distribution network operator ("DNO"). We provide electricity infrastructure to deliver electricity supply to our customers safely, reliably, efficiently and sustainably.

We operate across three DNO licence areas; London, the East and the South East of England, serving over 8 million homes and businesses. UK Power Networks owns three licensed companies who are responsible for operating and maintaining these electricity distribution networks:



#### Eastern Power Networks ("EPN")

EPN delivers electricity to the East of England region which extends from the Wash in the east, to North London and the Thames estuary, encompassing a diverse range of urban and rural areas as well as a substantial coastline.

#### London Power Networks ("LPN")

LPN delivers electricity to people who live and work in Inner London. It has the responsibility for delivering electricity to iconic buildings and businesses in London, as well as high-profile international events held in the city throughout the year.

#### South Eastern Power Networks ("SPN")

SPN serves South London, Kent, East Sussex and parts of Surrey and West Sussex, covering a variety of customers and locations.

#### UK Power Networks in numbers

Measure	Number
Number of homes and businesses that electricity is delivered to	8.5 million
UK Power Networks footprint area	29,250km square
People served from Cromer in the East of England to Brighton in the South of England	19 million – 28% of Great Britain's population
Electricity distributed through our network in Great Britain	71,141 GWh – around 28% of Great Britain's total
Length of overhead and underground cable network	Overall total of 192,053km Overhead 45,233km & Underground 146,820km

This report relates to UK Power Networks Holdings Limited and its subsidiaries (together the "Group" or "UK Power Networks" or "UKPN"). The Group consists of both Regulated and Unregulated Businesses.

## STRATEGIC REPORT continued

### ***What we do***

The Regulated business covers the Group's three DNOs and support businesses. The DNOs operate within a regulatory framework under licence from the Office of Gas and Electricity Markets ("Ofgem"). Ofgem works with government, industry and consumer groups to establish a regulatory framework to promote a sustainable electricity network which delivers value for customers. Ofgem sets the price control which determines what the DNOs can charge their customers and the level of "allowed" revenue. In addition, Ofgem establishes incentives for outperformance and innovation relating to outputs, including network reliability, customer service, the environment and efficiency. In addition to allowed revenues, the DNOs collect income to cover the cost of connecting new customers to the network.

Separate from the regulated business, UK Power Network Services ("the Services business") is the commercial arm of the Group that manages private energy networks and delivers power infrastructure projects for customers. The Services business operates in the unregulated network sector and develops, delivers and manages energy networks for owners of infrastructure. The Services business is not governed or licensed by Ofgem.

The Services business portfolio includes a range of clients from both the public and private sector including four London airports (Heathrow, Gatwick, Stansted, and City), High Speed 1 (the Channel Tunnel rail link from Folkestone to London), Network Rail, London Underground, Southern Water, Aspire (Ministry of Defence) and Canary Wharf. The Group's Services business seeks to develop new business opportunities within target markets such as rail, airports, defence and nuclear.

On the 3rd of May 2024, the Services business expanded its portfolio of key infrastructure assets with the acquisition of SEEIT SOL Limited, subsequently renamed Powerlink Renewable Assets Limited. The new company comprises a portfolio of 70 solar, wind and hydro energy plants, generating 68.7MW of electricity for United Utilities Water. Details of this transaction can be found in note 29 of the financial statements.

### ***Regulated business: how we charge our customers***

The prices we charge our customers are set by Ofgem under the regulatory framework. Customers are charged through their electricity supplier. We recognise the importance of delivering value for customers and seek to deliver the lowest possible prices by driving efficiency and innovation. We are continuously balancing the competing demands of value for money, the need to innovate, efficiency, safety and the overall resilience of our network.

### ***Regulatory Framework***

The current regulatory framework is based on network regulation, known as the "RIIO" model where Revenues = Incentives + Innovation + Outputs. Under the RIIO model there is an emphasis on companies delivering good operational performance in areas such as network reliability and customer service, whilst delivering the lowest possible prices for customers.

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

The RIIO-ED2 operates from 1 April 2023 to 31 March 2028 and was agreed following final determination and after extensive review and consultation with Ofgem. Ofgem set the framework so that the 14 DNOs in Great Britain (including UK Power Networks' three licence holders) provide a safe and reliable service, deliver value for money, operate efficiently, innovate, and maintain the resilience of their networks for current and future customers. Ofgem recently published their first Annual Report for the RIIO-ED2 period in April 2025. This showed UK Power Networks earning the most incentive revenue of the six DNO Groups, which is a continuation of UK Power Networks' strong incentive performance from RIIO-ED1, albeit the RIIO-ED2 incentive targets have been significantly tightened, resulting in lower levels of incentive outperformance across the sector.

**STRATEGIC REPORT continued**

The RIIO-ED2 framework has grouped the outputs into three consumer-facing output categories with a range of incentive mechanisms attached.

Category	Key Area	Mechanism
<b>Meet the needs of consumers and network users</b>	Delivering high quality customer service	Incentives to drive the DNOs to continue to improve the quality of services to customers and effectively resolve any complaints.
	Support for consumers in vulnerable situations	An incentive framework with stretching targets and common metrics to drive further improvements in the support delivered to consumers in vulnerable situations.
	Provide a quality service for consumers seeking a connection	A package of incentives to drive quality services for both minor and major connections customers.
<b>Maintain a safe and resilient network</b>	World class levels of reliability	The Interruptions Incentive Scheme ("IIS") to deliver world class levels of reliability and funding for DNOs to improve service provision for their 'worst served customers'.
	Asset resilience	A Network Asset Risk Metric output to hold companies accountable for their investment decision.
	Environmental and information resilience	A package of measures, including new strategy requirements and uncertainty mechanisms to ensure DNOs improve resilience in key areas of their operations.
<b>Networks for Net Zero</b>	Delivering an environmentally sustainable network	Funding, including uncertainty mechanisms, for the DNOs to undertake activities to deliver an environmentally sustainable network with annual reporting to track progress.

The Group's business plan for RIIO-ED2 lays out its DNOs' commitments to deliver measurable outputs against specific targets.

## STRATEGIC REPORT continued

### OUR PURPOSE, VISION, AND VALUES

#### *Our purpose*

To deliver electricity to London, the East and South East of England.

#### *Our vision*

To be consistently the best performing organisation within our sector, within an agreed set of values.

There are four aspects to our vision:



- The safest, with an exemplary safety record.
- An organisation that employees are proud to work for.
- An organisation that is diverse, inclusive and resilient.
- Having a highly skilled and healthy workforce for both today and the long term.
- Strong and collaborative relationships with Trade Unions.



- The most reliable networks.
- The best customer satisfaction.
- Meeting the needs of our customers in vulnerable circumstances, both now and in the future.
- The most socially and environmentally responsible in our sector.
- The most innovative in our sector (becoming a disruptor, combining data, technology and new ideas).
- Ensuring our supply chain is efficient, sustainable and ethical.



- Delivering at the lowest possible cost for our customers.
- Delivering frontier efficiency in the work that we do.
- Delivering on our commitments in a collaborative way with others.
- Profitable growth in our Services and Connections businesses.



- Deliver the best low carbon technology ("LCT") customer satisfaction.
- Maximise customer participation to optimise network utilisation.
- Collaborating with local authorities and stakeholders to unlock regional decarbonisation plans.
- Provide our customers and employees with information and support to go green.
- Play a leadership role in sector to address inequality and unfairness resulting from the energy transition.

#### *Our values*

UKPN delivers high performance underpinned by our values which are embedded in our culture:

- **Integrity** - We will do what we say we will do and build trust and confidence by being honest to ourselves, our colleagues, our partners, and our customers.
- **Continuous improvement** - Our commitment to learning, development, innovation, and achievement.
- **Diversity and inclusiveness** - We recognise and encourage the value which difference and constructive challenge can bring.
- **Respect** - We treat our colleagues and customers in a way which they would want to be treated.
- **Responsibility** - We act in an ethical, safe, and socially/environmentally aware manner.
- **Unity** - We are stronger together and this comes from a shared vision, a common purpose, supportive and collaborative working.






Sustainability is embedded in our culture. The Group contributes support to the UK's ambition to reduce carbon emissions to net zero by 2050 ("Net Zero"), both in connecting renewable energy to its networks and facilitating the uptake of low carbon technologies. The Group's ambition is to be the most environmentally and socially responsible in its sector and to facilitate the transition to a Net Zero future. This is discussed on pages 23 to 30.

## STRATEGIC REPORT continued

### OUR STRATEGY

UK Power Networks' long-term success is linked to its vision to be consistently the best performing organisation within our sector. The Board and Executive Management Team ("EMT") develops, and executes, the Group's strategy in order to support this vision.

UK Power Networks believes it will achieve its vision by focusing on five strategic priorities:

Strategic Priority	What this means and why this is important	2024/25 progress
 <b>Keeping employees and the public safe</b>	<ul style="list-style-type: none"> <li>The safety of our employees, contractors and the public is an important priority.</li> <li>We want UK Power Networks to provide a safe working environment.</li> </ul>	<ul style="list-style-type: none"> <li>Our Lost Time Incident Frequency Rate ("LTIFR") in 2024/25 was 0.01 and we have seen a 93% reduction in our LTIFR since the Group's formation in 2010.</li> <li>In 2024/25 we engaged with almost 839,000 members of the public on safety issues, focusing on those who are at highest risk of injury from contact with our networks. We are well on track to exceed our RIIO-ED2 target to reach 1,500,000 members of the public over the five year period.</li> </ul>
 <b>Providing a reliable electricity supply</b>	<ul style="list-style-type: none"> <li>We maintain electricity cables and overhead lines across London, the South East and the East of England and see power flows reliably, safely, and securely.</li> <li>Reliable access to electricity is becoming ever-more important with decarbonised transport and heating systems, for example switching to Electric Vehicles ("EVs") and heat pumps.</li> </ul>	<ul style="list-style-type: none"> <li>The year saw a marked improvement in network performance versus the prior year, but still incurred a small penalty under the more stringent RIIO-ED2 targets set by Ofgem. This is discussed further on page 10.</li> <li>Since the start of RIIO-ED2 over 18,000 customers have seen an improvement in network reliability of at least 25% as a result of completed Worst Served Customer schemes. This was well above our RIIO-ED2 target of 10,000 customers over the same period.</li> </ul>
 <b>Focus on customer satisfaction</b>	<ul style="list-style-type: none"> <li>We continue to improve existing services to meet customers' evolving needs.</li> <li>We want to see that our customers have the best possible service from us. We are always looking for ways to improve what we do and how we do it.</li> </ul>	<ul style="list-style-type: none"> <li>Ranked 1st in Ofgem's Broad Measure of Customer Satisfaction (BMCS) with a 94.2% customer satisfaction. This is our best ever score and keeps us on target to achieve our goal of at least a 93% score on average across our networks in each year of RIIO-ED2.</li> <li>Achieved a rank of 1<sup>st</sup> in our sector, Utilities, in the Institute of Customer Service customer satisfaction index (UKCSI) (July 2024 and January 2025).</li> </ul>
 <b>Delivering value for money</b>	<ul style="list-style-type: none"> <li>We deliver the lowest possible bills by driving efficiency and innovation in everything we do.</li> <li>We provide an essential service, so we aim to maximise value for our customers.</li> </ul>	<ul style="list-style-type: none"> <li>Our DSO function, through increased competition and use of low voltage (LV) flexibility, has delivered £232m of benefits in 2024/2025.</li> <li>We have been the lowest cost DNO Group for the first two years of RIIO-ED2. This means our customers paid us an average monthly charge which is 18% less than the industry average.</li> </ul>
 <b>Innovating to facilitate the transition to Net Zero</b>	<ul style="list-style-type: none"> <li>Innovation is central to our vision, as we strive to be the most innovative of all the DNOs.</li> <li>Our openness to new and better ways of working is the driving force behind our success. We are working with the industry in preparing the electricity distribution infrastructure and network for the transition to Net Zero.</li> </ul>	<ul style="list-style-type: none"> <li>Ranked number one in the UK for smart grid capabilities in the Singapore Power Group's Smart Grid Index.</li> <li>The Group has been leading 25 Strategic Innovation Fund ("SIF") projects during 2024/2025, for further details refer to page 11.</li> <li>The Smart Connect project, an advanced portal and back-office system that streamlines the application process for installing Low Carbon Technologies, won the Digital Transformation of the Year at the UK IT Industry Awards in November 2024.</li> </ul>



## STRATEGIC REPORT continued

### OUR KEY STAKEHOLDERS

UK Power Networks is focused on delivering on its objectives across a range of key stakeholders. These include customers, particularly those in the most vulnerable circumstances. We engage with a wide range of stakeholders, from local authorities to low carbon technology installers, as well as partners and employees, to understand issues and shape actions that aim to deliver the best outcomes for our customers and communities.

The Group has identified the following as its key stakeholders, for further details on how the Group seeks to engage with these stakeholders, refer to pages 21 and 22.





	<b>THE COMMUNITY</b>	
	<b>Why we engage</b> <ul style="list-style-type: none"> <li>As a network operator the Group recognises that its activities have a significant impact on the communities in which it operates. Being a respected and trusted corporate citizen is a key part of the Group's vision and we work closely with communities and their representatives to identify areas where we can play an active, beneficial role.</li> </ul>	<b>Key outcomes</b> <ul style="list-style-type: none"> <li>The Group maintains a Priority Services Register ("PSR") which, in the event of a power cut, allows it to deliver specific support to customers living in vulnerable circumstances. During the year ended 31 March 2025 support has been made available to over 3 million customers, with over 978,000 customers receiving fuel poverty advice and over 240,000 customers received support and benefits from our fuel poverty and leaving no one behind programme.</li> </ul>
	<b>CUSTOMERS</b>	
	<b>Why we engage</b> <ul style="list-style-type: none"> <li>Customer engagement helps build a sustainable business, as it anchors the Group to the needs and expectations of customers and shapes our long-term vision and objectives. We carry out a broad programme of engagement on an ongoing basis to deepen our understanding of the evolving needs of our customers.</li> </ul>	<b>Key outcomes</b> <ul style="list-style-type: none"> <li>In Ofgem's BMCS the Group achieved an industry leading score of 94.2% for the year ended 31 March 2025.</li> <li>The Group was awarded best Employee Engagement in delivering customer service, from the Institute of Customer Service. This acknowledges the way all employees are engaged, focussed and work together to continuously improve the service we provide to our customers.</li> </ul>
	<b>EMPLOYEES</b>	
	<b>Why we engage</b> <ul style="list-style-type: none"> <li>The Group recognises that its employees are fundamental to the achievement of its objectives and to its longer-term success and has articulated being an Employer of Choice as one of the four aspects of its vision. A diverse workforce, with a range of backgrounds, abilities, skills and experience, is considered to be vital to achieving the best outcomes.</li> </ul>	<b>Key outcomes</b> <ul style="list-style-type: none"> <li>The Group has featured on the Best Companies "Top 25 Best Big Companies to Work For" list for 12 consecutive years, ranking number two in the UK.</li> <li>The Group is in the top 5% globally to be awarded Investors in People's Platinum status and in November 2024 was placed first in the 2024 Top 50 Employers in the UK.</li> </ul>
	<b>SUPPLIERS</b>	
	<b>Why we engage</b> <ul style="list-style-type: none"> <li>Good relationships with suppliers are key to delivering value efficiently and effectively. The resilience of the Group's supply chain will be important to meeting the demands of the low carbon transition.</li> </ul>	<b>Key outcomes</b> <ul style="list-style-type: none"> <li>Maintained the Chartered Institute of Procurement &amp; Supply ("CIPS") accreditation – one of only 18 companies in the UK, and only DNO Group, internationally that has been allocated Platinum Award Level.</li> </ul>
	<b>OFGEM</b>	
	<b>Why we engage</b> <ul style="list-style-type: none"> <li>The Group is regulated by Ofgem under the distribution licence which sets the service levels that UK Power Networks must deliver for its customers.</li> </ul>	<b>Key outcomes</b> <ul style="list-style-type: none"> <li>Ofgem recently published their first Annual Report for the RIIO-ED2 period in April 2025. This showed UK Power Networks earning the most incentive revenue of the six DNO Groups.</li> </ul>
	<b>SHAREHOLDERS</b>	
	<b>Why we engage</b> <ul style="list-style-type: none"> <li>The support and engagement of the Group's shareholders is important to the success of the business in reaching its long-term objectives.</li> </ul>	<b>Key outcomes</b> <ul style="list-style-type: none"> <li>Shareholders have provided input to and confirmed our strategy and operational and financial performance targets.</li> </ul>



**STRATEGIC REPORT continued**

**KEY PERFORMANCE INDICATORS**

Key performance indicators (“KPIs”) are regularly reviewed to ensure they are relevant and aligned to the Group's vision and strategy. Remuneration of Executive management and employees is linked to the Group's performance as annual bonus targets are aligned to KPIs and strategic priorities.

	KPI	Definition	31 March 2025	31 March 2024
	<b>Lost Time Incidents</b>	Lost time incidents (“LTIs”), defined as the number of injuries to employees or contractors which result in lost time of one day or more.	<b>2</b>	3
	<b>Employee engagement score</b>	An annual employee engagement survey is performed by “Best Companies” in October of each year.	<b>759</b>	765
	<b>Customer Satisfaction score</b>	Through the Broad Measure of Customer Satisfaction, the Regulator requires all electricity distribution networks to undertake customer satisfaction surveys that measure satisfaction across the services of interruptions, minor connections and general enquiries.	<b>94%</b>	94%
	<b>Customer minutes lost</b>	CMLs represent the time customers are without power in the event of an interruption ( <i>weighted average across EPN, LPN, SPN</i> ).	<b>25.6</b>	28.9
	<b>Customer interruptions</b>	CIs represent the number of power interruptions customers' experience ( <i>weighted average across EPN, LPN, SPN</i> ).	<b>34.4</b>	37.4
	<b>EBITDA</b>	Measure of earnings before interest, tax, depreciation and amortisation.	<b>£1,819m</b>	£1,170m
	<b>Profit after tax</b>	Profit after tax measures overall profitability after financing and taxation.	<b>£853m</b>	£312m
	<b>Cash generated from operations</b>	Measure of the cash generation by the business, prior to capital investment and financing.	<b>£1,886m</b>	£1,283m
	<b>Capital expenditure net of customer contributions</b>	Gross capital expenditure net of customer contributions is a measure of the Group's investment in the electricity distribution networks during the year.	<b>£984m</b>	£815m
	<b>Interest cover</b>	The interest cover ratio is the number of times the net interest expense, after deducting the net interest on the defined benefit pension schemes and any losses or gains on derivative financial instruments is covered by EBITDA.	<b>6.0x</b>	3.7x
	<b>RAV gearing</b>	RAV gearing is the ratio of the net debt in the Regulated business to the RAV. It is a measure of overall gearing and capacity of the business to source additional finance.	<b>58%</b>	59%
	<b>Carbon Footprint</b>	The carbon footprint measures the annual quantities of emissions, in tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e), resulting from activities for which the Group is responsible. See page 30 for more details.	<b>40,813</b>	38,576
	<b>Customer Satisfaction score (Low Carbon Technology)</b>	For RIIO-ED2, the Group has developed a bespoke Low Carbon Technology Customer Satisfaction survey – measuring customer satisfaction related to LCT major connections, LCT minor connections and LCT general enquiries.	<b>95%</b>	93%

## STRATEGIC REPORT continued

### OPERATING REVIEW

#### **Overview**

The year ended 31 March 2025 was the second year of the RIIO-ED2 price control, which will run for a period of five years to 31 March 2028. The RIIO-ED2 price control represents a more challenging regulatory framework in respect of incentive targets and the allowed rate of return, which has been reduced relative to RIIO-ED1. This has made financial outperformance more challenging for the Group. Importantly however, the price review provides certainty in the revenue the Group will earn over the price control period.

The Group has continued to perform well in the second year of RIIO-ED2. In terms of safety performance there was a reduction in lost time incidents (“LTIs”) compared to the prior year and during April 2025 the Group recorded 365 consecutive days without an LTI. There was an improvement in network reliability in the year and the Group recorded its best ever performance in terms of customer minutes lost (“CMLs”) and second-best performance in terms of customer interruptions (“CIs”). In addition, the Group has maintained its position as the number one DNO Group in terms of Customer Service.

During the year the Group was judged by Ofgem as the leading DSO. The DSO was established in April 2023 with a brief to enable Net Zero for customers by offering cost-effective smart technology solutions whilst also maximising capacity from our existing infrastructure. Ofgem has published its first ever annual league table ranking all DSOs in two different categories: the results of a customer satisfaction survey and the verdict of a panel of industry experts. UKPN DSO was ranked number one in both categories.

#### **Keeping employees and the public safe**

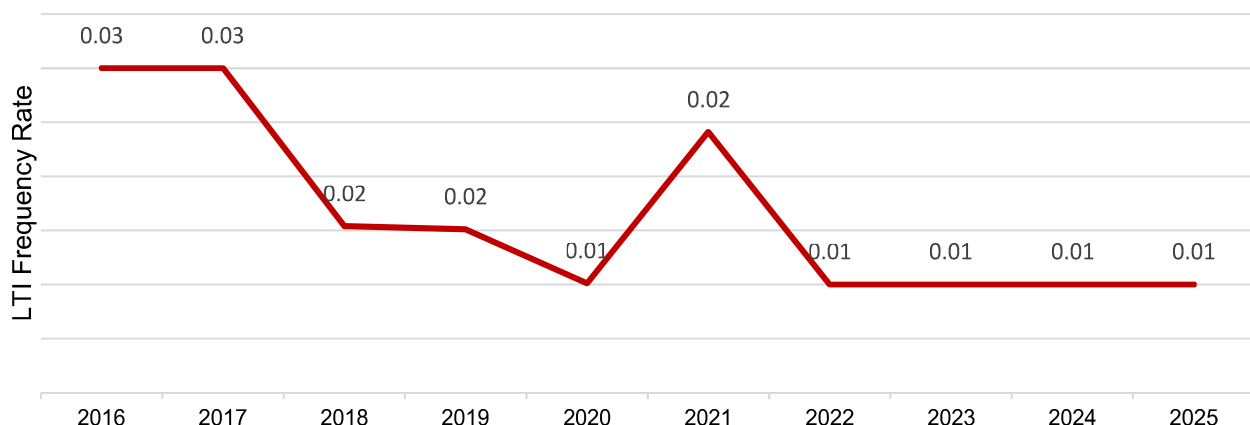


The Group's number one priority is the safety of its employees and contractors, as well as seeing that members of the public are safe around the network. The Group has robust health and safety management systems and risk controls for the safety of employees and contractors working on the network. To see that safety always remains front of mind, companywide health and safety campaigns are run to raise awareness and keep the focus on working safely.

LTI, which is defined as an injury to employees or contractors that result in one or more days away from work, is a key safety measure. The circumstances of an LTI are investigated thoroughly to see that any lessons learned are well communicated, with the aim of preventing the recurrence of such incidents. Findings from investigations are also used to improve training and safety procedures.

The Group recorded 2 LTIs in the year ended 31 March 2025, which is a decrease from 3 LTIs recorded in the prior year. Both LTIs occurred at the start of the year and the Group has since recorded over 365 consecutive days without an LTI to employees or contractors for the first time. This represents best in class safety performance.

The Group's LTI Frequency Rate Trend - last 10 years



## STRATEGIC REPORT continued

### Providing a reliable electricity supply



The principal measures used to assess network performance and reliability are customer minutes lost (“CMLs”) and customer interruptions (“CIs”). CMLs are the average length of time customers are without power for three minutes or longer and represent availability of electricity supply. CIs, the number of interruptions per 100 customers, are an indicator of network reliability. There was an improvement in performance during the year with best ever results in terms of CMLs. LPN continues to be the most reliable electricity network in the UK.

	Year ended 31 March 2025	Year ended 31 March 2024
<b>Customer Minutes Lost per customer (CMLs)<sup>1</sup></b>		
EPN	32.5	35.6
LPN	10.5	11.4
SPN	30.4	36.5
UKPN weighted average	25.6	28.9
<b>Customer Interruptions per 100 customers (CIs)<sup>1</sup></b>		
EPN	44.6	46.2
LPN	11.2	12.2
SPN	42.2	49.5
UKPN weighted average	34.4	37.4

<sup>1</sup>The CMLs and CIs disclosed above exclude the impact of exceptional weather events as defined by Ofgem and are provisional pending Ofgem’s annual review. The comparatives have been restated to reflect any changes resulting from Ofgem’s prior year assessment.

### Focus on customer satisfaction

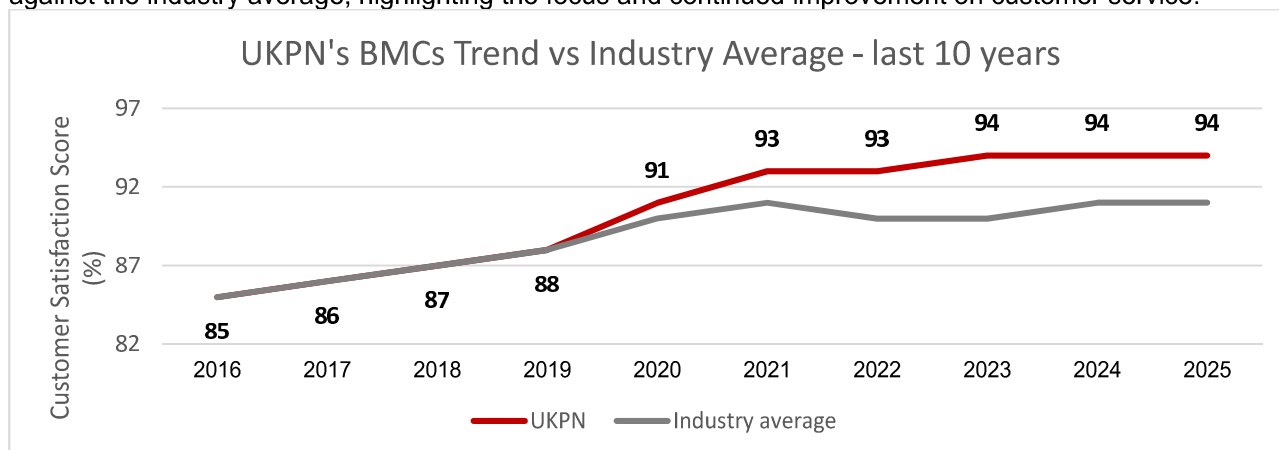


The regulator (Ofgem), requires that an independent customer satisfaction survey is undertaken for all licenced networks. This survey, the Broad Measure of Customer Satisfaction, relates to the service of interruptions, minor connections and general enquiries.

EPN, LPN and SPN continue to achieve excellent survey scores and were ranked the top three electricity networks out of 14 licensed networks in Great Britain, as set out in the table below. The customer satisfaction score for the three DNOs was just above 94%, comfortably above the 89% target set by Ofgem and represents a strong performance in terms of the incentive income available after the first two years of RIIO-ED2.

	Year ended 31 March 2025	Year ended 31 March 2024
<b>Customer satisfaction score (BMCS)</b>		
EPN	94.4%	94.1%
LPN	94.3%	94.6%
SPN	94.0%	93.7%

Over the last ten years we have seen an 11% increase in the Group’s BMCS and significant improvement against the industry average, highlighting the focus and continued improvement on customer service.



## STRATEGIC REPORT continued

### *Delivering value for money*



In April 2023, the Group launched the only independent DSO by creating an independent Supervisory Board that is responsible for challenging and approving all investment decisions. The Group's DSO strategy is to create a dynamic distribution system, with electricity demand and supply flexing in response to distribution-level conditions and market signals. This will lead to a smarter and more highly utilised distribution network, with faster and cheaper access for the low carbon technologies ("LCTs") that will be needed for decarbonisation.

The Group has committed to delivering at least £410m of savings over the RIIO-ED2 price control period. The Group will achieve this by leveraging the existing network as well as utilising technology and data in order to provide flexibility, as opposed to reinforcing the network. This would mean lower bills for customers and would also allow new customers to connect quicker, meaning more LCTs can connect to the network, lowering emissions.

The Group has been running flexibility tenders since 2018 and closed its largest tender round earlier in 2023. In 2024, the Group became the first UK network to tender for flexibility through demand turn-up, where domestic customers are incentivised to use more green energy when supply exceeds demand. During the year ended 31 March 2025, flexibility has saved an estimated £114m in traditional network investment towards the Group's target of £410m of avoided load-related reinforcement by 2028.

Details of the Group's 2024/25 DSO Performance Panel Report and other DSO resources can be found here: <https://dso.ukpowernetworks.co.uk/resource-centre/publications-and-useful-links>

### *Innovating to facilitate the transition to Net Zero*



Alongside the DSO, the Group is developing innovative projects which aim to help make the electricity networks smarter, accelerate the development of a net zero carbon energy sector as well as deliver financial benefits to customers. These projects help develop knowledge and expertise which is being shared across the industry.

Since the start of RIIO-ED2, the larger projects that were previously funded via the Network Innovation Competition have been replaced by the Strategic Innovation Fund ("SIF"). This has the advantage of breaking down these larger projects into Discovery Phase, Alpha and Beta phases so that the potential issues with ambitious projects can be identified earlier on in the process before significant costs are committed. The Group has been leading 25 SIF projects during 2024/2025. The projects cover a wide range of themes including enhancing the understanding of LCT usage, reducing adoption barriers and supporting smart energy practices and scaling hydrogen electrolyser hub development in order to support the need for green hydrogen.

Further details of the Group's innovation strategy and projects can be found at:

<https://innovation.ukpowernetworks.co.uk/>

### *Employee engagement*

The Group recognises the importance of recruiting, developing and retaining high calibre people. It is through its people that the Group will achieve success in safety, reliability, customer service, cost efficiency and innovation. Positive employee engagement is key to attracting good people. To continuously improve the work environment the Group engages with employees through multiple channels, listens to what they say, acts on their feedback and ensures they are informed about the business.

During the year the Group achieved an employee engagement score of 759 (2024: 765) through its annual employee engagement survey. The survey is anonymously completed by the Group's employees, independently carried out by Best Companies and scored against the Best Companies Index.

In December 2024, the Inclusive Top 50 UK Employers List based UK Power Networks first place on performance across a range of areas (up from second place in 2023).

Further details on employee engagement can be found on page 22.

## STRATEGIC REPORT continued

### **FINANCIAL REVIEW**

#### ***Overview and market update***

During the year the Group has seen a significant increase in financial performance. This was due to an increase in revenues collected in the period, as expected. This increase is mainly due to the recovery of additional amounts relating to higher inflation, which was under-recovered in previous financial periods owing to actual rates of inflation being much higher than those assumed when revenue tariffs were set. In addition, revenues in the year include higher incentives relating to the RIIO-ED1 price control, which are collected on a two-year lag. From the 1 April 2025 revenues and therefore financial performance, are expected to be lower due to these items, which are non-recurring. The Services business expanded its portfolio of key infrastructure assets with the acquisition of Powerlink Renewable Assets Limited on 3 May 2024 for net proceeds of £87.0m. Since the acquisition date it has contributed £7.9m to group turnover and £0.6m to group profit after tax.

The UK Energy sector has experienced a period of significant change and volatility from 2021, including fluctuating wholesale energy prices and periods of high inflationary pressures. Markets have since stabilised somewhat, albeit with continuing higher energy prices, and inflation has returned to more normal levels. One of the impacts of this volatility in 2021 was a number of energy supplier failures.

The financial impact of energy supplier failures on the Group is that all DNOs have been required to pay claims under the supplier of last resort ("SOLR") scheme managed by Ofgem. It was agreed with Ofgem that the majority of the SOLR claims, would be recovered by tariff increases during the same period as the settlement of the claims. For the year ended 31 March 2025, £nil (2024: £65.1m) of material SOLR claims were incurred, and an equivalent amount of revenue recognised.

#### ***Turnover***

Turnover increased from £1,824.7m in the prior year to £2,462.9m for the year ended 31 March 2025. The revenue recovery on material SOLR claims in the period was £nil (2024: £65.1m). If this reduction in SOLR revenue is excluded, turnover in the current year has increased by £703.3m compared to the prior year. This increase to turnover was the result of higher inflation and incentive recovery as detailed above.

#### ***EBITDA/ Operating profit***

Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by £649.6m from £1,169.5m to £1,819.1m. This increase is mainly driven by the increase in turnover. EBITDA excludes the effect of interest, taxation, depreciation and amortisation from earnings and reflects the operational performance of the business. The closest statutory measure is operating profit which is presented in the profit and loss account. Removing the effect of depreciation and amortisation from operating profit provides a clearer measure of operating efficiencies within the business and enables comparison with industry peers. It is also the basis for certain of the Group's covenant metrics.

Operating profit is reconciled to EBITDA as follows:

	Year ended 31 March 2025 £m	Year ended 31 March 2024 £m
Operating profit as presented in profit and loss account	1,367.0	749.1
Depreciation of tangible fixed assets (note 5)	402.5	371.2
Amortisation of goodwill (note 5)	26.9	26.8
Amortisation of other intangible assets (note 5)	22.7	22.4
<b>EBITDA</b>	<b>1,819.1</b>	<b>1,169.5</b>

#### ***Profit after tax***

Profit after tax has increased by £540.5m from £312.4m to £852.9m. This is largely attributable to the £649.6m increase in EBITDA.

The other driver of higher profit after tax is a decrease in net finance costs of £64.5m. This is primarily due to fair value gains on financial instruments, which were significantly higher in the current year (£64.2m) versus

## STRATEGIC REPORT continued

last year (£5.7m), primarily relating to inflation linked swaps. There were higher fair value gains in the current year due to a downward shift in the inflation curve and an upward shift in the interest rate curve, which means the Group has seen a decrease in the present value of swap liabilities compared to the prior year. There was also a reduction in interest payable of £18.6m which was primarily due to lower accretion on inflation linked debt and swap instruments.

### Cash generated from operations

During the year the Group generated higher cash flows from operations of £1,886.4m (2024: £1,283.1m), an increase of £603.3m. This reflected the increase in EBITDA, partly offset by adverse movements in working capital, primarily due to an increase in debtors associated with the increased levels of revenue.

### Capital expenditure

Gross capital expenditure is a measure of the Group's investment in the electricity distribution networks during the year. Capital expenditure net of customer contributions is calculated in the table below. This reflects the investment net of contributions received from the customer, directly attributable to those network assets.

Gross capital expenditure on tangible assets was £1,299.4m, an increase of £179.5m compared to the prior year due to higher capital work volumes arising from additional investment commitments during RII0-ED2. This expenditure relates predominantly to improvements to the electricity networks. Capital expenditure net of customer contributions increased by £169.2m to £984.3m.

	Year ended 31 March 2025 £m	Year ended 31 March 2024 £m
Gross capital expenditure on tangible assets (note 11)	1,299.4	1,119.9
Less: Customer contributions received in the year (note 23)	(315.1)	(304.8)
<b>Capital expenditure net of customer contributions (£m)</b>	<b>984.3</b>	<b>815.1</b>

### RAV

The proportion of debt measured against the Regulatory Asset Value of the business reflects the capacity of the business to source additional finance. This is a key metric for the Group's covenant arrangements with pension trustees and providers of finance and is monitored on a regular basis. The RAV gearing ratio has decreased slightly from 59% at 31 March 2024 to 58% at 31 March 2025. The ratio remains well within pension and bank covenant targets. The improvement reflects the growth in the RAV, primarily due to higher RPI and continued investment.

	Year ended 31 March 2025	Year ended 31 March 2024
Regulatory asset value ("RAV") <sup>1</sup> (£m)	9,176.1	8,568.1
RAV gearing <sup>2</sup> (%)	58%	59%

- "RAV" is the Regulatory Asset Value of the business. The 31 March 2025 RAV presented is provisional at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The prior period comparatives have been restated to reflect the latest agreed position.
- RAV gearing is the ratio of the net debt of the Regulated businesses (as defined within certain of the Group's covenant arrangements) to the RAV.

### Interest cover

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



## STRATEGIC REPORT continued

	Note	Year ended 31 March 2025	Year ended 31 March 2024
<b>EBITDA (as calculated above) (£m)</b>		<b>1,819.1</b>	1,169.5
Net finance costs (£m)	6	<b>217.7</b>	282.2
Exclude: Net gain related to derivative instruments (£m)	6	<b>71.6</b>	14.7
Exclude: Net interest income on defined benefit pension surplus (£m)	6	<b>16.0</b>	24.0
Exclude: Net interest costs on defined benefit pension deficit (£m)	6	<b>(1.0)</b>	(2.0)
<b>Underlying finance cost (£m)</b>		<b>304.3</b>	318.9
<b>Interest cover ratio (EBITDA / Underlying finance cost)</b>		<b>6.0x</b>	3.7x

The underlying finance cost excludes the net gains or losses related to changes in fair value of derivative instruments and the net interest on defined benefit pensions because these items are subject to volatility arising from changes in the financial markets. Removing these effects provides a more stable measure of interest cover enabling comparison across different periods. Interest cover has increased mainly due to the increase in EBITDA.

### **Financial risk management objectives and policies**

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

During the year the Group made scheduled debt repayments of £307.0m following the maturity of a £132.3m Eurobond in March 2025 and two index-linked bonds in February 2025, which included £59.7m of accretion payments together with £115.0m of principal repayments.

A £350.0m bond was issued in October 2024 which bears interest at a fixed rate of 5.375% and matures in 2039. In March 2025, a bond of HKD 980.0m maturing in 2035 was issued with a fixed interest rate of 4.2665% and simultaneously swapped to £99.1m with a fixed interest rate of 5.370%, increasing the Group's total bond debt compared to the prior year.

Post the balance sheet date, on 11 June 2025 LPN issued a €500m bond bearing fixed rate interest of 3.837% and maturing in 2037. Simultaneously, it was swapped to GBP with a fixed rate interest of 5.7155%. Net proceeds of £421.3m were received on 11 June 2025.

At 31 March 2025 borrowings amounted to £6,149.9m (2024: £5,934.9m) including shareholder loans of £774.2m (2024: £774.2m), bond debt of £4,501.3m (2024: £4,287.6m), loans from the European Investment Bank ("EIB") of £550.0m (2024: £623.7m), a revolving credit facility of £75.0m (2024: £nil) and other bank loans of £249.4m (2024: £249.4m).

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

#### **Interest rate risk**

The interest rate exposure on the Group's debt is partially hedged in order to provide the desired mix of fixed, floating and index linked interest rates to achieve a balanced debt portfolio with a similar profile to that of the cost of debt allowance within Ofgem's price control.

The use of financial derivatives is governed by the Group's treasury policies which provide written principles on the use of financial derivatives to manage interest rate risks. The Group does not use derivative financial instruments for speculative purposes.



## STRATEGIC REPORT continued

### *Foreign exchange risk*

There is exposure to the financial risk of changes in foreign currency exchange rates arising from the purchase of goods and services denominated in foreign currencies. At the balance sheet date, the Group held forward foreign currency contracts worth 69.0m Euros (2024: 75.0m Euros) to hedge the foreign currency exposure on certain equipment purchases.

Within its borrowings the Group holds a 5 billion JPY bond and a 980m HKD bond, which are converted to sterling by way of cross-currency swaps to provide protection against exchange rate movements.

### *Credit and liquidity risk*

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

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

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

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

- £500.0m (2024: £500.0m) available from a revolving credit facility until 2028 of which £nil (2024: £nil) was drawn; and
- £3.0 billion (2024: £3.0 billion) available on a shareholder loan facility until 2041 of which £774.2m (2024: £774.2m) was drawn.

### ***Pension commitments***

A significant proportion of the Group's employees are members of two funded defined benefit pension schemes: the UK Power Networks Group of the Electricity Supply Pension Scheme (the UKPN Group Scheme); and the UK Power Networks Pension Scheme (the UKPNPS). Both schemes are closed to new members. A defined contribution pension scheme, introduced in 2011, is open to all new employees. There is automatic enrolment to the scheme in the first month of employment with the choice to opt out if the employee does not wish to participate in the scheme.

The Group's defined benefit pension obligation at 31 March 2025, amounted to a net surplus of £414.0m (2024: £283.0m). This comprises a surplus of £376.0m (2024: £331.0m) in the UKPN Group scheme and a surplus of £38.0m (2024: deficit of £48.0m) in the UKPNPS scheme. The sensitivity of the valuation to changes in discount rate and other financial assumptions used to estimate the defined benefit obligation is shown on page 64 and further detail on the assumptions is provided in note 26 to the financial statements.

### ***Taxation***

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

The Group has a significant long term capital expenditure programme which generates a charge against taxable profit through capital allowances. The timing of the tax relief on these allowances has the effect of delaying the payment of corporation tax and giving rise to a deferred tax liability. At 31 March 2025 the Group's net deferred tax liability was £1,032.2m (2024: £885.5m).

## STRATEGIC REPORT continued

### *Factors likely to affect future performance*

The Group's business model is considered robust with stable income streams supported by regulated price controls. The Group's key long-term objectives are not expected to change significantly.

The Group will be making significant additional investment under RII-ED2 to support decarbonisation. The Group could be impacted by conditions in the external market, including global trade, supply chain lead times and the availability of skilled workers or contractors which may impact the Group's ability to achieve its targets. Any increase in inflation could negatively impact costs and cash flow in the short-term, however, the Group benefits from increased future revenues which are linked to inflation.

On 3 May 2024, the Services business expanded its portfolio of key infrastructure assets with the acquisition of SEEIT SOL Limited, subsequently renamed to Powerlink Renewable Assets Limited. This represents an acquisition of established renewable energy assets with long-dated power purchase agreements. The business paid cash proceeds of £87m from existing cash resources to fund the transaction (see note 29 to the financial statements for more details).

### *Going concern*

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

The Directors have performed an assessment of going concern based on detailed cash flow forecasts for a period of at least 12 months from the date of these financial statements as well as taking into consideration the following factors:

- The Group continues to perform well, is profitable with strong underlying cashflows and with predictable revenues regulated by Ofgem under an established price control mechanism.
- At 31 March 2025, the Group had existing cash resources of £90.0m and £500m of undrawn committed borrowings under the revolving credit facility. In addition, up to the date of signing, the Group has headroom available under a £3 billion shareholder loan facility.
- A Group net current liability position of £329m (the Company has a net current liability position of £287m).
- Scheduled debt repayments during the going concern assessment period and the financial covenants applicable to the Group's financing facilities.
- The Group has a successful track record of raising finance, supported by investment grade credit ratings for the three DNOs.
- Post the balance sheet date, on 11 June 2025 LPN issued a €500m bond bearing fixed rate interest of 3.837% and maturing in 2037. Simultaneously, it was swapped to GBP with a fixed rate interest of 5.7155%. Net proceeds of £421.3m were received on 11 June 2025.

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Group. These include an increase in costs resulting from storm events, higher than expected inflation, lower than expected revenues, which could be attributable to the impact of weather or other events on consumption and a reduction in connections income.

Given the significant amount of liquidity available to the Group at 31 March 2025, the Group's forecasts under all reasonable scenarios show that there is significant headroom in respect of available liquidity and compliance with financial covenants. Stress testing has been performed and indicates that the level of decline in the Group's financial performance resulting in a financial covenant breach is considered remote. Accordingly, the Directors are satisfied it is appropriate to adopt the going concern basis of accounting in the preparation of these financial statements.

## **RISK MANAGEMENT**

The UK Power Networks Board has overall responsibility for risk management, determines the Group's risk strategy, assesses, and approves risk appetite and monitors risk in line with strategic priorities. The objective of the risk management process is to manage risk appropriately and support strategic goals. It is designed to manage rather than eliminate risk and provide reasonable not absolute assurance.

## STRATEGIC REPORT continued

### *Managing our risks*

The Group has an embedded risk awareness culture to understand and manage significant business risks. The risk management framework sets out policies, procedures and responsibilities designed to assess, mitigate, monitor and report risks. A subcommittee of the Board, the Risk Management and Compliance Committee, oversees the risk management function and makes annual assessments of changes to significant risks and the effectiveness of the risk management processes.

An integrated risk management process is utilised to manage risk exposure. This includes a Risk and Control Policy and a framework to see that risk management is an integral part of management practice and firmly linked with the ability to achieve business objectives. The framework and policy are supported by procedures that assess the risk and control environment, the internal control framework and business continuity management.

Key risks are defined as those which could result in very serious injuries (including fatalities) or have a significant potential to damage the assets or profitability of the Group, and which require attention by executive management. Risk assessment scores are determined based on impact, probability and control effectiveness and are used to classify risks as extreme, high, medium, low or negligible.

Risk registers are maintained for each key business area and are regularly reviewed and monitored. Potential new and emerging risks, including climate-related risks, are identified and assessed. A summary of key Group risks is reviewed several times a year by Executive Management and reported to the Risk Management and Compliance Committee and Board.

### *Principal risks*

The Group's principal risks and uncertainties, and a summary of actions to mitigate them, are set out in the following pages. These risks are consistent with the prior year and represent those considered material to the Group, there may be other risks, unknown or currently considered immaterial which could become material.

Risk	Mitigation
<p><b>Health and safety incidents</b></p> <p>There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public or a third party.</p> <p>Any such incident could lead to a prosecution or a fine and have an adverse impact on the reputation of the Group.</p>	<p>The Group's number one priority is safety and aims to create a strong safety culture for all employees and contractors, as well as keeping members of the public safe from the activities performed. The approach includes ensuring there are/is:</p> <ul style="list-style-type: none"> <li>• Clear Policies &amp; Procedures: A structured health and safety strategy that defines expectations and best practices.</li> <li>• Risk Assessments &amp; Inspections: Routine evaluations of our work activities to ensure compliance with our safety rules and procedures.</li> <li>• Safety Training &amp; Awareness: Our Behavioural Safety Training Programme "Stay Safe: Think, Feel, Act" has been designed for employees and extended to our supply chain (contractors), to support improvement in our safety culture and health and safety performance.</li> <li>• Incident Management: Proactive reporting, monitoring, and investigation of safety incidents (including near misses) to ensure lessons are learned and improvements are made to prevent recurrence through corrective actions.</li> <li>• Safety Communication: Monthly safety updates keep employees informed about incidents and lessons learned. Health and safety messaging helps keep awareness high and reinforces keeping safety front of mind.</li> <li>• Corporate Oversight: The Board monitors safety performance throughout the year.</li> </ul> <p>The Group maintains accreditation to 45001 (Health &amp; Safety Management).</p>

**STRATEGIC REPORT continued**

Risk	Mitigation
<p><b>Failure of network assets</b>  There are significant risks associated with network assets where failure of asset management procedures, systems or equipment could result in a major outage, major fine or a serious injury/fatality.</p> <p>Customer service and continuity /quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties.</p> <p>Any significant incident could cause adverse publicity and impact negatively on the reputation of the Group.</p>	<ul style="list-style-type: none"> <li>• The reliability of the Group's network is a key performance indicator and is closely monitored. Investment in the network is prioritised to those projects which are likely to have a beneficial impact on reliability. The Group strives to continually innovate to improve the ways in which it identifies and manages the risk of outages.</li> <li>• The results of Inspection and Maintenance programmes, Compliance Monitoring, Asset Health index monitoring and other asset risk assessments are reported to senior management on a monthly basis and feed into long term asset management plans.</li> <li>• The Group is making additional investment through its Quality of Supply programme to improve network performance and resilience.</li> <li>• The Group maintains accreditations in 55001 (Asset Management), 9001 (Quality) and 14001 (Environment).</li> </ul>
<p><b>Inadequate response to major adverse events</b>  Adverse events include risks relating to weather patterns, in particular the severity or frequency of storms, high winds or flooding which can have a negative impact in the form of increased damage and expenditure to the network.</p> <p>An inadequate response to a major event could result in a failure in the Group's performance (e.g. power outages at key facilities, safety incidents, poor customer service and/or breach of licence conditions) resulting in significant financial and reputational damage.</p>	<p>Senior Management addresses this risk in three main forums: the Organisational Resilience Leadership team, the Incident Leadership team and the Strategic Operational team. Mitigating measures include:</p> <ul style="list-style-type: none"> <li>• Business Continuity Plans and policies and procedures giving clear guidance of actions to be taken, roles and responsibilities.</li> <li>• Scenario planning to stress test the business continuity plans for each business unit.</li> <li>• Regular communication from the CEO keeping employees informed of the response plan, procedures and changing risks.</li> <li>• Monitoring by senior management of key performance areas which could be impacted by the event e.g. network safety and performance, customer satisfaction levels, employee health and absenteeism, personal protective equipment allocation, adherence to new policies and procedures, financial impacts.</li> <li>• Review and reprioritisation of work on the network as required, in response to the changing risks. This includes recovery plans to monitor work back-logs against strategic targets and resume work as quickly as possible if projects are impacted by the event.</li> <li>• The Group has a well-developed plan for dealing with storms and other major weather events setting out roles, responsibilities and co-ordination processes for employees.</li> </ul>
<p><b>Network unable to meet accelerated demand</b>  The Group has a key role in facilitating the transition to Net Zero.</p> <p>Risk of not meeting the accelerated demand on the network resulting from the uptake of low carbon technologies under the challenging timelines set by the government.</p>	<ul style="list-style-type: none"> <li>• An ongoing research and engagement programme to understand the needs, expectations and low carbon ambitions of customers and other stakeholders. The objective is to improve services and solutions for customers and deliver high customer satisfaction.</li> <li>• Deliver timely network capacity upgrades based on regular forecasts of the impacts on the network from electric vehicles, heat pumps, renewable generation and battery storage.</li> <li>• Ongoing monitoring of the capacity of the network through physical monitors and using advanced analytical capabilities.</li> <li>• Supporting local authorities to develop regional investment plans for the electricity network.</li> <li>• Strong co-ordination with the Electricity System Operator ("ESO") to manage issues across the distribution and transmission boundary.</li> <li>• Detailed resource planning for a range of Net Zero scenarios as part of workforce and supplier chain resilience plans with the aim of increasing the flexibility of delivery capabilities.</li> </ul>

**STRATEGIC REPORT continued**

Risk	Mitigation
<p><b>Regulatory and Compliance risk</b>  The Group is subject to extensive regulatory and legislative obligations. These include obligations set by the regulator (Ofgem) as well as statutory requirements, including taxation.</p> <p>Compliance obligations may be impacted by the prevailing political and economic climate. Non-compliance with regulatory and legislative obligations could result in lower financial returns reputational damage, breach of licence conditions or fines.</p>	<ul style="list-style-type: none"> <li>• The Group's Governance and control framework sets out responsibilities and accountabilities. The Board reviews key compliance risks supported by the Group's risk management framework and internal audit.</li> <li>• The Group operates a Regulatory Compliance programme to understand regulatory risks and obligations implements controls and processes to meet compliance requirements. These are monitored on a monthly basis.</li> <li>• The Strategy and Regulation team includes specialists focused on ensuring compliance.</li> <li>• The Group has extensive engagement and consultation with Ofgem, the Government and HMRC. Relevant external advice is sought when required.</li> <li>• Industry regulation is set by Ofgem, who operate independently of the DNOs, and therefore the Group has limited ability to directly influence regulatory outcomes. However, the Group engages regularly with Ofgem through formal consultation processes to ensure its interests are represented in the development of the ED3 price control.</li> </ul>
<p><b>Achieving output and cost efficiency targets</b>  Output and cost efficiency targets are agreed with the Regulator within the price control framework.</p> <p>Supply chain disruption, higher levels of inflation and the availability of employee and contractor resourcing can impact delivery of targets.</p> <p>If the business does not meet the output and cost efficiency targets this could negatively impact financial performance.</p>	<ul style="list-style-type: none"> <li>• Clearly defined targets are set in the Strategic Plan and aligned with business performance targets.</li> <li>• The planning cycle includes bottom-up budgeting as well as top-down target setting with specific actions to deliver on agreed cost targets. Clear accountabilities are established for each target, incentive area and RIIO-ED2 commitment.</li> <li>• Unit cost efficiency monitoring provides timely information to executive management to optimise performance against the regulatory contract. Efficiency targets are cascaded down to operational teams to drive accountability for performance.</li> <li>• The Asset Portfolio Planning tool tracks long term projects allowing monthly review of actual versus planned expenditure and monitoring progress at a project level.</li> <li>• Management actively manages costs to limit the impacts of inflation. The Group is able to offset higher costs via an increase in future revenue tariffs linked to inflation.</li> </ul>
<p><b>Supply Chain Capacity and Long Lead Times</b>  Supply chain performance pressures have increased globally due to inflation, the energy crisis, people shortages and Net Zero commitments. This has resulted in increased risks of price fluctuations, extended lead times for critical materials, insolvency of key suppliers and scarcity of skilled contractor workforce. If these challenges are not managed effectively, it may impact UK Power Networks ability to deliver against its targets.</p>	<ul style="list-style-type: none"> <li>• The Group has well established processes for governing contract management and supplier relationships, as well as for continued monitoring of key contractors' financial and stability indicators. Management reviews these processes to have sufficient agility to respond to the increasing pressures.</li> <li>• Long term integrated management plans are devised and routinely reviewed to enable forward ordering of materials to manage long lead times and to source skilled contracted labour.</li> <li>• The Group closely monitors supplier performance using leading key risk indicators to assess trends in the quality and timely delivery of materials against its Key Material Stock Policy.</li> <li>• The Group continually assesses the supply chain for limited suppliers of critical materials, mitigation plans are established where dual sourcing cannot be ascertained.</li> </ul>

## STRATEGIC REPORT continued

Risk	Mitigation
<b>Political and economic climate</b> Political and global events can affect aspects of the Group's business. This includes events such as the conflict in Ukraine and disruption to global supply chains. Changes in the macroeconomic environment, such as credit markets, inflation and interest rates could negatively impact financial results and the Group's access to funding.	<ul style="list-style-type: none"> <li>• The Group regularly monitors exposure to political and economic factors through budgeting and forecasting and sensitivity analysis.</li> <li>• The Group maintains investment grade credit ratings for its DNOs which supports access to financing at acceptable rates when required. Debt covenant and credit metrics are monitored monthly and debt maturities are spread.</li> <li>• A proportion of the Group's debt is inflation linked to provide an economic hedge.</li> <li>• Close collaboration and mitigation planning with suppliers has maintained supply chain resilience.</li> </ul> The Group monitors updates on the UK political environment and the Group's engagement with government on key policy matters as required.
<b>Major Failure or Cyber security breach of IT Systems:</b> A failure or cyber security breach of core IT systems could have a considerable impact on business operations.  If the breach or failure is related to control systems, the Group's ability to operate the network could be impacted. Data breaches could result in legal or regulatory non-compliance with resulting financial penalties and reputational damage.	<ul style="list-style-type: none"> <li>• In response to the current political tensions and heightened cyber threat activity, the UK National Cyber Security Centre published cyber guidance and advised UK organisations to take action. The Group meets these requirements and has put in place additional measures to manage the risk.</li> <li>• A Cyber Security Improvement Programme operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation.</li> <li>• The Group focuses its activities across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactively testing resilience.</li> <li>• All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation.</li> <li>• The Group operates a training programme to see that its staff are aware of cyber risks and know how to minimise and manage those risks, as well as how to respond in the event of a suspected breach.</li> </ul>

### Viability statement

The Board has assessed the Group's prospects and longer-term viability. The assessment of viability has been performed covering the period to 31 December 2029, this aligns with the Group's formal financial planning process and provision of information to shareholders.

In assessing the Group's prospects the Board has considered the Group's existing liquidity and financing facilities, the general stability associated with the regulatory environment, the strong performance of the business, which is profitable with strong underlying cash flows and its ability to raise capital and adopt a flexible dividend policy. The Board has also considered elements of non-financial performance that can impact the regulatory return.

During the viability period the Group has scheduled debt repayments of approximately £1.3 billion. The Group has a successful track record of raising finance, supported by the investment grade credit ratings for the three DNOs and therefore has a reasonable expectation that it will be able to refinance these debt repayments as required.

In its viability assessment the Board has taken into account Ofgem's duty to ensure that companies can finance their businesses and has assumed there would be no changes to the regulatory environment that would materially impact the Group's viability.

The Board has performed the viability assessment based on its five-year business plan. This is based on the agreed RIIO-ED2 price control which runs to 31 March 2028, with an assumption of a similar regulatory regime operating until the end of the viability assessment period to 31 December 2029. The business plan incorporates latest external estimates, including in respect of inflation and financing costs.

To reflect the principal risks which could have a material impact on viability the business plan has been subjected to sensitivity analysis and stress testing. This includes potentially higher costs due to major storms,



## STRATEGIC REPORT continued

fluctuations in inflation, an unexpected increase in costs (such as a response to safety incidents or network failure) and a reduction in revenues arising from adverse weather or other events. These stress tests have been considered in isolation as well as in combination, although the Board considers the likelihood of all occurring simultaneously to be remote. In this stress testing the Board has considered how principal risks are managed and mitigated.

In all scenarios the Group is forecast to have adequate liquidity and to be in compliance with financial covenants. Based on this assessment the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due throughout the period to 31 December 2029.

## OUR APPROACH TO RESPONSIBLE BUSINESS

A key element of the Group's vision is our drive to deliver the services that our customers want at the lowest possible cost. Achieving this in a sustainable way is at the core of our strategy.

### Stakeholder engagement

Purposeful engagement with stakeholders is critical to understand the diverse needs that the Group serves, how those needs are changing, and the role we can play in supporting them. The insights we gain through engagement allow us to form our strategy, improve our services and deliver better performance improvements.





The table below illustrates how the Group engages with its key stakeholders, identified on page 7:

	<b>THE COMMUNITY</b>
<i>How we engage</i>	<ul style="list-style-type: none"> <li>• The Group regularly engages with local community groups, councils, businesses and customers through a programme of events and forums to understand the key issues and shape actions that deliver the best outcomes for communities.</li> <li>• The Group's Priority Services Register ("PSR") helps to identify and provide extra care to customers who need it most in the event of a power cut. The Group continually enhances its support to meet customers' changing needs.</li> <li>• The Group has implemented automated and highly frequent sharing of PSR data with water companies so that customers only need to register once to quickly receive support in the event of a power cut.</li> <li>• The Group works with community energy groups, charities and local organisations to share and learn from examples of best practice, provide energy efficiency advice and advise on the most efficient way communities can reduce their carbon emissions.</li> </ul>
	<b>CUSTOMERS</b>
<i>How we engage</i>	<ul style="list-style-type: none"> <li>• An important source of customer feedback is an independent survey of circa 250 customers a week, which provides the basis of Ofgem's Broad Measure of Customer Satisfaction ("BMCS") score.</li> <li>• We also undertake focus groups, bespoke research in the form of focus groups, in depth interviews and customer panels, such as our Vulnerable Customer online community, to better understand drivers of customer satisfaction/dissatisfaction, how customer expectations are changing and test journey changes and adapt accordingly.</li> <li>• Based on the feedback from extensive engagement and research the Group is enhancing its service to customers in the following ways: <ul style="list-style-type: none"> <li>- Continuing to improve our low carbon technology service offerings, for customers and installers, achieving a regulatory year score of 95.4% to 31st March 2025.</li> <li>- Adapting our support offers and alternative provision options for vulnerable customers based on their feedback, such that our 2024/25 regulatory year score for our vulnerable customers who experienced power cuts was 93.5%.</li> </ul> </li> </ul>



## STRATEGIC REPORT continued

### Stakeholder engagement continued

	<b>EMPLOYEES</b>
<i>How we engage</i>	<ul style="list-style-type: none"> <li>• A comprehensive annual employee engagement survey is carried out by an external survey provider “Best Companies” in which employees provide their views on key matters pertinent to the success of the Group and their own engagement.</li> <li>• Leadership conferences conducted by the EMT and our internal communications through our team briefs, internal webinars, local engagement forums, have all been used during the year to conduct meaningful engagement with our employees.</li> <li>• The values of Equality, Diversity, and Inclusion are key considerations in the Group’s recruitment, training, and communication programmes. A range of training is provided to employees to increase awareness and promote an inclusive culture, such as inclusive behaviour training. Through various forums, employees are asked to share their views on diversity and inclusiveness in the work place and make recommendations for improvement. A Steering Committee made up of senior managers meets quarterly to support and monitor the Group’s Diversity &amp; Inclusion strategy and initiatives.</li> <li>• There is a Confidential Reporting facility in the event that employees wish to raise any issues confidentially. Issues will be reported to the CEO, with any serious instances being reported to the Board.</li> </ul>
	<b>SUPPLIERS</b>
<i>How we engage</i>	<ul style="list-style-type: none"> <li>• The Group has published guidance to suppliers, both current and prospective, on how to operate in accordance with UK Power Networks’ vision, values and standards. It outlines its approach to business ethics and sustainable procurement and clarifies the standards and behaviours it expects to be adopted throughout the supply chain.</li> <li>• The Group assesses its suppliers through a pre-qualification platform Achilles Utilities Vendor Database (“UVDB”). As an industry-recognised risk management framework, Achilles UVDB provides a fair, open and transparent means of supplier selection for potential tender opportunities.</li> <li>• The Group is a signatory to the Prompt Payment Code, which sets standards for payment practices and best practice, working towards adopting 30-day payment terms as the norm, and to avoid any practices that adversely affect the supply chain.</li> <li>• The Group’s Logistics team works closely with suppliers to forecast demand and maintain high inbound performance levels. The Group’s materials contracts are long-term, enabling suppliers to invest in manufacturing equipment and work in partnership with the Group.</li> <li>• The Group has a mature contractual model with key strategic partners which works to promote closer working relationships and common practices on shared projects, with a focus on capital delivery.</li> </ul>
	<b>OFGEM</b>
<i>How we engage</i>	<ul style="list-style-type: none"> <li>• The Group regularly engages with Ofgem through formal consultation processes, and with other industry bodies in various forums, to share information, to ensure the Group understands its obligations as set out by Ofgem, and to ensure the Group’s interests are represented in industry discussions.</li> <li>• The CEO and EMT regularly engage Ofgem with the overall aim of developing a regulatory price control framework that contains the right balance of customer focused outputs and economic incentives, which help to deliver the Government’s energy objectives and de-carbonisation targets. All key communications and engagements with Ofgem are discussed at Board meetings.</li> </ul>
	<b>SHAREHOLDERS</b>
<i>How we engage</i>	<ul style="list-style-type: none"> <li>• The Group’s shareholders are represented on the Board of Directors, and as such receive regular reporting on financial and operational matters and are directly involved in strategic decision making.</li> </ul>

## STRATEGIC REPORT continued

### *Sustainability at UK Power Networks*

At UK Power Networks we have a role to play in the Net Zero transition as an electricity network operator. We take this role seriously and it is underpinned by the core aspects of our vision to enable the Net Zero transition for all and to be an employer of choice, a respected corporate citizen and sustainably cost efficient.

We have worked to embed our values, and the importance of the environment, within our business by:

- Making a clear environmental commitment to our customers as part of our social contract;
- Incentivising sustainability as part of the Group's short-term incentive plan;
- Embedding the environment in our corporate governance structure, including an Environmental, Social and Governance ("ESG") Committee;
- Engaging with our employees on sustainability;
- Building on the United Nation's strategic development goals in developing our Environmental Action Plan; and
- Setting long-term objectives for our environmental performance.

### *Managing our Environmental Impact*

We have robust policies and procedures in place for compliance with all relevant environmental legislation and industry codes of practice. The Electricity Act specifically requires that the Group, when undertaking its distribution activities, must consider natural beauty, flora, fauna and geological or physiographical features of special interest, buildings and objects of architectural, historic or archaeological interest, and do what is reasonable to mitigate any effects of any work undertaken. Relevant activities include environmental permitting, pollution prevention, waste management and the preservation of historic and natural habitats.

Where practicable and achievable, the Group seeks to surpass the basic level of environmental compliance and work to enhance our positive impacts on the environment, whether that be improving biodiversity opportunities at suitable locations, circular economy initiatives, minimising waste and maximising recycling, or working with our supply chain to improve its environmental performance.

The Group consults with relevant stakeholders, including statutory authorities and other appropriate bodies, to help mitigate the impact of its operations on the environment. At a local level, good relationships are maintained with local authorities to work collaboratively on initiatives to help reduce the impact of issues such as noise pollution and litter, to the benefit of local communities. Members of our Environment team represent the Group on the Electricity Networks Association ("ENA") Environment Committee, helping to ensure that best practice is implemented from knowledge shared across the electricity sector.

Given the uncertainty around future climatic impacts, the Group's approach needs to be flexible and collaborative to accommodate changing risks and customer and stakeholder priorities, today and into the future. As homes and businesses decarbonise, the Group's role is to provide suitable network capacity when it is needed at the location it is needed. The Group regularly monitors the utilisation of the network and customer satisfaction in relation to the services it provides. The Group is also assessing the impact of climate-related risks on its network and implementing appropriate mitigation measures, as detailed on pages 25 to 28.

The Group operates in an industry characterised by long term investment to ensure a stable energy supply for customers. This creates both risks and opportunities in relation to future performance. Set out below is a summary of the Board's strategy for responding to climate change, its risk management activities, and the use of metrics and targets to measure progress against the Group's strategy.

## STRATEGIC REPORT continued

### Governance

The Board of Directors provides strategic direction with respect to the Group's environmental performance. Our Environment, Social and Governance ("ESG") Board sub-committee, meets four times a year to review progress against core ESG metrics, as well as reporting on specific projects and initiatives that support the delivery of these metrics. The committee also provides oversight of the future development of strategy and policy as the external ESG environment evolves, and reports performance against ESG targets.

This governance is cascaded through the organisation via numerous Health, Safety and Environment Committees. In addition to this, a Senior Management Environmental Action Plan Committee has been put in place to discuss progress on environmental targets and lead the implementation of initiatives to support their progress. The committee is chaired by the Director of Connections and Health, Safety and Sustainability and meets on a monthly basis.

The Group's Environmental Management System is compliant with the ISO 14001:2015 standard and is subject to external verification and audit. This system is implemented by relevant business leads and appropriate managers within the organisation who are responsible for identifying, managing and mitigating their respective environmental risks and opportunities, with guidance and assurance from the Environment team.

### Strategy

The Group actively engages with a wide range of stakeholders, including customers, its supply chain, community bodies, local government, industry experts and the Regulator, regarding its strategy and long-term objectives. The Group's business plan includes strategies to address climate-related risks and sets out how the Group will contribute to the UK's ambition to reduce carbon emissions.

The Group has set an ambition to be the leading socially and environmentally responsible organisation in its sector. The Group's strategy is focused on:

- Decarbonisation in line with its verified Science Based Target ("SBT")
- Reducing the impact on limited resources
- Increasing natural diversity
- Reducing pollution produced by its business operations and network activity

In addition to decarbonising its own activities the Group has a role to play in facilitating the timely connection of low carbon technologies to its networks. The Group needs to be demand-driven and be able to adapt to the needs of customers. To fast track this process, the Group has established an independent DSO to maximise customer participation and efficiency in the network. The DSO will play a key role in balancing an increasingly complex, interconnected, and low carbon electricity network. The answer is not always to build a bigger network but to support the need to create a smarter network and support the transition to Net Zero while keeping customer bills as low as possible.

The Group's strategy is to build its data resources and have early visibility of emerging customer and system needs by drawing on different types of market data, for example from Low Carbon technology suppliers and surveys of customer attitudes, as well as proactive engagement with local authorities and sectors going through decarbonisation, including transport and housebuilding. This will be combined with an in depth understanding of the Group's low voltage networks gained from smart metering data, advanced analytics and sensor technologies. In this way the Group aims to anticipate demand and invest in the right capacity at the right time to accommodate the roll out of low carbon technologies at an efficient cost.

Since RIIO-ED2 we have included a KPI for customer satisfaction in relation to our low carbon technology work. For further information on our KPIs refer to page 8.

Innovation is central to achieving the Group's strategy for responding to environmental challenges. The Group seeks new ways to improve what it does for customers by identifying, developing and applying smart solutions to make the network more efficient, greener, safer and more reliable. Innovation and DSO teams work collaboratively on delivering cutting-edge solutions through business led and Ofgem funded projects. These targeted solutions aim to support the country's decarbonisation ambitions and ensure our customers and

## STRATEGIC REPORT continued

communities continue to benefit from a future-proof, sustainable, and efficient energy system, leaving no one behind as we transition to a net zero landscape.

### **Risk Management**

UK Power Networks takes an integrated governance approach to managing environmental risks through our established corporate risk management policies and procedures, which can be found on pages 17 to 20.

Risks are generally assessed at the Group level. Certain risks, including climate-related risks are also assessed on a DNO and specific asset basis as required, to reflect the different geographical location and infrastructure. For example, the network infrastructure at LPN comprises a higher proportion of underground cabling than EPN and SPN and is therefore relatively more resilient to wind-related risks.

The Group actively monitors and manages risks, including climate-related risks. Its DNOs manage physical climate-related risks by undertaking the following activities:

- Implementing a Climate Resilience Strategy which assesses the threat and potential impacts different weather and climate related hazards could have on electricity distribution assets now and into the future. It uses the UK Climate Projections (UKCP18) to assess climate hazards under a 'worst-case' high emissions scenario, identifying sixteen priority asset-related risks, including increasing risk of flooding, extreme high temperatures and frequency of windstorms.
- To support the implementation of the Climate Resilience Strategy, a Climate Change Resilience Steering Group has been established in order to better assess and monitor climate-related risks on the DNO networks. This steering group meets on a monthly basis and has cross directorate attendance, the meetings are chaired by the Director of Asset Management.
- UK Power Networks also works actively with the Energy Networks Association to collaboratively identify and assess climate-related hazards affecting the electricity networks and identify mitigations.
- Directorates have business continuity plans in place to respond to major disruption events, which may include climate related events that could affect its operations. These continuity plans are actively monitored and tested as part of ongoing organisational resilience planning.
- Insurance policies are in place to mitigate the financial impact of significant adverse events, including those relating to climate events and natural disasters.

Climate related risks and the transition to Net Zero present opportunities for the Group in terms of new markets. As the transition to electric vehicles, renewable energy and heat decarbonisation accelerates this is likely to result in an increase in electricity demand and related infrastructure. This could benefit the Group in terms of higher future revenues.

The increase in potential network demand also represents a key climate related risk to the distribution networks. The DNOs must respond to this challenge so that it is a supporter not a blocker to decarbonisation and the transition to Net Zero. Failure to respond appropriately to this risk could result in reputational and financial damage. The distribution networks are also exposed to physical climate risks relating to adverse changes or variability in weather patterns. In particular, the severity or frequency of windstorms or flooding can have a negative impact in the form of increased damage, capacity constraints and expenditure to the network.

UK Power Network's climate-related risks have been assessed against various timelines to demonstrate the effect of our investments and long-term strategy into 2100.

- Short-term environmental planning is typically aligned to the regulatory price control period. This covers the short-term SBTs which are due to be completed by the end of 2028 and other interim targets (e.g. No recoverable waste to landfill by 2025), further details of these can be seen on page 28.
- Medium-term environmental planning is between 2028 to 2050 and corresponds with the target date for the United Nations global Net Zero Coalition.
- Long-term environmental horizon planning incorporates measures from the short and medium-term planning and up to 2080-2100, which is consistent with UK Climate Projection timeframes.

### **Climate resilience**

UK Power Network's overall resilience to climate risks is supported by the regulatory environment and the price controls agreed with Ofgem. The price control establishes the level of network investment required to be made and which the regulated business can subsequently recover from customers. The level of this investment

## STRATEGIC REPORT continued

is agreed with the regulator considering appropriate climate resilience and adaption plans and formed part of the agreed RIIO-ED2 price control, which operates until 31 March 2028. This price control includes uncertainty mechanisms which permit additional investment allowances in the event of increased demand resulting from EVs and decarbonisation. RIIO-ED2 and the uncertainty mechanisms therefore provide comfort in respect of resilience to the impact of climate-related risks and the required investment to support the transition to Net Zero. The expectation is that there will be no significant change in the regulatory environment and future price controls which enable necessary investment to ensure power supplies are appropriately resilient to climate-related risks and support the financial resilience of the DNOs.

The Group's DNOs have developed a Climate Resilience Strategy as part of the RIIO-ED2 Business Plan. This strategy was developed following engagement with the Energy Networks Association and includes best practice from the National Infrastructure Commission's approach to resilience and the UK Cabinet Office's 4Rs of resilience (Redundancy, Response & Recovery, Resistance and Reliability).

The latest UK Climate Projections (UKCP18) were used to understand the changes in potential impact to electricity infrastructure assets from climate related risks. The considers the 'worst-case' high emissions scenario, Representative Concentration Pathway (RCP) 8.5, which equates to a global mean surface temperature increase of 4.3°C by 2081- 2100.

The decision to use RCP 8.5 scenario was made collaboratively by ENA members through a Climate Risk Adaption Working Group. This position has not changed and continues to be the plausible worst-case scenario for key climate hazards and thought to still be a pragmatic decision based on data and tools available at this time. The ENA members, including UK Power Networks acknowledge that future climate projections are speculative and increase in uncertainty the further into the future the projection is made.

On behalf of its members including UK Power Networks, the ENA commissioned the Met Office to undertake a review of UKCP18 data and existing studies in order to understand the changes in potential impact to electricity infrastructure assets from climate risks. As a result, twelve climate hazards have been identified, of which nine have been prioritised as particularly applicable to the electricity distribution sector:

- Extreme high temperatures
- Drought cycles
- Prolonged/heavy rainfall
- Intense short-duration rainfall
- Sea level rise
- Wetter conditions coincident with warmer temperatures and/or strong winds
- Wildfire
- Lightning
- Windstorms

These climate related hazards have been reviewed against the Group's physical DNO network systems to identify sixteen priority-asset related risks. These risks have been assessed using the ENA climate change adaptation risk assessment methodology taking into consideration the ability of the network to prevent or mitigate the risk, to provide continued service, or to enable a fast and effective response.

The Climate Resilience Strategy includes Adaptation Pathways (based on the risk thresholds of 'Minor,' 'Moderate – Major' and 'Severe' against the present baseline risk, refer table below) to monitor climate risks across the regulated business and determine the actions that need to be taken as summarised in the table on page 28.

Risk Threshold	High level actions
Minor	Continuous monitoring and tracking of risks as part of ENA Climate Change Working Group and within our corporate risk framework.
Moderate	Implement detailed assessment of risks on the network and analyse mitigation options to select the most cost-effective option. Incorporate the measure(s) within the proceeding regulatory submission to deliver over the period and aim to maintain or reduce risk level over subsequent time periods.
Major	
Severe	Take immediate actions to mitigate and control risk through cost-effective measures in the short-term and incorporate long-term mitigations as part of the proceeding regulatory submission.

## STRATEGIC REPORT continued

Through resilience improvements that have been in place or are planned, the main areas of residual risk in the current climate relate to vegetation growth impacting overhead lines and the risk of flood damage to assets. The results of this risk assessment were used to define adaptation pathways which will continue to provide future resilience to climate-related hazards.

In support of the Adaptation Reporting Power (ARP), introduced under the Climate Change Act 2008, UK Power Networks contributed in 2024 to the fourth round of climate change adaptation reporting (ARP4). As part of this report, information that could change our assessment of risk likelihood or severity based on current and future climate conditions was reviewed.

Our assessment of risks based on future climate projections has generally seen no variation since implementing mitigations measures outlined in our RIIO-ED2 Climate Change Resilience Strategy. There has also been no major advancement in available information or climate data that would result in a significant change in the respective risk landscape.

Whilst there has been no discernible change in future climate change risks, UK Power Networks does recognise that the present-day climate risks continue to change. Taking into consideration the current climate signals, our assessment recognises that some physical networks assets may be exposed to impacts more frequently and some present-day risk scores have changed to account for an increased likelihood.

Further details of UK Power Networks Fourth Round Climate Change Adaptation Report are available at: [uk-power-networks-climate-change-adaptation 4th-round-report.pdf](#)

**STRATEGIC REPORT continued**

*Priority Climate-Related Risk & Mitigations Summary*

Risk	Current Baseline (2024)	Do Nothing 2050 <sup>1</sup>	Improved 2050 <sup>2</sup>	2100 <sup>3</sup>
Temperature - Overhead line conductors affected by temperature rise (Chronic physical risk <sup>4</sup> ).	Moderate	Major	Moderate	Moderate
Temperature - Overhead line structures affected by summer drought and consequent ground movement (Chronic physical risk).	Moderate	Moderate	Minor	Minor
Temperature / precipitation - Overhead lines affected by interference from vegetation due to prolonged growing season (Chronic physical risk).	Major	Severe	Moderate	Moderate
Temperature - Underground cable systems affected by increase in ground temperature (Chronic physical risk).	Moderate	Major	Moderate	Moderate
Temperature - Underground cable systems affected by summer drought and consequential ground movement (Chronic physical risk).	Minor	Major	Moderate	Moderate
Temperature - Substation and network earthing systems adversely affected by summer heat and drought conditions (Chronic physical risk).	Minor	Major	Moderate	Moderate
Temperature - Transformers affected by temperature rise (Chronic physical risk).	Moderate	Major	Moderate	Moderate
Temperature - Transformers affected by urban heat islands and coincident air conditioning demand (Chronic physical risk).	Moderate	Major	Moderate	Moderate
Temperature - Switchgear affected by temperature rise (Chronic physical risk).	Moderate	Major	Moderate	Moderate
Precipitation - Substations affected by river (fluvial) flooding due to increased winter rainfall (Acute physical risk <sup>5</sup> ).	Major	Severe	Moderate	Moderate
Precipitation - Substations affected by pluvial (flash) flooding due to increased rainstorms in Summer and Winter (Acute physical risk).	Major	Severe	Major	Moderate
Precipitation - Substations affected by sea flooding due to increased rainstorms and/or tidal surges (Acute physical risk).	Major	Major	Moderate	Major
Precipitation - Substations affected by water flood wave from dam burst (Acute physical risk).	Moderate	Moderate	Moderate	Moderate
Lightning - Overhead lines and transformers affected by increasing lightning activity (Acute physical risk).	Minor	Major	Moderate	Moderate
Wildfire - Overhead lines and underground cables affected by extreme heat and fire smoke damage (Acute physical risk).	Moderate	Major	Moderate	Moderate
Windstorms <sup>6</sup> – Overhead lines (OHL) affected by strong winds.	Moderate	TBC	TBC	TBC

<sup>1</sup>Baseline/Do Nothing 2050 (without implementing any of the RIIO-ED2 business plan so that only reactive action is taken – established to understand the full extent of the risk)

<sup>2</sup>Improved 2050 (including measures from RIIO-ED2 business plan and beyond to 2050). This aligns to the Net Zero target.

<sup>3</sup>Targeted 2100 (where the Group would want to be in 2100, this timeline is consistent with UK Climate Projection timeframes)

<sup>4</sup>Chronic physical risks are longer-term changes to weather patterns and associated sea-level rises, hot or cold waves and droughts.

<sup>5</sup>Acute physical risks are higher frequency or severity of weather-related events such as storm, surge floods, hail, and wildfires.

<sup>6</sup>UKCP18 data showed no change to future windstorm intensity, though recent assessments recognise windstorms may increase in frequency and duration. Windstorm has been identified as a new priority climate change risk



## STRATEGIC REPORT continued

### Metrics and targets

The Group's Environmental Action Plan ("EAP") has set out the targets for reducing the Group's impact on the environment in relation to carbon emissions, waste, water usage, air and noise pollution, visual amenity and biodiversity. The EAP was launched in order to enhance the environmental commitments presented as part of the Group's RIIO-ED2 Business Plan.

While the development of this EAP was an important milestone for the Group, it does not mark the start of our activity to reduce our environmental impact. Rather, this plan builds on the significant positive action and research the Group undertook during RIIO-ED1 that has led it to meet, or exceed, its RIIO-ED1 commitments on carbon and SF6 emissions, waste, noise, recycling, and pollution from fluid filled cables.

The Group has defined four strategic goals in collaboration with its customers and stakeholders. Under these four goals the Group has formed specific, measurable commitments to its customers. These commitments are how the Group will be measured in delivering the outcomes of the actions it has proposed in its EAP. The commitments, and the actions that will deliver them, have both been developed based on customer research to deliver what the Group's customers expect from it in protecting the environment they live in.

Short-term environmental targets included in the RIIO-ED2 Business Plan are:

Strategic goal	Objectives	Targets
<b>Decarbonisation in line with our verified Science Based Target ("SBT")</b>	SBT Initiative – meet our validated 1.5°C target for scope 1 and 2 and Well Below 2°C target for scope 3 emissions <sup>1</sup>	Achieve a 53.1% decrease in Scope 1 and 2 emissions and exceed a 25% decrease in scope 3 by 2028 compared to a 2018/19 baseline year of 48,250 tonnes of CO <sub>2</sub>
	Exceed an equivalent SBT target of 1.5°C for our Business Carbon Footprint (directly controlled emissions scopes 1 and 2 excluding network losses)	Exceed minimum reduction for our directly controllable carbon emissions of 42% by 2028, compared to a 2018/19 baseline
	Meet our SBT validated Net Zero Target by 2040	Meet reduction to Net Zero on all emissions by 2040
<b>Reducing our impact on the world's limited resources</b>	Circular economy approach to high impact materials in early RIIO-ED2	Develop circular economy tool and set targets for high impact materials
	Recycle office, depot, and network waste	80% recycling target by 2028 and no recoverable waste to landfill by the end of 2025, measured as the percentage of waste generated in tonnes that is diverted from landfill
	Re-use street works spoil	99.5% recovered and reused by 2028, measured as the percentage of spoil generated in tonnes that is diverted from landfill
<b>Increasing natural diversity</b>	Biodiversity Net Gain (BNG) at all new grid and primary sites	Increase the biodiversity of new major substation developments by a net-gain of 10-20% and at 100 existing sites by a net-gain of 30% overall over the RIIO-ED2 period, compared to the beginning of the period, as measured by the DEFRA biodiversity tool
	BNG improvement at existing sites	
<b>Reducing pollution produced by our business operations and network activity</b>	Reduce nitrogen oxide (NOx) emissions from our fleet and generators	33% reduction by 2028, measured by the amount of fuel burnt
	Fluid filled cable leak reduction	15% decrease by 2028 compared to beginning of the price control period

<sup>1</sup> The Group's Scope 1, 2 and 3 emissions are measured under the rules of the Greenhouse Gas ("GHG") Protocol.

Progress against these targets is reported annually in our detailed Annual Environment Report ("AER"), as required by Ofgem. This covers performance across all environmental fronts including business carbon footprint. This can be found at [www.ukpowernetworks.co.uk/our-company/environment-and-sustainability](http://www.ukpowernetworks.co.uk/our-company/environment-and-sustainability). The report for the year ended 31 March 2025 will be published on the 31<sup>st</sup> of October 2025.

## STRATEGIC REPORT continued

### Carbon Emissions

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

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

	Year ended 31 March 2025	Year ended 31 March 2024
<b>Tonnes of CO<sub>2</sub>:</b>		
From combustion of gas or consumption of fuel	<b>29,546</b>	27,158
From purchase of electricity for own use	<b>11,267</b>	11,418
Total	<b>40,813</b>	38,576
Total per employee	<b>6.27</b>	6.08
<b>MWh consumed relating to the activities above</b>	<b>180,132</b>	170,447

Total tonnes of CO<sub>2</sub> of 40,813 in the year represents a 15% decrease from the baseline target.

All of the electricity purchased by the Group is on a 100% renewable tariff, as a result, the Group is able to report these emissions as zero carbon under Scope 2 of the GHG protocol market-based method, for the year ended 31 March 2025, this amounted to 11,267 tonnes of CO<sub>2</sub> (2024: 11,418 tonnes of CO<sub>2</sub>) as shown in the table above.

### Climate-Related Financial Disclosures

Effective for periods commencing on or after 6 April 2022, mandatory Climate-Related Financial Disclosures ("CFD") have been introduced under the Companies Act in the UK. The Group has adopted the mandatory requirements for the financial year ended 31 March 2025, as detailed below.

	Annual Report 2025
<b>Governance</b>	
A description of the Group's governance arrangements in relation to assessing and managing climate-related risks and opportunities.	Pages 24 & 39
<b>Risk Management</b>	
A description of how the Group identifies, assesses, and manages climate-related risks and opportunities.	Pages 25 & 41
A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the entity's overall risk management process.	Pages 17, 25 & 41
<b>Strategy</b>	
A description of: <ul style="list-style-type: none"> <li>The principal climate-related risks and opportunities arising in connection with the Group's operations, and</li> <li>The time periods by reference to which those risks and opportunities are assessed.</li> </ul>	Pages 25 & 41
A description of the actual and potential impacts of the principal climate-related risks and opportunities on the entity's business model and strategy.	Pages 25 & 41
An analysis of the resilience of the entity's business model and strategy, taking into consideration different climate-related scenarios.	Pages 6 & 25
<b>Metrics and targets</b>	
A description of the targets used by the entity to manage climate related-risks and to realise climate related opportunities and of performance against those targets.	Page 29
A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.	Pages 8, 29 & 30

**STRATEGIC REPORT continued**

**Section 172(1) statement**

During the year, the Directors acted in the way they considered, in good faith, most likely to promote the long-term success of the Company for the benefit of its members as a whole, with due regard to stakeholders and the matters set out in Section 172(1) of the Companies Act 2006 ("Section 172").

The Board recognises its responsibilities to each of the Group's stakeholder groups and to wider society. The Directors endeavour to ascertain the interests and views of its stakeholders and consider these when making decisions.

The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the Group. When making decisions, the Directors have regard to all stakeholders but also acknowledge that not every decision will result in each stakeholder's preferred outcome. The Board strives to balance the different and competing priorities and interests of its stakeholders in a way compatible with the long-term, sustainable success of the business and which maintains a standard of business conduct aligned to the Group's values and purpose.

The below considered how the Directors had regard to the factors outlined in Section 172(1) for the year ended 31 March 2025:

Section 172	Key disclosures	Read more
a) The likely consequences of any decision in the long term	About us	Pages 2 - 4
	Our strategy	Page 6
	Risk management	Pages 16 - 20
	Our approach to responsible business	Pages 21 - 30
	Opportunity & risk	Page 41
b) The interests of the Group's employees	Our purpose, vision & values	Page 5
	Our key stakeholders	Page 7
	Employee engagement	Page 11
	Stakeholder engagement - Employees	Page 22
	Board engagement	Page 38
c) The need to foster the Group's business relationships with suppliers, customers and others	Remuneration	Page 43
	Our strategy	Page 6
	Our key stakeholders	Page 7
	Stakeholder engagement	Pages 21 - 22
	Board engagement	Page 38
d) The impact of the Group's operations on the community and the environment	Our strategy	Page 6
	Our key stakeholders	Page 7
	Our approach to responsible business	Pages 21 - 30
e) The desirability of the Group maintaining a reputation for high standards of business conduct	Our purpose, vision & values	Page 5
	Our strategy	Page 6
	Risk management	Pages 16 - 20
	Our approach to responsible business	Pages 21 - 30
	Board engagement	Page 38
f) The need to act fairly as between members of the Group	Opportunity & risk	Page 41
	Our strategy	Page 6
	Our key stakeholders	Page 7
	Our key performance indicators	Page 8
	Stakeholder engagement	Pages 21 - 22
	Board engagement	Page 38

## STRATEGIC REPORT continued

### *Anti-corruption and anti-bribery*

UKPN is committed to achieving high standards. Being a trusted corporate citizen is a key pillar of the Group's vision and strategy. A zero-tolerance approach is taken to bribery and corruption and the Group has strong policies and procedures in place to mitigate against it. These include an employee code of conduct, an anti-bribery and ethics policy and a conflicts of interest policy. Regular training is provided to employees. Agency workers, contractors and other individuals working with the Company are also required to follow these anti bribery and anti-corruption policies. In addition, the Group has in place a whistleblowing procedure, which allows confidential, independent reporting via a whistleblowing hotline.

### *Human rights and modern slavery*

UK Power Networks is opposed to slavery and human trafficking and will not knowingly conduct business with those engaged in those activities or knowingly permit them to be carried out in a part of its business. Further details can be found on the 'Slavery and Human Trafficking Statement' on the Group's website.

### *Non-financial and sustainability information statement*


In accordance with section 414CB of the Companies Act 2006 we have reported on non-financial information as follows:

- Employees: see pages 11, 22 and 38
- Environmental matters: see page 23
- Social matters: see page 7
- Human rights: see page 32
- Anti-corruption and anti-bribery: see page 32
- Climate-Related Financial Disclosures: see page 30

### *Fair, balanced and understandable*

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

Approved and authorised by the Board and signed on its behalf by:

  
.....  
Basil Scarsella  
Director

25 July 2025  
Newington House,  
237 Southwark Bridge Road  
London  
SE1 6NP  
United Kingdom

## DIRECTORS' REPORT

The Directors present their annual report on the audited financial statements of UK Power Networks Holdings Limited (the "Company") and its subsidiary undertakings (the "Group") for the year ended 31 March 2025.

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

### Dividends

Equity dividends of £248.0m were paid in the year (2024: £243.0m).

### Political contributions

No political donations were made during the year (2024: £nil).

### Post balance sheet events

#### *Uncertain tax provision*

In March 2025, the Group's case regarding tax losses claimed by way of consortium relief between 2011 and 2016 from associated companies of one of the Group's shareholders was heard at the First-tier Tribunal. Whilst the tax authorities are in agreement that the Group is eligible to claim consortium relief, the parties had sought determination from the Tribunal regarding the amount of relief that may be claimed.

The decision of the First-tier Tribunal was released in June 2025 which decided in favour of the tax authorities. The Group is currently preparing to appeal against the decision to the Upper Tribunal, which if accepted would likely be heard in 2026. Whilst the Group maintains that the amount of tax losses claimed is consistent with those permitted under law, as a range of outcomes are possible management continue to include an appropriate provision, calculated using a number of estimates, in the accounts for the risk that the appeal is ultimately not successful in its entirety.

#### *Bond issue*

On 11 June 2025 LPN issued a €500m bond bearing fixed rate interest of 3.837% and maturing in 2037. Simultaneously, it was swapped to GBP with a fixed rate interest of 5.7155%. Net proceeds of £421.3m were received on 11 June 2025.

### Directors

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

Andrew John Hunter (Chairman)

Hing Lam Kam

Neil Douglas McGee

Basil Scarsella

Charles Chao Chung Tsai

Loi Shun Chan

Duncan Nicholas Macrae

Kee Ham Chan

Edmond Wai Leung Ho

Simon Ka Keung Man

Jenny Yu

Chiu Ng

Wendy Wai Che Tong-Barnes (appointed 16/09/2024)

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

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



## **DIRECTORS' REPORT continued**

### **Disabled employees**

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

### **Employee engagement**

The Group places considerable value on the engagement and involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, various media channels and publications. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees. Activities undertaken to encourage employee engagement are discussed further on pages 22 and 38.

### **Business relationships**

The Group has identified its key stakeholders as: employees, customers, suppliers, the communities affected by the Group's operations, the Regulator and shareholders. Further information about how the Group has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 21 to 22.

### **Energy and Carbon Reporting**

The Group's strategy in addressing the climate-related risks and opportunities is discussed on pages 23 to 29 with carbon emissions disclosed on page 30.

### **Disclosure of information to Auditor**

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

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

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

### **Auditor**

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

Approved and authorised by the Board and signed on its behalf by:



Basil Scarsella  
**Director**

25 July 2025  
Newington House,  
237 Southwark Bridge Road  
London  
SE1 6NP  
United Kingdom

## CORPORATE GOVERNANCE STATEMENT

### GOVERNANCE CODE COMPLIANCE

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

Information on the Group’s compliance with the six Wates principles can be found in this report as follows:

1. Purpose and leadership	Read more	Page(s)
<b>Purpose, values, vision, and strategy</b>		
An effective board develops and promotes the purpose of a Group and ensures that its values, strategy, and culture align with that purpose.	Our purpose, vision and values	5
	Our key stakeholders	7
	Our strategy	6
	Corporate governance overview	36 to 43
<b>2. Board composition</b>		
<b>Chair, balance and diversity, size and structure, effectiveness</b>		
Effective board composition requires an effective chair and a balance of skills, backgrounds, experience, and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the Group.	Corporate governance overview	36 to 43
<b>3. Director responsibilities</b>		
<b>Accountability, committees, integrity of information</b>		
The board and individual directors should have a clear understanding of their accountability and responsibilities. The board’s policies and procedures should support effective decision-making and independent challenge.	Our key stakeholders	7
	Stakeholder engagement	21 to 22
	Corporate governance overview	36 to 43
	Directors’ Responsibility statement	44
<b>4. Opportunity and risk</b>		
<b>Opportunity, risk, responsibilities</b>		
A board should promote the long-term sustainable success of the Group by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.	Our strategy	6
	Our key stakeholders	7
	Operating review	9 to 11
	Financial review	12 to 16
	Risk management	16 to 20
	Our approach to responsible business	21 to 30
	Corporate governance overview	36 to 43
<b>5. Remuneration</b>		
<b>Setting remuneration, policies, delegating remuneration decisions</b>		
A board should promote executive remuneration structures aligned to long-term sustainable success of the Group, taking into account pay and conditions elsewhere in the Group.	Our key performance indicators	8
	Corporate governance overview	36 to 43
<b>6. Stakeholder relationships and engagements</b>		
<b>External impacts, stakeholders, workforce</b>		
Directors should foster effective stakeholder relationships aligned to the Group’s purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	Our key stakeholders	7
	Stakeholder engagement	21 to 22
	Corporate governance overview	36 to 43



## CORPORATE GOVERNANCE STATEMENT continued

### CORPORATE GOVERNANCE OVERVIEW

The Board is responsible to the Shareholders for the performance of the Group in both the short and the longer term and seeks to balance competing objectives in the best interests of the Group, with the aim of enhancing shareholder value. As part of this responsibility the Board oversees the Company's strategy and has evaluated its development during the reporting period.

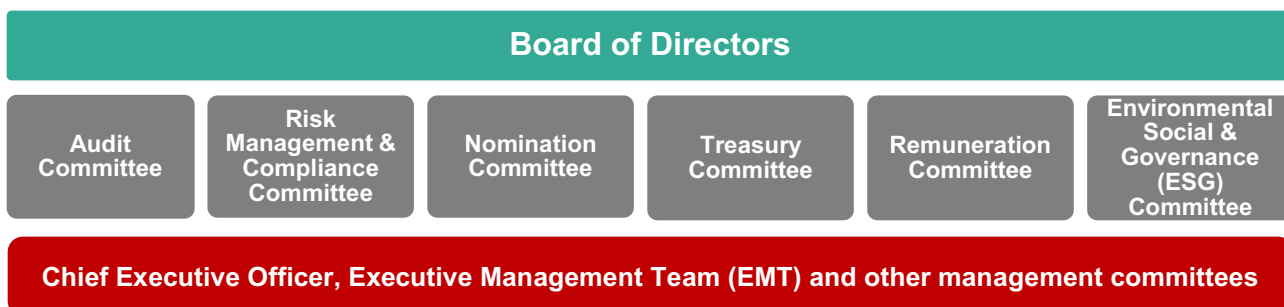
#### **Governance framework**

The Board is collectively responsible for the oversight of the management of the Group and acts in the Group's best interests. The Board has established formal committees with specific matters and responsibilities to assist in the execution of its duties and to allow detailed consideration of complex issues. These specific matters and responsibilities are significant to the Group as a whole because of their potential strategic, financial and reputational implications and impact on stakeholders.

Each committee provides reports to the Board on matters discussed during each committee meeting, to ensure that all Directors have visibility of, and the opportunity to discuss, the matters being considered by each committee. Details of the terms of reference of each committee can be found on page 39.

Below the Board and Board committees, day-to-day responsibility for managing the Group is delegated to the UK Power Networks Chief Executive Officer ("CEO"), Basil Scarsella and the Executive Management Team ("EMT"). The CEO and EMT operate within the Delegations of Authority, governance structure and terms of reference defined in the Group's Corporate Governance Framework.

The EMT comprises the CEO of the Group and Executive Directors for each of the distinct business areas, or Directorates. To support the EMT in fulfilling their duties, management committees have been formed with delegated authority for specific matters. Within each Directorate, the Senior Management Team holds clearly defined responsibilities aimed at facilitating efficient operations to realise the Group's objectives. Formal definitions outline lines of responsibility and levels of authority.



#### **How the Board operates**

The Board of Directors is the principal decision-making forum for the Group. It has overall responsibility for leading the Group and for its financial and operational performance. It sees that there is a balance in strategy between promoting long-term growth and delivering short-term objectives, with due regard to risk. It considers key stakeholders in its decision making and, in doing so, sees that Directors comply with their duty under section 172 of the Companies Act 2006 (see page 31).

The Board and Board committees meet regularly, and on an as needed basis, to oversee the management of the Group as a whole and where appropriate to consider and act on matters pertaining to individual subsidiary companies. A total of seven meetings of the Board were held during the year, all of which were attended by the Directors or an appointed alternative.

The Directors periodically assess the performance of the Board, the operation of the committees and individual Board members at least once every two years or more frequently if considered appropriate. This evaluation process provides the Board and its committees with an opportunity to consider and reflect on the quality and effectiveness of their decision making, and for each member to consider their own contribution and performance.

## CORPORATE GOVERNANCE STATEMENT continued

### **Key matters reserved for the Board**

There is a formal schedule of matters specifically reserved for the Board's decision.

Key matters reserved for the Board include:

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Safeguarding of Group assets by identifying, evaluating and managing risk.</li> <li>• System of internal control and its effectiveness.</li> <li>• Internal audit reviews.</li> <li>• Annual review of and relationship with external auditors.</li> <li>• Group's memorandum and articles of association.</li> <li>• Prosecution, defence, or settlement of material litigation and/or legal and regulatory compliance.</li> <li>• Grant of guarantees and indemnities other than those issued in the ordinary course of business.</li> <li>• Annual review of Board effectiveness including terms of reference of committees established by the Board.</li> <li>• Group treasury and financing policies.</li> </ul> | <ul style="list-style-type: none"> <li>• Overall group strategy and corporate vision and driving performance.</li> <li>• Group structure.</li> <li>• Development and protection of brand.</li> <li>• Annual accounts and regulatory reports.</li> <li>• Significant changes in accounting policies.</li> <li>• Board structure, composition and succession including appointments to the Board.</li> <li>• Group remuneration policy including reward policy and framework.</li> <li>• Group capital structure and dividend policy.</li> <li>• Oversight of material ESG issues.</li> </ul> |
|--|---|

Delegation of the above matters to Board Committees, where applicable, is set out on page 39.

### **Composition of the Board**

The Board comprises the CEO of the Group and 12 shareholder nominated Directors. The Board believes that its size and composition are appropriate to meet the strategic needs and challenges of the business and to enable effective decision-making.

The Group is wholly owned by a consortium of three companies incorporated outside the UK as set out in note 28 to the financial statements. The shareholding companies determine the Board composition, each of which nominates Directors in proportion to their shareholdings. In addition, two "Sufficiently Independent Directors" ("SIDs") must be appointed to the boards of the Group's DNOs as a specific condition of the regulatory licence. The Nominations Committee recommends these appointments.

The CEO of the Group is the only Executive Board member. The other Directors do not hold executive roles and therefore maintain an acceptable level of independence from the executive management of the Group. As such the appointment of an independent Chairman is not deemed necessary. The Directors of each wholly owned subsidiary are all members of the Board of the Company, with the exception of the two SIDs of the DNOs, who are not members of the Board of the Company but do attend the Board and Board Committee meetings of the Company.

### **Directors' responsibilities**

The positions of the Chairman of the Board and Chief Executive Officer are held by separate individuals with a view to maintaining effective segregation of duties between management of the Board and the day-to-day management of the UK Power Networks Group.

The Chairman is responsible for: leading and managing the Board, its effectiveness and governance; ensuring Board members are aware of and understand the views of key stakeholders; helping set the tone from the top in terms of the purpose, vision and values for the whole organisation; and creating the conditions for overall Board effectiveness. The Chairman also ensures that adequate time is available for Board discussion and to enable informed decision-making.









The Board and individual Directors have a clear understanding of their accountability and responsibilities and policies and procedures support effective decision-making and independent challenge. The Board has determined those decisions that require approval by the Board and the delegation of authority for those decisions that do not. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and for ensuring that the Board is briefed on relevant legislative, regulatory and corporate governance developments and that the Board has regard to them when making decisions.







## CORPORATE GOVERNANCE STATEMENT continued

### Board engagement

Most engagement with key stakeholders is carried out by management teams and takes place at a business level. Reporting mechanisms are in place to collate feedback and developments from such engagement and enable a flow of this information to the Board to inform decision making. By receiving regular updates on business programmes and objectives, the Board monitors that management is acting in accordance with the agreed purpose, vision and values. Processes are in place to ensure that the Board receives all relevant business information to enable it to monitor performance in support of the Company's long-term objectives. Details of engagement with each of the Group's key stakeholders can be seen on pages 21 to 22.

The below provides examples of where the Board considered key stakeholders in its decision making and, in doing so, saw that Directors complied with their duty under section 172 of the Companies Act 2006 (see our Section 172(1) Statement on page 31).

<p><b>Safety</b></p> <ul style="list-style-type: none"> <li>The Board monitored safety performance throughout the year.</li> <li>The safety culture is critical to the success of health and safety performance and to prevent incidents. The Group's Behavioural Safety Training Programme "Stay Safe: Think, Feel, Act" has been designed for employees to support improvement in the safety culture and health and safety performance.</li> </ul> <p><b>Key stakeholders</b></p> 	<p><b>Sustainability</b></p> <ul style="list-style-type: none"> <li>The Board discussed ESG matters, including key strategic enhancements to keep pace with stakeholder expectations and how these align with our commitments as a responsible business.</li> <li>The ESG Committee oversees our sustainability strategy and progress in this area which it reports to the Board.</li> </ul> <p><b>Key stakeholders</b></p> 
<p><b>Strategic decisions</b></p> <ul style="list-style-type: none"> <li>The Board discussed and approved the Strategic Business Plan and the annual budget.</li> </ul> <p><b>Key stakeholders:</b></p> 	<p><b>Performance</b></p> <ul style="list-style-type: none"> <li>The Board discussed the Group's monthly reports which detail the Group's overall performance, business unit operations, progress against strategy and engagement with stakeholders including employees.</li> </ul> <p><b>Key stakeholders:</b></p> 
<p><b>Corporate Governance</b></p> <ul style="list-style-type: none"> <li>Discussed regular updates from Board Committees and management on items that may impact the Group's regulatory obligations.</li> <li>Confirmed Directors' independence and conflicts of interest</li> </ul> <p><b>Key stakeholders</b></p> 	<p><b>Risk management</b></p> <ul style="list-style-type: none"> <li>Received regular updates on and agreed the Group's principal risks.</li> </ul> <p><b>Key stakeholders:</b></p> 
<p><b>Financial reporting and controls and dividend policy</b></p> <ul style="list-style-type: none"> <li>Considered performance against budget.</li> <li>Monitored the Group's financial performance.</li> <li>Reviewed and approved shareholder dividend</li> <li>Approved the full year Annual Report and Financial Statements.</li> </ul> <p><b>Key stakeholders:</b></p> 	<p><b>Employee interests</b></p> <ul style="list-style-type: none"> <li>The CEO and EMT regularly visit employees on-site where they can engage with staff at all levels on safety, operations, and the personal welfare of staff.</li> <li>The CEO also holds EMT leadership meetings six times a year to discuss strategy and other matters, including employee engagement and culture.</li> </ul> <p><b>Key stakeholders:</b></p> 

KEY			
	Employees		Community & Environment
	Customers		Ofgem
	Suppliers		Shareholders

## **CORPORATE GOVERNANCE STATEMENT continued**

### **Our Board Committees**

In order to assist the Board in fulfilling its oversight responsibilities the Board and Board Committees, meet on a regular basis to oversee the management of the Group as a whole. All committees take part in the annual review of Board effectiveness which includes a review of the terms of reference of each committee.

<b>AUDIT COMMITTEE</b>	<b>RISK MANAGEMENT &amp; COMPLIANCE COMMITTEE</b>
<ul style="list-style-type: none"> <li>Assists the Board with its responsibilities for financial reporting, maintaining an effective system of internal control and audit processes. Using risk assessment methodology and considering the Group's activities, Internal Audit determines the annual audit programme which is approved and monitored by the Audit Committee. The Audit Committee also reviews the arrangements by which staff may raise concerns in confidence about possible improprieties and monitors any investigations into concerns raised.</li> </ul> <p><b>Key matters considered:</b></p> <ul style="list-style-type: none"> <li>Annual accounts and regulatory reports.</li> <li>Annual review of and relationship with external auditors.</li> <li>Internal audit reviews.</li> <li>Significant changes in accounting policies.</li> </ul>	<ul style="list-style-type: none"> <li>Assists the Board with its responsibilities in relation to risk management and to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement. The Board is responsible for approval of the risk management strategy while management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the business.</li> </ul> <p><b>Key matters considered:</b></p> <ul style="list-style-type: none"> <li>Safeguarding of Group assets by identifying, evaluating, and managing risk.</li> <li>System of internal control and its effectiveness.</li> <li>Prosecution, defence, or settlement of material litigation and/or legal and regulatory compliance.</li> <li>Grant of guarantees and indemnities other than those issued in the ordinary course of business.</li> </ul>
<b>TREASURY COMMITTEE</b>	<b>REMUNERATION COMMITTEE</b>
<ul style="list-style-type: none"> <li>Oversees the treasury strategy, policy and procedure and seeks to ensure that all treasury risks are identified, measured and controlled in a manner consistent with corporate strategy and treasury policy.</li> </ul> <p><b>Key matters considered:</b></p> <ul style="list-style-type: none"> <li>Group treasury and financing policies.</li> </ul>	<ul style="list-style-type: none"> <li>Make recommendations to the Board on the Group's policies and structure in relation to the remuneration of senior management and employees of the Group, by reference to corporate goals and objectives resolved by the Board from time to time.</li> </ul> <p><b>Key matters considered:</b></p> <ul style="list-style-type: none"> <li>Group remuneration policy including reward policy and framework.</li> </ul>
<b>ESG COMMITTEE</b>	<b>NOMINATION COMMITTEE</b>
<ul style="list-style-type: none"> <li>Assists the Board in seeing that the Group has a suitable and sufficient strategy in place to deliver the key ESG based commitments in the Group's RIIO-ED2 business plan. Also provides oversight of the future development of strategy and policy as the external ESG environment evolves, and reports performance against ESG targets on a consolidated basis.</li> </ul> <p><b>Key matters considered:</b></p> <ul style="list-style-type: none"> <li>Sustainability strategy, ESG and climate-related targets, disclosures, and action plans.</li> </ul>	<ul style="list-style-type: none"> <li>Recommends SIDs for appointment to the Boards of the DNOs. Selection is based on the criteria defined by condition 43A of the distribution licence which requires the SIDs to have a sufficient level of independence from the executive management of the Company and the shareholder companies.</li> </ul> <p><b>Key matters considered:</b></p> <ul style="list-style-type: none"> <li>SID appointments to the DNO Boards.</li> </ul>

### **Chief Executive Officer, Executive Management Team (EMT) and other management committees**

The Group Executive Management Team oversees the safety, operational and financial performance of the Company. It is responsible for making the day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to execute the strategy, business objectives and targets established by the Board.

It is supported by a number of other management committees including the Regulatory Governance Committee, Contract Governance Committee, Health, Safety & Sustainability Steering Committee and the Operational Performance Committee.

Full biographies for the Group Executive Management Team are available at:

<https://www.ukpowernetworks.co.uk/our-company/meet-our-executive-management-team>

## CORPORATE GOVERNANCE STATEMENT continued

### ***Purpose and leadership***

The primary purpose of the Group is to deliver electricity to London, the East and the South East of England. As described on pages 5 and 6 of the Strategic Report, we work within the purpose, vision, values and strategy of the Group to see we are well positioned to respond to changes in the operating environment.

The Board is committed to seeing that the Group's vision and values are embedded in the Group and reiterate them regularly. Internal bonus and incentive targets are based on the achievement of the vision, measuring both financial and non-financial metrics. The Group also operates a "Living Our Values" award system, which promotes and recognises employees who demonstrate the Group's values in their work.

Through open discussion, the vision and values are reviewed internally, and from time to time are modified to reflect the changing environment in which the Group operates. This is done through feedback from the annual employee survey, engagement with trade unions, and regular senior leadership forums. The vision evolved for RIIO-ED2, following such stakeholder engagement and feedback, to include a fourth pillar "Enabling the Net Zero transition for all".

### ***Integrity of information***

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

The role of the central financial reporting team includes liaising with the shareholders regarding such matters as accounting policies, planning for changes in reporting requirements and to see that these are communicated effectively to the Directorates. There is regular dialogue between the central financial reporting team and the finance teams supporting the Directorates to ensure there is appropriate understanding of these requirements.

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

### ***External audit***

The Audit Committee is responsible for overseeing the effectiveness of the external audit process and ensuring that appropriate measures are taken to safeguard the independence and objectivity of the external auditor. The Audit Committee reviews the scope and extent of the external auditor's annual audit, seeking confirmation from the external auditor that no limitations have been placed on the scope or nature of their audit procedures.

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

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

## CORPORATE GOVERNANCE STATEMENT continued

### *Independence and objectivity of external auditor*

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

For each audit period a formal written statement is provided by the external auditor setting out all relationships between the external auditor and the Group. Any proposed appointment of ex-employees of the external audit firm to senior management positions with the Group is subject to consent by the Audit Committee. A tender for external audit services is underway and expected to be completed during the second half of 2025. A new external auditor will be appointed for the financial year ending 31 March 2027.

### *Opportunity and Risk*

#### *Opportunity*

UK Power Networks strives to create and preserve value over the long term by consistently providing industry leading customer service at an efficient cost by combining technical excellence and innovation within a clear organisational structure. Whilst maintaining compliance within the regulated environment, the Board identifies and evaluates relevant opportunities to create long-term value for the Group and its stakeholders.

The energy sector is undergoing a significant and exciting period of change as the UK works towards a Net Zero carbon future. In the Group's role as a leading electricity provider, it is helping to build a smarter, more dynamic electricity network fit for a Net Zero carbon future as it delivers electricity to its customers. The Board and the Group's Executive Management Team work with the industry and policymakers to facilitate the change. The Group is connecting to its network ever-greater volumes of low carbon generation to support sectors such as transport and domestic heating so as to decarbonise through electrification.

To enable stakeholders to work toward Net Zero, the Group's RIIO-ED2 Business Plan for 2023 to 2028 outlines its whole systems thinking which is fundamental to facilitating the move toward Net Zero at the lowest possible whole system cost for customers. The directors are focused on utilising digitalised solutions across the Groups operations and aim to instil a culture that maximises every opportunity to work smarter for its customers. For details of achievements in the current year in relation to our strategic priority - Innovation to facilitate Net Zero refer to page 6 of the Strategic Report.

In order to support this change, the Group has established a Digital Skills Academy to provide digital future skills and has committed to deliver 510 accredited apprenticeship National Vocational Qualifications ("NVQs") in Leadership and Management and 200 Institute of Engineering and Technology ("IET") accredited technical or digital apprenticeships. The Group is aiming to achieve an "Outstanding" OFSTED rating for training programmes over the RIIO-ED2 price control period.

The Board is also invested in seeing that the Group's commitment to sustainability includes leading by example and reducing our full carbon footprint by 28% by the end of RIIO-ED2.

#### *Risk*

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

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

## CORPORATE GOVERNANCE STATEMENT continued

The Board through its committees is responsible for the oversight of risk management and internal controls across the Group. The responsibility for the risk management framework and internal controls cascades from the CEO and the EMT to senior management teams responsible for risk assessment and the implementation of appropriate mitigation. Managers are responsible for the identification of risks and the deployment of appropriate controls within their business Directorate. Policies are established, reviewed regularly and made available on the Group intranet to assist the managers with establishing an appropriate control environment. The involvement of qualified and competent employees with the appropriate level of expertise throughout the business is a key factor for implementing an effective internal control environment.

The role of the Directorate risk review meetings is to assess new risks, review existing risks and monitor control improvement actions. Each identified risk is defined and assessed by the risk owner. This includes an assessment of the likelihood of the risk occurring and the associated impact, key mitigating controls, and an assessment of the adequacy of those controls. Where appropriate control improvement actions are defined. Significant risks and delivery of control improvement actions are monitored and reported to the Executive and Senior Management Teams on a regular basis, and actively managed by the designated risk owners.

Risk management is embedded into the organisational structure, with specialist teams established to manage certain key risk areas. Specifically, long established teams reporting to senior managers are responsible for health and safety, regulatory compliance, employees, cyber security, financial reporting, procurement and legal compliance.

Emerging and principal risks are regularly reported to the Board facilitating the oversight of the risk management process of the Company. Pages 17 to 20 of the Strategic Report outline the key risks and the related mitigating actions by the Company.

### *Internal control framework*

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

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

### *Internal audit*

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

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

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

### *Monitoring and corrective action*

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



## CORPORATE GOVERNANCE STATEMENT continued

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

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

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

### *Effectiveness review of internal control*

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

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

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

### **Remuneration**

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

The Remuneration Committee sees that it considers remuneration across the wider workforce when determining senior management remuneration as well as the overall policy and practices. As a result, the Group has clear remuneration structures that are designed to reward good performance, attract the best talent, and are aligned to the achievement of the Group's vision and values.

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

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

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

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 the affairs of the Company and of the Group and of the profit or loss of the Group for the period. In preparing these financial statements, the Directors are required to:

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

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

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

The Directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets and liabilities and financial position of the Company and Group and profit of the Group as at and for the year ended 31 March 2025;
- the Strategic Report and the Directors' Report includes a true and fair view of the development and performance of the business and the financial position of the Group, together with a description of its principal risks and uncertainties; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Group's position and performance, business model and strategy.

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



Basil Scarsella  
**Director**  
25 July 2025

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

***Report on the audit of the financial statements***

***Opinion***

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2025 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

***Basis for opinion***

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

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

***Conclusions relating to going concern***

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

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

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

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

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

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

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

***Other information***

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

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

We have nothing to report in this regard.

***Responsibilities of directors***

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

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

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

***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

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

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

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

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

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our procedures performed to address it is described below:

**Accuracy of Cost Classification**

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

The classification of activities between capital expenditure (additions or enhancements to network assets) and operating expenditure (maintenance or network repair) is impacted by judgements undertaken by management. Management uses cost drivers and an analysis of the activities directly attributable to capital work to apply these judgements to the total costs spent on the network to determine what is capitalised and what is expensed.

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

Due to the judgements and complexity within the cost reflectivity model, we have identified the accuracy of cost classification to be a potential fraud risk. We identify this as a fraud risk given the potential to overstate capital expenditure and understate operating expenditure through the determination of the cost drivers that underpin the classification of expenditure. We have pinpointed the significant audit risk to the indirect costs within the cost classification model not being correctly classified as capital or operating expenditure, due to these judgemental assumptions on indirect costs classification increasing the risk of overstatement of capital expenditure / understatement of operating expenditure.

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

- obtained an understanding of relevant controls over the application of the policy in relation to classification of expenditure;
- assessed whether the company's accounting policies in relation to capitalisation comply with FRS 102.17 Property, Plant and Equipment;
- tested the implementation of these policies through assessing the capital nature of a sample of costs against the capitalisation policy;
- agreed a sample of cost inputs used for capitalisation of network asset costs to supporting documentation, including invoices;
- assessed the proportion of capitalised overhead costs using historical comparisons and expected changes based on enquiry and our sector knowledge;
- assessed the assumptions and judgements made by management in relation to cost drivers used for each cost category as well as consistency with the prior year and challenged any changes by assessing the historical trends and changes to capitalisation rates;
- tested the integrity and mechanics of the cost allocation model to assess its mathematical accuracy; and
- assessed the appropriateness of the company's disclosures of its capitalisation policy.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

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

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

*Report on other legal and regulatory requirements*

*Opinions on other matters prescribed by the Companies Act 2006*

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

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

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

*Matters on which we are required to report by exception*

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

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

We have nothing to report in respect of these matters.

*Use of our report*

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



Marianne Milnes, ACA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
25 July 2025



**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2025**

GROUP	Note	2025 £m	2024 £m
Turnover	3,4	2,462.9	1,824.7
Operating costs		(1,095.9)	(1,075.6)
<b>Operating profit</b>	3,5	<b>1,367.0</b>	749.1
Finance costs (net)	6	(217.7)	(282.2)
<b>Profit before taxation</b>		<b>1,149.3</b>	466.9
Taxation	9	(296.4)	(154.5)
<b>Profit for the financial year</b>		<b>852.9</b>	312.4

All results are derived from continuing operations.

Profit for the financial year is all attributable to the equity shareholders of the parent Company.

The notes on pages 56 to 96 form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2025**

GROUP	Note	2025 £m	2024 £m
<b>Profit for the financial year</b>		<b>852.9</b>	312.4
Cash flow hedges and cost of hedging			
Gains arising during the year	22	2.7	2.6
Reclassified to profit or loss	22	2.1	2.1
Remeasurement gains/(losses) on defined benefit schemes	26	68.4	(201.7)
		<b>73.2</b>	(197.0)
Tax (losses)/credits relating to components of other comprehensive income		<b>(18.3)</b>	49.2
<b>Other comprehensive gain/(loss)</b>		<b>54.9</b>	(147.8)
<b>Total comprehensive income attributable to equity shareholders</b>		<b>907.8</b>	164.6

**CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET**

**AS AT 31 MARCH 2025**

	Note	Group		Company	
		2025 £m	2024 £m	2025 £m	2024 £m
<b>Fixed assets</b>					
Intangible fixed assets	10	1,886.3	1,847.7	-	-
Tangible fixed assets	11	15,079.7	14,125.5	-	-
Investments	12	0.1	0.1	3,064.1	3,064.1
Investments in joint ventures	13	0.2	0.2	-	-
		<b>16,966.3</b>	<b>15,973.5</b>	<b>3,064.1</b>	<b>3,064.1</b>
<b>Current assets</b>					
Stocks	14	129.1	99.0	-	-
Debtors					
Amounts falling due within one year	15	387.1	312.9	23.3	30.4
Amounts falling due after more than one year	15	548.2	462.7	-	-
Cash and cash equivalents		90.0	117.4	0.5	0.5
		<b>1,154.4</b>	<b>992.0</b>	<b>23.8</b>	<b>30.9</b>
<b>Creditors: Amounts falling due within one year</b>	16	<b>(1,483.5)</b>	<b>(1,560.7)</b>	<b>(310.7)</b>	<b>(312.3)</b>
<b>Net current liabilities</b>		<b>(329.1)</b>	<b>(568.7)</b>	<b>(286.9)</b>	<b>(281.4)</b>
<b>Total assets less current liabilities</b>		<b>16,637.2</b>	<b>15,404.8</b>	<b>2,777.2</b>	<b>2,782.7</b>
<b>Creditors: Amounts falling due after more than one year</b>	17	<b>(9,941.5)</b>	<b>(9,458.4)</b>	<b>(1,164.2)</b>	<b>(1,164.2)</b>
<b>Provisions for liabilities</b>	21	<b>(1,112.2)</b>	<b>(1,006.5)</b>	-	-
<b>Net assets</b>		<b>5,583.5</b>	<b>4,939.9</b>	<b>1,613.0</b>	<b>1,618.5</b>
<b>Share capital and reserves</b>					
Called up share capital	22	610.0	610.0	610.0	610.0
Share premium account	22	768.0	768.0	768.0	768.0
Hedging reserves	22	1.8	(1.8)	-	-
Profit and loss account	22	4,203.7	3,563.7	235.0	240.5
<b>Shareholders' funds</b>		<b>5,583.5</b>	<b>4,939.9</b>	<b>1,613.0</b>	<b>1,618.5</b>

The profit for the financial year of the Company amounted to £258.7m (2024: £248.8m). As permitted by Section 408 of the Companies Act 2006, the Company has not presented a separate profit and loss account and statement of comprehensive income.

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

Basil Scarsella

**Director**

25 July 2025

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 MARCH 2025**

GROUP	Note	Called-up share capital £m	Share premium account £m	Profit and loss account £m	Hedging reserves <sup>1</sup> £m	Total £m
<b>At 1 April 2023</b>		<b>610.0</b>	<b>768.0</b>	<b>3,645.6</b>	<b>(5.3)</b>	<b>5,018.3</b>
Profit for the financial year		-	-	312.4	-	<b>312.4</b>
<i>Cash flow hedges</i>						
Gains arising the year		-	-	-	2.6	<b>2.6</b>
Reclassified to profit or loss		-	-	-	2.1	<b>2.1</b>
Remeasurement losses on defined benefit schemes		-	-	(201.7)	-	<b>(201.7)</b>
Tax credits/(losses) relating to items of other comprehensive income		-	-	50.4	(1.2)	<b>49.2</b>
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>161.1</b>	<b>3.5</b>	<b>164.6</b>
Equity dividends paid		-	-	(243.0)	-	<b>(243.0)</b>
<b>At 31 March 2024</b>		<b>610.0</b>	<b>768.0</b>	<b>3,563.7</b>	<b>(1.8)</b>	<b>4,939.9</b>
Profit for the financial year		-	-	852.9	-	<b>852.9</b>
<i>Cash flow hedges</i>						
Gains arising during the year		-	-	-	2.7	<b>2.7</b>
Reclassified to profit or loss		-	-	-	2.1	<b>2.1</b>
Remeasurement gains on defined benefit schemes		-	-	68.4	-	<b>68.4</b>
Tax losses relating to items of other comprehensive income		-	-	(17.1)	(1.2)	<b>(18.3)</b>
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>904.2</b>	<b>3.6</b>	<b>907.8</b>
Equity dividends paid		-	-	(248.0)	-	<b>(248.0)</b>
Dividends in specie	28	-	-	(16.2)	-	<b>(16.2)</b>
<b>At 31 March 2025</b>		<b>610.0</b>	<b>768.0</b>	<b>4,203.7</b>	<b>1.8</b>	<b>5,583.5</b>

<sup>1</sup>Hedging reserves comprise the cash flow hedge reserve and cost of hedging reserve (see note 22).

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 MARCH 2025**

COMPANY	Note	Called- up share capital £m	Share premium account £m	Profit and loss account £m	Total £m
<b>At 1 April 2023</b>		610.0	768.0	234.7	<b>1,612.7</b>
Profit for the financial year		-	-	248.8	<b>248.8</b>
<b>Total comprehensive income</b>		-	-	248.8	<b>248.8</b>
Equity dividends paid		-	-	(243.0)	<b>(243.0)</b>
<b>At 31 March 2024</b>		610.0	768.0	240.5	<b>1,618.5</b>
Profit for the financial year		-	-	<b>258.7</b>	<b>258.7</b>
<b>Total comprehensive income</b>		-	-	<b>258.7</b>	<b>258.7</b>
Equity dividends paid		-	-	(248.0)	<b>(248.0)</b>
Dividends in specie	28	-	-	(16.2)	<b>(16.2)</b>
<b>At 31 March 2025</b>		<b>610.0</b>	<b>768.0</b>	<b>235.0</b>	<b>1,613.0</b>

**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2025**

GROUP	Note	2025 £m	2024 £m
<b>Cash generated from operations</b>	23	<b>1,886.4</b>	1,283.1
Corporation tax paid		(188.7)	(54.0)
<b>Net cash inflow from operating activities</b>		<b>1,697.7</b>	1,229.1
<b>Cash flows from investing activities</b>			
Proceeds from sale of tangible assets		2.5	1.5
Gross capital expenditure		(1,332.9)	(1,139.5)
Purchase of subsidiary (net of cash acquired)	29	(88.5)	-
Interest received		6.9	8.9
<b>Net cash flows used in investing activities</b>		<b>(1,412.0)</b>	(1,129.1)
<b>Cash flows from financing activities</b>			
Equity dividends paid		(248.0)	(243.0)
Interest paid		(278.7)	(263.0)
Repayment of short-term borrowings		(307.0)	(450.1)
Proceeds from long-term borrowings		445.6	738.5
Proceeds from short-term borrowings		75.0	-
<b>Net cash flows used in financing activities</b>		<b>(313.1)</b>	(217.6)
<b>Net decrease in cash and cash equivalents</b>		<b>(27.4)</b>	(117.6)
<b>Cash and cash equivalents at beginning of year</b>		<b>117.4</b>	235.0
<b>Cash and cash equivalents at end of year</b>		<b>90.0</b>	117.4
<b>Reconciliation to cash at bank and in hand</b>			
Cash at bank and in hand		90.0	92.4
Cash equivalents <sup>1</sup>		-	25.0
<b>Cash and cash equivalents</b>		<b>90.0</b>	117.4

<sup>1</sup>Cash equivalents are short-term deposits with banks with maturities of less than 3 months.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

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

#### General information and basis of accounting

UK Power Networks Holdings Limited (the Company) is a private company limited by shares, incorporated in the United Kingdom under the Companies Act, 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic Report on pages 2 to 32. The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in compliance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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

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

#### Basis of consolidation

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

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

#### Going concern

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

The Directors have performed an assessment of going concern based on detailed cash flow forecasts for a period of at least 12 months from the date of these financial statements as well as taking into consideration the following factors:

- The Group continues to perform well, is profitable with strong underlying cashflows and with predictable revenues regulated by Ofgem under an established price control mechanism.
- At 31 March 2025, the Group had existing cash resources of £90.0m and £500m of undrawn committed borrowings under the revolving credit facility. In addition, the Group has headroom available under a £3 billion shareholder loan facility.
- A Group net current liability position of £329.1m, scheduled debt repayments during the going concern assessment period and financial covenants applicable to the Group's financing facilities. The Company has a net current liability position of £286.9m.
- The Group has a successful track record of raising finance, supported by investment grade credit ratings for the three DNOs.
- Post the balance sheet date, on 11 June 2025 LPN issued a €500m bond bearing fixed rate interest of 3.837% and maturing in 2037. Simultaneously, it was swapped to GBP with a fixed rate interest of 5.7155%. Net proceeds of £421.3m were received on 11 June 2025.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1. Accounting policies - continued

#### Going concern - continued

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Group. These include an increase in costs resulting from storm events, higher than expected inflation, lower than expected revenues, which could be attributable to the impacts of weather or other events on consumption and a reduction in connections income.

Given the significant amount of liquidity available to the Group at 31 March 2025, the Group's forecasts under all reasonable scenarios show that there is significant headroom in respect of available liquidity and compliance with financial covenants. Stress testing has been performed and indicates that the level of decline in the Group's financial performance to result in a financial covenant breach is considered remote. Accordingly, the Directors are satisfied it is appropriate to adopt the going concern basis of accounting in the preparation of these financial statements.

#### Intangible assets – IT software and development costs

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

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

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

#### Intangible assets – contract intangible

Contract intangible is the excess purchase consideration above the fair value of assets acquired as part of a business combination. It represents the fair value of long-term revenue generating contracts acquired with the business based on the expectation that these contracts will drive significant future revenue. There are two revenue contracts in Powerlink Renewable Assets Limited with durations of 23 and 14 years respectively, over which the intangible will be amortised.

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

#### Intangible assets – goodwill

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

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

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

#### Joint ventures

In the Group financial statements, investments in joint ventures are accounted for using the equity method. Investments are initially recognised at the transaction price (including transaction costs) and are subsequently adjusted to reflect the Group's share of the profit or loss and other comprehensive income of the joint ventures.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1. Accounting policies - continued

#### Joint ventures - continued

Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

#### Investments

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

#### Tangible fixed assets

Tangible fixed assets are stated at historical cost, net of depreciation and provision for impairment. The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

<b>Network overhead and underground lines (Network)</b>	- 45 to 60 years
<b>Other Network plant and buildings (Network)</b>	- 20 to 60 years
<b>Non-Network buildings</b>	- 60 years
<b>Generation assets</b>	- 23 years
<b>Furniture, fixtures and equipment</b>	- 4 to 15 years
<b>Vehicles</b>	- 5 to 10 years

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

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

#### *Borrowing costs capitalised*

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

#### Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal. Provisions are made for obsolete, slow moving or defective items where appropriate. The cost of work in progress includes materials, direct labour and an attributable proportion of overheads based on normal levels of activity. The cost of raw materials and consumables before being allocated to jobs or use in operations, is calculated using the weighted average cost basis.

#### Taxation

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

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1. Accounting policies - continued

#### Taxation - continued

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the

Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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

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

Pillar Two legislation was enacted in the UK in July 2023, and the Group is within the scope of these rules for periods beginning on or after 1 April 2024. The Group applies the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes in accordance with the amendments provided in Section 29 of FRS 102 issued in July 2023.

#### Turnover

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

#### *Contract revenue*

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

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

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1. Accounting policies - continued

#### Turnover - continued

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

#### Leases

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

#### Pensions

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

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

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

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

#### Provisions

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

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

#### Financial instruments

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

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

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1. Accounting policies - continued

#### Financial instruments - continued

Amortised cost is calculated as:

The amount at which the financial asset or liability is measured at initial recognition;

**Less:** the principal repayments;

**Plus:** the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount. The effective interest rate exactly discounts estimated future cash flows

through the expected life of the instrument back to the initial carrying amount recognised. Discounting is omitted where the effect of discounting is immaterial;

**Less:** any loss allowance in respect of financial assets.

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

#### Financial assets

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

##### Financial Asset

- Fixed asset investment – unlisted
- Trade and other receivables
- Derivatives not designated as hedging instruments\*
- Derivatives designated as hedging instruments\*

##### Subsequent measurement

- At cost less impairment
- At amortised cost less impairment
- At fair value through profit or loss (FVPL)
- Hedge accounting at fair value

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

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

#### Financial liabilities and equity

##### Equity instruments

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

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.



## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1. Accounting policies - continued

#### Financial liabilities and equity - continued

##### *Financial liabilities*

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

##### **Financial Liability**

- Borrowings, trade and other payables
- Derivatives not designated as hedging instruments\*
- Derivatives designated as hedging instruments\*

##### **Subsequent measurement**

- At amortised cost using the effective interest rate method
- At fair value through profit or loss (FVPL)
- Hedge accounting at fair value

\* Derivatives and hedge accounting are discussed in subsequent sections.

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

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

##### *Offsetting of financial instruments*

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

##### *Derecognition of financial instruments*

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

#### **Derivative financial instruments**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 1. Accounting policies - continued

#### Hedge accounting

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

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

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

#### *Cash flow hedges*

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

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

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

#### *Fair value hedges*

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

### 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following paragraphs consider the critical judgements and key sources of estimation uncertainty that may have a significant effect on the amounts recognised in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 2. Critical accounting judgements and key sources of estimation uncertainty - continued

#### Critical judgements in applying the Group's accounting policies

##### *Carrying value of property plant and equipment*

Tangible fixed assets as disclosed in note 11 represent over 80% of the Group's total asset base. The carrying value of the Network asset of £14,498.1m (2024: £13,669.2m) is impacted by management's judgement in the following areas:

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

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

#### Key sources of estimation uncertainty

##### *Valuation of defined benefit obligation*

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

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

Details of the defined benefit pension schemes and the assumptions used to estimate the defined benefit obligation are set out in note 26. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2025.

Assumption	Change in assumption	Impact on scheme liabilities			
		UKPN Group (%)	UKPNPS (%)	UKPN Group (£m)	UKPNPS (£m)
Discount rate	<b>+/-0.50%</b>	-5.2% to 5.7%	-10.5% to 12.1%	(118) - 130	(39) - 45
RPI inflation	<b>+/-0.50%</b>	5.1% to -4.7%	9.7% to -8.6%	116 - (107)	36 - (32)
Life expectancy	<b>+/- 3 years</b>	11.1% to -12.0%	8.4% to -9.2%	251 - (272)	31 - (34)
Rate of salary increases	<b>+/-0.50%</b>	0.4% to -0.4%	5.1% to -4.6%	8 - (8)	19 - (17)

At 31 March 2025 scheme liabilities were valued at £2,268.0m (2024: £2,617.0m) for the UKPN Group scheme and £371.0m (2024: £447.0m) for the UKPNPS Scheme, as disclosed in note 26.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. Segment information

Operating segments have been identified primarily on the basis of internal reports used by the Board and the Executive Management Team (“EMT”), which are the chief decision making bodies assessing the performance of the Group.

The Group is managed as two classes of business:

#### Regulated:

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

#### Unregulated Services:

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

The results and net assets relating to the operating segments during the years ended 31 March 2025 and 31 March 2024 are as follows:

	Regulated		Unregulated Services		Group	
	2025	2024	2025	2024	2025	2024
	£m	£m	£m	£m	£m	£m
<b>Turnover</b>						
Total sales	2,311.6	1,681.3	179.4	162.8	2,491.0	1,844.1
Inter-segment sales	(7.4)	(6.2)	(20.7)	(13.2)	(28.1)	(19.4)
<b>Sales to third parties</b>	<b>2,304.2</b>	<b>1,675.1</b>	<b>158.7</b>	<b>149.6</b>	<b>2,462.9</b>	<b>1,824.7</b>
<b>Segment operating profit</b>	<b>1,302.3</b>	<b>689.1</b>	<b>64.7</b>	<b>60.0</b>	<b>1,367.0</b>	<b>749.1</b>
<b>Finance costs (net)</b>	<b>(208.2)</b>	<b>(274.8)</b>	<b>(9.5)</b>	<b>(7.4)</b>	<b>(217.7)</b>	<b>(282.2)</b>
<b>Profit before taxation</b>	<b>1,094.1</b>	<b>414.3</b>	<b>55.2</b>	<b>52.6</b>	<b>1,149.3</b>	<b>466.9</b>
<b>Segment net assets</b>	<b>5,414.2</b>	<b>4,784.6</b>	<b>169.1</b>	<b>155.1</b>	<b>5,583.3</b>	<b>4,939.7</b>
Share of joint ventures' net assets					0.2	0.2
<b>Net Assets</b>					<b>5,583.5</b>	<b>4,939.9</b>

## **NOTES TO THE FINANCIAL STATEMENTS - continued**

### **4. Turnover**

Total turnover for the year ended 31 March 2025 was £2,462.9m (2024: £1,824.7m). This is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activities of electricity distribution, the management of a number of private electricity networks, electrical contracting services and the invoice value of other goods and services provided.

The Group's largest revenue stream is Distribution Use of System ("DUoS") income which amounted to £2,142.3m (2024: £1,519.9m) in the year. Turnover in the current period benefited from the recovery of additional amounts relating to higher inflation, which was under-recovered in previous financial periods owing to actual rates of inflation being much higher than those assumed when revenue tariffs were set.

Increases in wholesale energy prices and consequent supplier failures has led to an increase in SOLR claims received by the Group in recent years. It was agreed with Ofgem that the majority of these claims would be recovered by revenue tariff increases during the same period as the settlement of the claims. In the prior year the Group recognised additional DuOS revenues of £65.1m to offset the cost of material SOLR claims charged to operating costs. There were no material SOLR revenues or costs in the current period.

Turnover includes the annual impact of contributions from customers towards the cost of connections to the network. This income is initially deferred to the balance sheet and then amortised to turnover over the expected useful lives of the related network assets. The amount of customer contributions released to turnover during the year was £130.8m (2024: £123.8m).

The Group's unregulated Services business earned contract revenue of £158.7m (2024: £149.6m) in the year. This was driven by the increase in RPI and an increase in the volume of contracting for the year ended 31 March 2025 compared to the prior year.

### **5. Operating profit**

Operating profit is stated after charging/(crediting):

<b>Group</b>	<b>2025 £m</b>	<b>2024 £m</b>
Depreciation of tangible fixed assets	<b>402.5</b>	371.2
Amortisation of goodwill	<b>26.9</b>	26.8
Amortisation of other intangible assets	<b>22.7</b>	22.4
Profit on disposal of tangible fixed assets	<b>(1.4)</b>	(0.9)
Operating lease rentals:		
Land and buildings	<b>5.0</b>	5.8

#### *SOLR impact on operating profit*

In the prior year costs of approximately £65.1m relating to material SOLR claims were matched by higher revenues (refer to note 4), with no impact on operating profit. There were no material SOLR revenues or costs in the current period.

NOTES TO THE FINANCIAL STATEMENTS - continued

5. Operating profit - continued

Auditor's remuneration

The analysis of Auditor's remuneration is as follows:

Group	2025 £'000	2024 £'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	21	20
Fees payable to the Company's Auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	610	481
The audit of the parent undertakings	16	15
<b>Total audit fees</b>	<b>647</b>	<b>516</b>
Audit related assurance services	198	195
Other assurance services	150	138
<b>Total non-audit fees</b>	<b>348</b>	<b>333</b>
<b>Total fees payable to the Company's Auditor</b>	<b>995</b>	<b>849</b>

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

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

6. Finance costs (net)

GROUP	2025 £m	2024 £m
<b>Interest payable and similar expenses</b>	<b>(324.2)</b>	<b>(342.8)</b>
<b>Less:</b> investment income	<b>22.9</b>	<b>32.9</b>
<b>Other finance income</b>	<b>83.6</b>	<b>27.7</b>
	<b>(217.7)</b>	<b>(282.2)</b>
<b>Investment income</b>		
Income from fixed asset investments	0.4	0.2
Income from current asset investments	6.3	8.5
Other interest receivable and similar income	0.2	0.2
Net interest income on defined benefit pension surplus	16.0	24.0
	<b>22.9</b>	<b>32.9</b>
<b>Interest payable and similar expenses</b>		
Interest on bank loans	(31.2)	(28.0)
Interest on bonds	(190.8)	(171.1)
Accretion on index linked debt	(21.4)	(43.2)
Interest on shareholder loans	(71.3)	(77.0)
Net interest on swap instruments	8.3	10.8
Accretion on swap instruments	(26.0)	(45.3)
	<b>(332.4)</b>	<b>(353.8)</b>
Finance costs capitalised	8.2	11.0
	<b>(324.2)</b>	<b>(342.8)</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 6. Finance costs (net) – continued

Finance costs have been capitalised on the basis of a capitalisation rate range of 3.4% to 4.0% (2024: 3.7% to 7.2%), which is the weighted average rate of interest and accretion costs applicable to the general borrowings of the distribution businesses outstanding during the year. The cumulative amount of finance costs capitalised within the cost of tangible fixed assets amounts to £152.6m (2024: £144.4m).

GROUP	2025 £m	2024 £m
<b>Other finance income/(costs)</b>		
Fair value gains/(losses) on financial instruments		
Interest rate swaps not in hedge relationships	(3.6)	(2.6)
Index-linked swaps not in hedge relationships	71.1	25.4
Interest rates swaps in fair value hedge relationships	1.5	2.1
Hedged items in fair value hedge relationships	(4.2)	(18.5)
Change in fair value of cost hedging	-	0.1
Exchange gain on bonds hedged by cross currency swaps	1.9	4.4
Exchange loss on cross currency swaps	(1.9)	(4.4)
Exchange loss on forward foreign currency contracts	(0.6)	(0.8)
	<b>64.2</b>	<b>5.7</b>
Amortisation of fair value hedge adjustments	9.5	11.1
Reclassified to profit or loss from hedge reserve	(2.1)	(2.1)
Net gain related to derivative instruments	<b>71.6</b>	<b>14.7</b>
Net interest cost on defined benefit pension deficit	(1.0)	(2.0)
Amortisation of debt fair value acquisition adjustments	13.6	15.6
Other finance charges	(0.6)	(0.6)
	<b>83.6</b>	<b>27.7</b>

### 7. Staff costs

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

GROUP	2025	2024
Direct <sup>1</sup>	3,026	2,891
Indirect <sup>2</sup>	3,362	3,065
	<b>6,388</b>	<b>5,956</b>

<sup>1</sup>Direct staff are those generally employed in activities which involve physical contact with system assets.

<sup>2</sup>Indirect staff support the activities of the Direct staff. This generally does not involve physical contact with system assets.

Their aggregate remuneration comprised:

GROUP	2025 £m	2024 £m
Wages and salaries	505.6	447.9
Social security costs	64.1	56.3
Other pension costs	44.7	42.2
Severance costs	-	0.1
	<b>614.4</b>	<b>546.5</b>



## NOTES TO THE FINANCIAL STATEMENTS - continued

### 7. Staff costs – continued

The disclosures above exclude costs of £31.0m (2024: £27.0m) relating to a monthly average of 313 (2024: 307) agency staff who do not hold service contracts with the Group.

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

### 8. Directors' remuneration and transactions

GROUP	2025 £m	2024 £m
<b>Directors' remuneration</b>		
Emoluments	2.3	2.2
Amounts receivable under long-term incentive plans	0.4	0.3
	<b>2.7</b>	<b>2.5</b>

Only 1 (2024: 1) Director obtains emoluments and long-term incentive plan remuneration from the Group, as a result the remuneration for the highest paid director is consistent with the above.

GROUP	2025 £m	2024 £m
<b>The number of directors who are members of:</b>		
A money purchase pension scheme	1	1

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

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

### 9. Taxation

GROUP	2025 £m	2024 £m
<b>Analysis of tax charge in the year:</b>		
<b>UK current tax</b>		
UK corporation tax	194.6	50.9
Adjustments in respect of prior years	(9.7)	(2.3)
<b>Total current tax charge</b>	<b>184.9</b>	<b>48.6</b>
<b>UK deferred tax</b>		
Origination and reversal of timing differences	103.7	75.5
Adjustments in respect of prior years	7.8	30.4
<b>Total deferred tax charge</b>	<b>111.5</b>	<b>105.9</b>
<b>Total charge for the year</b>	<b>296.4</b>	<b>154.5</b>

The tax assessed for the year is higher than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**9. Taxation – continued**

GROUP	2025 £m	2024 £m
<b>Profit before tax</b>	<b>1,149.3</b>	<b>466.9</b>
<b>Corporation tax at a standard rate of 25% (2024: 25%)</b>	<b>287.3</b>	<b>116.7</b>
Disallowed expenses and non taxable income	11.0	9.7
Adjustments in respect of prior year	(1.9)	28.1
<b>Total tax charge for the year</b>	<b>296.4</b>	<b>154.5</b>

**Tax rate changes**

The current tax rate applied during the year was 25% (2024: 25%) and deferred tax was calculated at 25% (2024: 25%) based on the standard rate of corporation tax substantively enacted at the reporting date.

**Pillar Two**

In December 2021 the OECD published model rules to implement Pillar Two of its Base Erosion and Profit Shifting project, which includes a recommendation for a global minimum effective corporation tax rate for large businesses set at 15%.

Pillar Two legislation was enacted in the UK in July 2023, and the Group is within the scope of these rules for periods beginning on or after 1 April 2024. All entities within the Group are UK tax resident, and so are not subject to Pillar Two rules outside of the UK.

The Group has performed an assessment of its exposure to Pillar Two income taxes for the period, including under the UK domestic top-up tax (DTT) rules. Based on the assessment the Group is not subject to any additional tax liabilities under the new legislation and therefore has not recognised any related tax expense for the current period. All Group entities are currently subject to a headline UK corporation tax rate of 25% and the effective tax rate for the Group based on accounting profit for the current period was 25.8%, which is substantially higher than the minimum 15% rate. Management are not aware of any circumstances under which the effective tax rate of the Group would be expected to fall below the minimum 15% rate in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS - continued

10. Intangible fixed assets

GROUP	IT software and development costs  £m	Contract intangible  £m	Goodwill  £m	Total  £m
<b>Cost</b>				
At 1 April 2024	319.0	-	2,149.0	<b>2,468.0</b>
Additions	41.7	-	-	<b>41.7</b>
Acquisitions through business combinations (note 29)	-	46.5	-	<b>46.5</b>
<b>At 31 March 2025</b>	<b>360.7</b>	<b>46.5</b>	<b>2,149.0</b>	<b>2,556.2</b>
<b>Amortisation</b>				
At 1 April 2024	259.2	-	361.1	<b>620.3</b>
Charge for the year	20.6	2.1	26.9	<b>49.6</b>
<b>At 31 March 2025</b>	<b>279.8</b>	<b>2.1</b>	<b>388.0</b>	<b>669.9</b>
<b>Net book value</b>				
<b>At 31 March 2025</b>	<b>80.9</b>	<b>44.4</b>	<b>1,761.0</b>	<b>1,886.3</b>
At 31 March 2024	59.8	-	1,787.9	1,847.7

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

The contract intangible arises from the acquisition of Powerlink Renewable Assets Limited. See note 29.

Goodwill arising from the acquisition of the business in October 2010 is being amortised on a straight-line basis over an estimated useful life of 80 years which reflects the long term nature of the distribution licences under which the regulated business operates and the long term contracts of the unregulated business. A review for impairment of goodwill is carried out annually. There was no impairment loss recorded in the current year (2024: £nil).

The amortisation charge of £49.6m (2024: £49.2m) is included within operating costs in the consolidated profit and loss account.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

11. Tangible fixed assets

GROUP	Network	Assets under construction	Generation assets	Non-network land and buildings	Furniture fixtures and equipment	Vehicles	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Cost</b>							
At 1 April 2024	20,593.9	224.9	-	129.7	547.4	104.0	<b>21,599.9</b>
Additions	1,062.3	162.2	0.7	16.5	29.8	27.9	<b>1,299.4</b>
Acquisitions through business combinations (note 29)	-	-	58.4	-	-	-	<b>58.4</b>
Transfers	105.4	(105.4)	-	-	-	-	<b>-</b>
Disposals	(18.7)	-	-	-	(0.5)	(15.2)	<b>(34.4)</b>
<b>At 31 March 2025</b>	<b>21,742.9</b>	<b>281.7</b>	<b>59.1</b>	<b>146.2</b>	<b>576.7</b>	<b>116.7</b>	<b>22,923.3</b>
<b>Depreciation</b>							
At 1 April 2024	6,894.7	-	-	39.5	477.0	63.2	<b>7,474.4</b>
Charge for the year	368.3	-	2.4	2.1	17.8	11.9	<b>402.5</b>
Disposals	(18.2)	-	-	-	(0.3)	(14.8)	<b>(33.3)</b>
<b>At 31 March 2025</b>	<b>7,244.8</b>	<b>-</b>	<b>2.4</b>	<b>41.6</b>	<b>494.5</b>	<b>60.3</b>	<b>7,843.6</b>
<b>Net book value</b>							
<b>At 31 March 2025</b>	<b>14,498.1</b>	<b>281.7</b>	<b>56.7</b>	<b>104.6</b>	<b>82.2</b>	<b>56.4</b>	<b>15,079.7</b>
Net book value							
At 31 March 2024	13,699.2	224.9	-	90.2	70.4	40.8	14,125.5

Network assets at 31 March 2025 include land of £80.3m (2024: £70.2m).

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

GROUP	2025 £m	2024 £m
Freehold land	15.9	5.6
Freehold buildings	88.0	83.8
Short leasehold	0.7	0.8
	<b>104.6</b>	<b>90.2</b>

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

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**12. Investments**

	<b>Group</b>		<b>Company</b>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Subsidiary undertakings	-	-	<b>3,064.1</b>	3,064.1
Other investments and loans	<b>0.1</b>	0.1	-	-
	<b>0.1</b>	0.1	<b>3,064.1</b>	3,064.1

**Group investments**

The Company and the Group have investments of ordinary share capital in the following entities:

<b>Subsidiaries</b>	<b>Principal activity</b>	<b>%</b>
UK Power Networks (Operations) Ltd	Maintenance of distribution networks	100%
London Power Networks plc <sup>1</sup>	Management of distribution network	100%
Eastern Power Networks plc <sup>1</sup>	Management of distribution network	100%
South Eastern Power Networks plc <sup>1</sup>	Management of distribution network	100%
UK Power Networks (Distribution System Operator) <sup>1</sup> Ltd	Dormant	100%
Lea Valley Utilities Ltd <sup>1</sup>	Dormant	100%
UK Power Networks (IDNO Finance) Ltd <sup>1</sup>	Dormant	100%
UK Power Networks (IDNO) Ltd	Dormant	100%
UK Power Networks (South East Services) Ltd <sup>1</sup>	Groundworks contracting	100%
UK Power Networks (Transport) Ltd	Provision of transport services	100%
UK Power Networks Insurance Ltd <sup>1</sup>	Insurance	100%
UK Power Networks Group (Trustee) Ltd <sup>1</sup>	Pension Trustee	100%
UK Power Networks (Trustee) Ltd <sup>1</sup>	Pension Trustee	100%
UK Power Networks Services Holdings Ltd <sup>1</sup>	Holding company	100%
UK Power Networks Services (Contracting) Ltd	Electricity distribution projects	100%
UK Power Networks Services (Enterprises) Ltd	Investments in commercial projects	100%
UK Power Networks Services (South East) Ltd	Holding company	100%
UK Power Networks Services (Development) Ltd	Holding company	100%
UK Power Networks Services (Asset Management) Ltd	Holding company	100%
UK Power Networks Services (Commercial) Ltd	Electrical contracting	100%
UK Power Networks Services (Powerlink Holdings) Ltd	Holding company	100%
UK Power Networks Services Powerlink Ltd	Non trading	100%
Energy Infrastructure Networks Ltd	Dormant	100%
Power Asset Development Co (PADCO)	Non trading	100%
Powerlink Renewable Assets Ltd	Renewable energy generation	100%
<b>Joint venture (note 13)</b>		
MUJV Ltd	Utility infrastructure management	49.9%

<sup>1</sup>Held directly by UK Power Networks Holdings Ltd.

The subsidiary UK Power Networks Insurance Limited is registered at:  
Second floor, Block A, Lefebvre Court,  
Lefebvre Street,  
St Peter Port, GY1 2JP, Guernsey

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 12. Investments – continued

The joint venture MUJV Limited is registered at:  
Aspire Business Centre,  
Ordnance Road, Tidworth,  
Wiltshire, SP9 7QD, United Kingdom

All other entities listed above are registered at:  
Newington House,  
237 Southwark Bridge Road,  
London, SE1 6NP, United Kingdom

### 13. Investments in joint ventures

GROUP	2025 £m
<b>Share of net assets</b>	
At 1 April 2024	0.2
Profit after tax	-
<b>Net book value at 31 March 2025</b>	<b>0.2</b>

### MUJV Ltd

The Group holds a 49.9% interest in MUJV Ltd as part of a jointly controlled utility infrastructure management project.

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

GROUP	2025 £m	2024 £m
Turnover	2.4	2.4
Profit before tax	-	-
Taxation	-	-
Profit after tax	-	-
Current assets	2.0	2.4
Liabilities due within one year	(1.8)	(2.2)

### 14. Stocks

GROUP	2025 £m	2024 £m
Raw materials and consumables	92.5	71.3
Work in progress	36.6	27.7
	<b>129.1</b>	<b>99.0</b>

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

NOTES TO THE FINANCIAL STATEMENTS - continued

15. Debtors

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
<b>Amounts falling due within one year:</b>					
Trade debtors		318.3	233.3	-	-
Amounts recoverable on contracts		0.3	0.3	-	-
Amounts owed by related party undertakings	28	-	16.2	-	13.6
Amounts owed by Group undertakings		-	-	12.4	11.9
Amounts owed by joint ventures		3.1	4.0	-	-
Other debtors		3.3	5.9	-	-
Corporation tax		15.6	12.4	10.9	4.9
Prepayments		39.1	31.2	-	-
Accrued income		7.4	2.4	-	-
Derivative financial assets	20	-	7.2	-	-
		387.1	312.9	23.3	30.4
<b>Amounts falling due after more than one year:</b>					
Prepayments		31.0	30.6	-	-
Derivative financial assets	20	103.2	101.1	-	-
Surplus in the defined benefit pension schemes	26	414.0	331.0	-	-
		548.2	462.7	-	-
		935.3	775.6	23.3	30.4

**Company**

Amounts owed by Group undertakings comprise interest free trade balances and a loan to UK Power Networks (Operations) Limited of £11.7m (2024: £11.3m) which is repayable on demand and bears interest at 5.3% (2024: 5.1%).

16. Creditors: amounts falling due within one year

	Note	Group		Company	
		2025 £m	2024 £m	2025 £m	2024 £m
Trade creditors		29.3	29.5	-	-
Borrowings	18	178.7	304.6	283.2	279.8
Amounts owed to Group undertakings		-	-	3.8	3.8
Amounts owed to joint ventures		45.5	45.0	-	-
Other creditors		88.4	88.1	-	-
Other taxation and social security		83.9	46.3	-	-
Payments received on account		76.1	86.6	-	-
Accruals		353.3	375.3	23.7	28.7
Deferred income		627.0	584.6	-	-
Derivative financial liabilities	20	1.3	0.7	-	-
		<b>1,483.5</b>	<b>1,560.7</b>	<b>310.7</b>	<b>312.3</b>



## NOTES TO THE FINANCIAL STATEMENTS - continued

### 16. Creditors: amounts falling due within one year - continued

#### Company

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

#### Group

Deferred income includes £138.7m (2024: £131.4m) from customer contributions, expected to be released to profit or loss within one year. Contributions received from customers for connections work are held as deferred income and released to turnover over the expected useful lives of the related network assets (also discussed in note 17).

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

	Note	Group		Company	
		2025 £m	2024 £m	2025 £m	2024 £m
Borrowings	18	5,971.2	5,630.3	1,164.2	1,164.2
Deferred income		3,563.6	3,386.6	-	-
Derivative financial liabilities	20	406.7	441.5	-	-
		<b>9,941.5</b>	<b>9,458.4</b>	<b>1,164.2</b>	<b>1,164.2</b>

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

### 18. Borrowings

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
<b>Amounts falling due within one year</b>				
Amounts owed to Group undertakings	-	-	283.2	279.8
Revolving credit facility	75.0	-	-	-
£50m 0.01% EIB Index linked loan due November 2024	-	73.7	-	-
£40m 0.25% Index Linked Bond due February 2025	-	58.9	-	-
£25m 0.25% Index Linked Bond due February 2025	-	36.8	-	-
£132.3m 8.5% Bond due March 2025	-	132.2	-	-
£50m 2.335% EIB loan due October 2025	50.0	-	-	-
£35m 0.032% Index Linked Bond due October 2025	53.7	-	-	-
Adjustments for fair value hedge relationships	-	(0.5)	-	-
Fair value adjustment to bonds at acquisition	-	3.5	-	-
	<b>178.7</b>	<b>304.6</b>	<b>283.2</b>	<b>279.8</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**18. Borrowings – continued**

**Company**

Amounts owed to Group undertakings due within one year comprise an interest free subordinated loan of £145.0m (2024: £145.0m) repayable on demand from UK Power Networks Services (South East) Limited, £11.7m (2024: £11.3m) repayable on demand from UK Power Networks Insurance Limited bearing interest at 5.3% (2024: 5.1%), short term loans of £69.5m (2024: £56.5m) from UK Power Networks Operations Limited, £57.0m (2024: £nil) from Eastern Power Networks plc and £nil (2024: £67.0m) from South Eastern Power Networks plc bearing interest at 4.8% (2024: 5.6%).

	<b>Group</b>		<b>Company</b>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Amounts falling due after more than one year</b>				
Amounts owed to Group undertakings	-	-	<b>475.0</b>	475.0
Shareholder loans due June 2041	<b>774.2</b>	774.2	<b>689.2</b>	689.2
£150m Bank loan due January 2030	<b>149.7</b>	149.7	-	-
£100m Bank loan due January 2033	<b>99.7</b>	99.7	-	-
£50m 2.335% EIB loan due October 2025	-	50.0	-	-
£130m 2.234% EIB loan due March 2028	<b>130.0</b>	130.0	-	-
£220m 1.614% EIB loan due October 2028	<b>220.0</b>	220.0	-	-
£35m 2.070% EIB loan due April 2029	<b>35.0</b>	35.0	-	-
£30m 2.155% EIB loan due May 2029	<b>30.0</b>	30.0	-	-
£70m 2.224% EIB loan due February 2030	<b>70.0</b>	70.0	-	-
£15m 2.335% EIB loan due June 2030	<b>15.0</b>	15.0	-	-
£350m 5.375% Bond due October 2039	<b>347.4</b>	-	-	-
£35m 0.032% Index Linked Bond due October 2025	-	51.9	-	-
£150m 3.125% Index Linked Bond due June 2032	<b>332.9</b>	321.4	-	-
£100m 2.562% Index Linked Bond due June 2043	<b>104.6</b>	101.6	-	-
£270m 5.5% Bond due June 2026	<b>269.8</b>	269.7	-	-
£300m 6.125% Bond due June 2027	<b>300.6</b>	300.9	-	-
£250 2.625% Bond due March 2029	<b>249.2</b>	249.0	-	-
£300m 5.625% Bond due September 2030	<b>311.1</b>	313.1	-	-
£300m 6.375% Bond due November 2031	<b>299.0</b>	298.8	-	-
£250m 2.125% Bond due November 2033	<b>248.2</b>	248.0	-	-
£300m 1.75% Bond due September 2034	<b>297.5</b>	297.2	-	-
£300m 1.875% Bond due June 2035	<b>298.4</b>	298.2	-	-
£350m 6.25% Bond due November 2036	<b>347.0</b>	346.7	-	-
£300m 5.875% Bond due November 2040	<b>295.5</b>	295.3	-	-
£350m 5.375% Bond due February 2042	<b>343.8</b>	343.7	-	-
£100m 2.667% Loan Notes due October 2041	<b>99.6</b>	99.6	-	-
£100m 2.664% Loan Notes due October 2041	<b>99.6</b>	99.6	-	-
Fair value adjustment to bonds at acquisition	<b>66.5</b>	76.5	-	-
Adjustments for fair value hedge relationships	<b>13.6</b>	19.4	-	-
JPY 5 billion 1.035% Bond due July 2038	<b>33.7</b>	33.7	-	-
Exchange gain adjustment on JPY Bond	<b>(8.0)</b>	(7.6)	-	-
HKD 980m 4.267% Bond due March 2035	<b>99.1</b>	-	-	-
Exchange gain adjustment on HKD Bond	<b>(1.5)</b>	-	-	-
	<b>5,971.2</b>	<b>5,630.3</b>	<b>1,164.2</b>	<b>1,164.2</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 18. Borrowings – continued

#### Group

The Shareholder loans of £774.2m (2024: £774.2m), maturing in June 2041, are drawn from a £3 billion shareholder loan facility and bear interest at a rate of 8.125% (2024: 9.950%). The amounts due to shareholder counterparties are as follows:

- £309.7m due to Express Train Limited (previously due to CKI Number 1 Limited)
- £309.7m due to Devin International Limited (previously due to Framework Investment Limited)
- £154.8m due to Apex Harmony Group Limited (previously due to Eagle Frame Limited)

The changes to the lending entities and the reduction in the interest rate from 9.950% to 8.125% were the result of a loan restructure in October 2024. The loan amounts and maturity date of June 2041 remained the same.

Term loans from the EIB amount to a nominal value of £550.0m with maturities ranging from 2025 to 2030 and bearing interest at between 1.614% and 2.335%.

The carrying values of the bonds are stated net of fees of £26.5m (2024: £26.9m) and include premiums amounting to £11.7m (2024: £14.0m). The RPI and CPI index linked bonds include accretion of £202.2m (2024: £219.7m) and £4.9m (2024: £1.9m) respectively. These balances together with the interest expense are allocated to the profit and loss account over the term of the borrowings.

#### *Fair value adjustments to bonds at acquisition*

Bonds acquired with the Networks business in October 2010 were measured at their fair value on the date of acquisition and subsequently at amortised cost. The fair value adjustment is being amortised to the profit and loss account over the life of the bonds. The unamortised adjustment amounts to £66.5m (2024: £80.0m) and are shown on separate lines in the tables above.

#### *Adjustments for fair value hedge relationships*

The cumulative adjustment to the carrying amount of the bonds, arising from fair value hedge relationships with interest rate swaps, amounts to £nil (2024: £0.5m) within current debt, and £13.6m (2024: £19.4m) in non-current debt (shown on separate lines in the tables above). The movement during the year comprises a fair value loss of £4.2m (2024: £18.5m) within existing hedge relationships and an amortisation adjustment of £9.5m (2024: £11.1m) relating to discontinued hedge relationships. The fair value adjustment amortises to profit or loss from the date of cessation of the fair value hedge until the maturity of the hedged debt.

#### *Security*

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

#### *Committed borrowing facilities*

The Group has access to a committed revolving credit facility of £500m until 2028 of which £nil (2024: £nil) was drawn at the balance sheet date.

#### *New debt*

To refinance debt which matured during the year, the Group raised additional finance of £449m in the form of fixed rate bonds. A £350m bond was issued on 2 October 2024 which bears interest at a fixed rate of 5.375% and matures in 2039. In March 2025, a bond of HKD 980m maturing in 2035 was issued with a fixed interest rate of 4.267% and simultaneously swapped to £99.1m with a fixed interest rate of 5.370%.

In August 2024 the Group gained access to a £75m uncommitted revolving credit facility which provides short term funding at a floating SONIA + margin interest rate. This was fully drawn at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 18. Borrowings – continued

#### Company

The Company's Shareholder loans comprise the following:

- £275.7m due to Express Train Limited (previously due to CKI Number 1 Limited)
- £275.7m due to Devin International Limited (previously due to Framework Investment Limited)
- £137.8m due to Apex Harmony Group Limited (previously due to Eagle Frame Limited)

These amounts are drawn from a £3 billion shareholder loan facility bearing interest at 8.125% (2024: 9.950%) and mature in June 2041. The changes to the shareholder lending entities and the reduction in the interest rate from 9.950% to 8.125% were the result of a loan restructure in October 2024. The loan amounts and maturity date of June 2041 remained the same.

Amounts owed to Group undertakings due after more than one year are loans from the distribution businesses of £475.0m at 2.56% interest and due for repayment in June 2026.

### 19. Financial Instruments

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

GROUP	Note	2025 £m	2024 £m
<b>Financial assets</b>			
Measured at fair value through profit or loss			
- <i>Derivative financial assets</i>	20	95.7	97.2
		<b>95.7</b>	97.2
Measured at fair value and designated in an effective hedge relationship			
- <i>Derivative financial assets</i>	20	7.5	11.1
		<b>7.5</b>	11.1
Measured at amortised cost			
- <i>Trade and other debtors (excluding prepayments and accrued income)</i>	15	325.0	259.7
		<b>325.0</b>	259.7
Equity instruments measured at cost less impairment			
- <i>Fixed asset unlisted investments</i>	12	0.1	0.1
- <i>Investment in joint ventures</i>	13	0.2	0.2
		<b>0.3</b>	0.3
		<b>428.5</b>	368.3

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 19. Financial Instruments – continued

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

GROUP	Note	2025 £m	2024 £m
<b>Financial liabilities</b>			
Measured at fair value through profit or loss			
- <i>Derivative financial liabilities</i>	20	(401.5)	(438.5)
		(401.5)	(438.5)
Measured at fair value and designated in an effective hedge relationship			
- <i>Derivative financial liabilities</i>	20	(6.5)	(3.7)
		(6.5)	(3.7)
Measured at amortised cost and designated in an effective hedge relationship			
- <i>Bonds<sup>1</sup></i>	18	(123.3)	(128.9)
		(123.3)	(128.9)
Measured at amortised cost			
- <i>Bonds<sup>2</sup> and loans payable</i>	18	(6,026.6)	(5,806.0)
- <i>Trade and other creditors (excluding taxation and social security and accruals and deferred income)</i>	16	(193.8)	(204.2)
- <i>Amounts owed to joint ventures</i>	16	(45.5)	(45.0)
		(6,265.9)	(6,055.2)
		(6,797.2)	(6,626.3)

<sup>1</sup>Bonds measured at amortised cost and designated in an effective hedge relationship include net fair value gains of £nil (2024: £0.8m) relating to fair value hedges and fair value gains £9.5m (2024: £7.6m) relating to cash flow hedges.

<sup>2</sup>Bonds measured at amortised cost include fair value losses of £13.6m (2024: £19.7m) relating to discontinued fair value hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS - continued

19. Financial Instruments – continued

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

GROUP	2025 £m	2024 £m
<b>Derivative financial assets measured at fair value through profit or loss</b>		
Interest rate swaps not in hedge relationships		
- <i>Net interest receivable</i>	19.6	23.5
- <i>Fair value losses</i>	(0.9)	(3.8)
	18.7	19.7
Index linked swaps not in hedge relationships		
- <i>Net interest receivable</i>	4.4	4.6
- <i>Accretion payable</i>	(0.1)	(0.2)
- <i>Fair value gains</i>	8.4	6.0
	12.7	10.4
	31.4	30.1
<b>Derivative financial assets measured at fair value and designated in effective hedge relationships</b>		
Interest rate swaps designated as cash flow hedges		
- <i>Net interest receivable</i>	3.8	3.9
- <i>Fair value gains deferred to cash flow hedge reserve</i>	3.6	2.6
	7.4	6.5
Interest rate swaps designated as fair value hedges		
- <i>Net interest payable</i>	(1.6)	(1.7)
- <i>Fair value gains</i>	1.5	0.3
	(0.1)	(1.4)
	7.3	5.1
	38.7	35.2

NOTES TO THE FINANCIAL STATEMENTS - continued

19. Financial Instruments – continued

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

GROUP	2025 £m	2024 £m
<b>Derivative financial liabilities measured at fair value through profit or loss</b>		
Interest rate swaps not in hedge relationships		
- <i>Net interest payable</i>	(14.8)	(18.8)
- <i>Fair value (losses)/gains</i>	(2.7)	1.2
	(17.5)	(17.6)
Index linked swaps not in hedge relationships		
- <i>Net interest (payable)/receivable</i>	(2.3)	2.4
- <i>Accretion payable</i>	(25.9)	(45.1)
- <i>Fair value gains</i>	62.7	19.4
	34.5	(23.3)
Forward foreign currency contracts		
- <i>Exchange losses</i>	(0.6)	(0.8)
	(0.6)	(0.8)
	16.4	(41.7)
<b>Derivative financial liabilities measured at fair value and designated in effective hedge relationships</b>		
Cross currency swaps designated as cash flow hedges		
- <i>Net interest payable</i>	(0.8)	(0.7)
- <i>Fair value (losses)/gains deferred to cash flow hedge reserve</i>	(0.5)	0.4
- <i>Fair value losses deferred to cost of hedging reserve</i>	(0.4)	(0.4)
- <i>Change in fair value of cost of hedging through profit or loss</i>	-	0.1
- <i>Exchange losses measured through profit or loss</i>	(1.9)	(4.4)
	(3.6)	(5.0)
Interest rate swaps designated as fair value hedges		
- <i>Net interest payable</i>	-	(2.4)
- <i>Fair value gains</i>	-	1.8
	-	(0.6)
	(3.6)	(5.6)
<b>Financial liabilities which are hedged items in effective hedge relationships</b>		
JPY and HKD bonds in cash flow hedge relationships		
- <i>Interest payable</i>	(0.5)	(0.3)
- <i>Exchange gains through profit or loss</i>	1.9	4.4
	1.4	4.1
Sterling bonds in fair value hedge relationships		
- <i>Fair value losses measured through profit or loss</i>	(4.2)	(18.5)
	(4.2)	(18.5)
	(2.8)	(14.4)
<b>Financial liabilities measured at amortised cost</b>		
- <i>Interest payable on bonds and bank loans</i>	(221.5)	(198.8)
- <i>Accretion payable on bonds and bank loans</i>	(21.4)	(43.2)
- <i>Interest payable on shareholder loans</i>	(71.3)	(77.0)
	(314.2)	(319.0)
	(304.2)	(380.7)



NOTES TO THE FINANCIAL STATEMENTS - continued

20. Derivative financial instruments

GROUP	Due within one year		Due after one year	
	2025 £m	2024 £m	2025 £m	2024 £m
<b>Derivative financial assets</b>				
Interest rate swaps designated as effective cash flow hedges	-	-	7.5	3.9
Interest rate swaps designated as effective fair value hedges	-	7.2	-	-
Index linked swaps not designated in hedging relationships	-	-	35.4	27.4
Interest rate swaps not designated in hedging relationships	-	-	60.3	69.8
	-	7.2	103.2	101.1
<b>Derivative financial liabilities</b>				
Cross currency swaps designated as effective cash flow hedges	-	-	(6.5)	(3.7)
Interest rate swaps not designated in hedging relationships	-	-	(27.8)	(33.8)
Index linked swaps not designated in hedging relationships	-	-	(372.4)	(404.0)
Forward foreign currency contracts	(1.3)	(0.7)	-	-
	(1.3)	(0.7)	(406.7)	(441.5)
	(1.3)	6.5	(303.5)	(340.4)

Interest rate swaps are used to manage the interest rate risk on the Group's borrowings to provide a mix of fixed and floating rate interest aligned to the cost of debt allowance in Ofgem's cost price control. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest calculated on agreed notional principal amounts. Index linked swaps are used to partially hedge the indexation exposure on the Group's regulated income by exchanging floating or fixed interest rates with RPI and CPI inflation linked rates. Cross currency swap contracts hedge the exchange rate risk on foreign currency denominated bonds by exchanging the principal and interest due in foreign currency with equivalent sterling values.

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

The fair value of the swap instruments at the reporting date is determined by discounting the future cash flows implicit in the swaps. The discount rate and cash flows are derived from the forward interest rate SONIA Overnight Index Swap ("OIS") curve and forward RPI and CPI inflation curves, adjusted for the Group's own credit risk in respect of swap liabilities and counterparty credit risk in respect of swap assets.

NOTES TO THE FINANCIAL STATEMENTS - continued

20. Derivative financial instruments – continued

Cash Flow Hedges

GROUP	Average contract fixed interest rate		Notional principal value		Fair value	
	2025 %	2024 %	2025 £m	2024 £m	2025 £m	2024 £m
<b>Maturity of outstanding contracts</b>						
<b>Interest rate swap contracts</b>						
<i>Receive floating/pay fixed</i>						
5 years plus	4.6%	4.6%	250.0	250.0	7.5	3.9
<b>Cross currency swap on JPY bond</b>						
<i>Receive fixed JPY rate / Pay fixed sterling rate</i>						
5 years plus	3.0%	3.0%	33.8	33.8	(4.0)	(3.7)
<b>Cross currency swap on HKD bond</b>						
<i>Receive fixed HKD rate / Pay fixed sterling rate</i>						
5 years plus	5.4%	-	99.1	-	(2.5)	-

*Receive floating / pay fixed – Interest rate swap contracts*

The Group holds fixed to floating rate contracts with a notional value of £250m to hedge the interest rate exposure on floating rate bank loans. The swaps exchange a SONIA + margin floating rate with an average fixed rate of 4.6%, and were effective as cash flow hedges throughout the year. The maturation dates of the swaps are aligned to the maturities of the loans, ranging from 2030 to 2033.

*Receive fixed forex rate/ pay fixed sterling rate – Cross currency swap contracts*

The Group holds two cross currency swaps to hedge the exchange rate exposure on the JPY 5 billion bond due for repayment in July 2038, bearing interest at 1.035% and the HKD 980m bond due for repayment in March 2035, bearing interest at 4.267%. The swaps are designated as effective cash flow hedges, exchanging the JPY/HKD principal and the JPY/HKD interest payments with the equivalent values in Sterling.

In relation to the cash flow hedges described above, net gains of £2.7m (2024: £2.6m) were recognised during the year through other comprehensive income in the cash flow hedge reserve and cost of hedging reserve (refer to note 22 for further detail). In addition, cost of hedging gains of £nil (2024: gains of £0.1m) were taken to profit or loss.

*Historical cash flow hedge relationships*

During the year £2.1m (2024: £2.1m) of the deferred loss from former cash flow hedge relationships was reclassified from the hedge reserve to profit or loss. These cash flow hedges were interest rate swaps used to hedge the interest rate risk on future borrowings. Fair value losses on the swaps were deferred to the hedge reserve until the issue of the new debt and then amortised to profit or loss over the debt term.

NOTES TO THE FINANCIAL STATEMENTS - continued

20. Derivative financial instruments – continued

Fair value hedge interest rate swaps

GROUP	Average contract fixed interest rate		Notional principal value		Fair value	
	2025 %	2024 %	2025 £m	2024 £m	2025 £m	2024 £m
<b>Maturity of outstanding contracts</b>						
<i>Pay fixed/ receive floating</i>						
Under 1 year	-	8.5%	-	103.7	-	7.2

Fair value hedge interest rate swaps exchanged fixed rate interest for floating rate interest as a hedge against the fair value risk on a portion of the Group's bond debt. The floating rate payable was SONIA plus a margin of 5.1%. These swaps matured in March 2025.

Fair value gains of £1.5m (2024: £2.1m) were recognised in profit or loss during the year and fair value losses of £4.2m (2024: £18.5m) were adjusted to the carrying amount of the bonds as part of the hedge relationships.

*Historical fair value hedge relationships*

The fair value adjustment on bonds relating to discontinued hedge relationships, amortises to profit or loss over the remaining term of the relevant bond, from the date of cessation of the fair value hedge. The total amortisation adjustment for the year was a gain of £9.5m (2024: £11.1m) to profit or loss.

Non hedge interest rate swaps

GROUP	Average contract fixed interest rate		Notional principal value		Fair value	
	2025 %	2024 %	2025 £m	2024 £m	2025 £m	2024 £m
<b>Maturity of outstanding contracts</b>						
<i>Receive fixed/pay floating</i>						
2 to 5 years	4.7%	5.8%	650.0	450.0	(4.5)	(8.7)
5 years plus	6.1%	5.4%	375.0	575.0	(22.5)	(23.2)
			1,025.0	1,025.0	(27.0)	(31.9)
<i>Receive floating/pay fixed</i>						
2 to 5 years	3.3%	2.2%	650.0	450.0	18.3	29.1
5 years plus	2.3%	2.9%	375.0	575.0	41.2	38.8
			1,025.0	1,025.0	59.5	67.9

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

*Receive fixed/pay floating*

The floating rate payable on fixed to floating rate contracts is SONIA plus a margin of up to 3.6%. Maturities range from 2026 to 2031. In addition to interest receivable on these instruments, fair value gains of £2.9m (2024: £0.4m) were recognised in profit or loss during the year.

*Receive floating/pay fixed*

The Group has partially re-fixed the floating rates achieved by the fixed to floating rate contracts to align the interest rate profile of the Company more closely to regulatory allowances. The floating rate receivable on the floating to fixed rate contracts is SONIA plus a margin of up to 0.3%. Maturities range from 2026 to 2031. In addition to interest payable on these instruments, fair value losses of £6.5m (2024: £3.0m) were recognised in profit or loss during the year.

NOTES TO THE FINANCIAL STATEMENTS - continued

20. Derivative financial instruments – continued

Non hedge index linked swap contracts

GROUP	Average contract fixed interest rate		Notional principal value		Fair value	
	2025 %	2024 %	2025 £m	2024 £m	2025 £m	2024 £m
<b>Maturity of outstanding contracts</b>						
<i>Receive fixed/pay fixed + RPI</i>						
2 to 5 years	<b>6.0%</b>	6.0%	<b>422.9</b>	422.9	<b>(286.2)</b>	(291.8)
<i>Receive floating/pay fixed + RPI</i>						
5 years plus	-	-	<b>150.0</b>	150.0	<b>(48.0)</b>	(79.1)
<i>Receive RPI accretion/pay CPI accretion + fixed amount</i>						
5 years plus	-	-	<b>772.1</b>	772.1	<b>(2.8)</b>	(5.7)
			<b>1,344.9</b>	1,344.9	<b>(337.0)</b>	(376.6)

The Group uses RPI and CPI linked swap contracts to convert a portion of the fixed rate bond interest payable to an inflation linked rate. Although designed as an economic hedge against the new CPIH exposure of the Group's regulated income, which was previously RPI linked, these instruments are not designated in formal hedge accounting relationships. The index linked swaps receive a combination of fixed and floating rate interest and pay inflation linked interest. Maturities range from 2026 to 2041.

During the year fair value gains of £71.1m (2024: £25.4m) were recognised in profit or loss together with an accretion charge of £26.0m (2024: £45.3m) offset by net interest receivable of £2.0m (2024: £7.0m).

Fair values at 31 March 2025 includes accretion of £201.8m (2024: £179.7m).

Forward foreign currency contracts

GROUP	Average contract exchange rate		Notional value		Fair value	
	2025	2024	2025 £m	2024 £m	2025 £m	2024 £m
<b>Maturity of outstanding contracts</b>						
<i>Buy Euros</i>						
Less than 1 year	<b>1.145</b>	1.141	<b>60.3</b>	65.7	<b>(1.3)</b>	(0.7)

At the balance sheet date the Group held forward foreign currency contracts worth 69.0m Euros (2024: 75.0m Euros) to hedge the exchange rate exposure on Euro denominated equipment purchases. Hedge accounting was not adopted for these transactions.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**21. Provision for liabilities**

	Note	Group		Company	
		2025 £m	2024 £m	2025 £m	2024 £m
Deferred tax liability		1,032.2	885.5	-	-
Environmental restoration		12.1	14.5	-	-
Other provisions		67.9	58.5	-	-
		<b>1,112.2</b>	<b>958.5</b>	<b>-</b>	<b>-</b>
<b>Defined benefit retirement obligations</b>					
Deficit in the UKPNPS defined benefit pension scheme	26	-	48.0	-	-
		<b>1,112.2</b>	<b>1,006.5</b>	<b>-</b>	<b>-</b>

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

GROUP	Deferred Tax £m	Environmental restoration £m	Other £m	Total £m
At 1 April 2024	885.5	14.5	58.5	958.5
Charge/(credit) to profit and loss account	111.5	(2.4)	9.4	118.5
Charge to other comprehensive income	18.3	-	-	18.3
Arising on acquisition (see note 29)	16.9	-	-	16.9
<b>At 31 March 2025</b>	<b>1,032.2</b>	<b>12.1</b>	<b>67.9</b>	<b>1,112.2</b>

**Environmental restoration**

A provision of £12.1m (2024: £14.5m) represents the estimated cost of restoring sites where oil has leaked from cables or equipment. This was a contingent liability recognised as part of the fair value of the business at acquisition in 2010. The estimate includes the cost of repairing or replacing the equipment as well as the associated excavation works. The provision is stated at the present value of the estimated expenditure discounted at 2.6% (2024: 2.6%). The majority of the restoration costs are expected to arise within five years.

**Other**

The Group has other potential tax, legal and constructive obligations of £67.9m (2024: £58.5m), which are expected to become payable within two to five years.

Deferred taxation is provided in the financial statements as follows:

GROUP	2025 £m	2024 £m
Accelerated capital allowances	952.7	871.5
Deferred tax relating to defined benefit pension schemes	103.5	70.7
Timing differences on derivative financial instruments	(31.2)	(50.0)
Other timing differences	7.2	(6.7)
<b>Provision for deferred tax</b>	<b>1,032.2</b>	<b>885.5</b>

The Group applies the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes in accordance with the amendments provided in Section 29 of FRS 102 issued in July 2023.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 22. Share capital and reserves

#### Share capital: Allotted, called up and fully paid

GROUP	2025 Number	2024 Number	2025 £m	2024 £m
New Ordinary shares of £1 each	610,000,000	610,000,000	610.0	610.0
	<b>610,000,000</b>	<b>610,000,000</b>	<b>610.0</b>	<b>610.0</b>

#### Reserves

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

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

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

#### Cash flow hedge reserve

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

#### Cost of hedging reserve

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

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

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

GROUP	Cash flow hedge reserve £m	Cost of hedging reserve £m	Hedging reserves £m
<b>At 1 April 2023</b>	(5.0)	(0.3)	<b>(5.3)</b>
Fair value gains/(losses) during the year	3.0	(0.4)	<b>2.6</b>
Reclassified to profit and loss	2.1	-	<b>2.1</b>
Tax relating to movements in hedge reserves	(1.3)	0.1	<b>(1.2)</b>
<b>At 31 March 2024</b>	<b>(1.2)</b>	<b>(0.6)</b>	<b>(1.8)</b>
Fair value gains/(losses) during the year	3.1	(0.4)	2.7
Reclassified to profit and loss	2.1	-	2.1
Tax relating to movements in hedge reserves	(1.3)	0.1	(1.2)
<b>At 31 March 2025</b>	<b>2.7</b>	<b>(0.9)</b>	<b>1.8</b>

NOTES TO THE FINANCIAL STATEMENTS - continued

23. Reconciliation of operating profit to operating cash flows

GROUP	2025 £m	2024 £m
<b>Operating profit</b>	<b>1,367.0</b>	749.1
<i>Adjustment for</i>		
Depreciation and amortisation	<b>452.1</b>	420.4
Customer contributions recognised in turnover	<b>(130.8)</b>	(123.8)
Profit on disposal of tangible fixed assets	<b>(1.4)</b>	(0.9)
<b>Operating cash flow before movement in working capital</b>	<b>1,686.9</b>	1,044.8
Increase in stocks	<b>(30.1)</b>	(29.6)
(Increase)/decrease in debtors	<b>(91.9)</b>	31.4
Increase/(decrease) in creditors	<b>47.0</b>	(9.0)
Customer contributions received	<b>315.1</b>	304.8
Increase/(decrease) in provisions	<b>7.0</b>	(14.6)
Pension deficit repair payment	<b>(25.3)</b>	(24.0)
Employer pension contributions net of service costs	<b>(22.3)</b>	(20.7)
<b>Cash generated from operations</b>	<b>1,886.4</b>	1,283.1

24. Reconciliation of net debt

GROUP	At 1 April 2024 £m	Cash flows £m	Fair value and exchange rate gains £m	Accretion on inflation- linked instruments £m	Other non- cash changes £m	At 31 March 2025 £m
<b>Cash and cash equivalents</b>						
Cash at bank and in hand	92.4	(2.4)	-	-	-	<b>90.0</b>
Cash equivalents	25.0	(25.0)	-	-	-	-
	117.4	(27.4)	-	-	-	<b>90.0</b>
<b>Borrowings</b>						
Debt due within one year	(304.6)	232.0	3.0	(7.0)	(102.1)	<b>(178.7)</b>
Debt due after more than one year	(5,630.3)	(445.6)	17.7	(14.4)	101.4	<b>(5,971.2)</b>
	(5,934.9)	(213.6)	20.7	(21.4)	(0.7)	<b>(6,149.9)</b>
<b>Net debt excluding derivatives</b>	(5,817.5)	(241.0)	20.7	(21.4)	(0.7)	<b>(6,059.9)</b>
Net derivative liabilities	(333.9)	(22.2)	69.2	(26.0)	8.1	<b>(304.8)</b>
<b>Net debt including derivatives</b>	(6,151.4)	(263.2)	89.9	(47.4)	7.4	<b>(6,364.7)</b>

Other non-cash changes include the reclassification of £101.9m from non current to current, of debt maturing within the next 12 months. The remaining movement relates to the amortisation of issue costs or premiums from the carrying amount of bonds, and interest accruals on interest rate swap derivatives. Further detail on the Group's debt and derivative instruments are provided in notes 18 to 20.



## NOTES TO THE FINANCIAL STATEMENTS - continued

### 25. Financial commitments

Capital commitments entered into by the Group relating to expenditure on tangible assets that was not provided for at the year end amount to £280.3m (2024: £310.8m).

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

GROUP	2025 £m	2024 £m
- Within one year	5.3	5.0
- Between one and five years	19.0	15.8
- After five years	50.2	43.9
	<b>74.5</b>	<b>64.7</b>

### 26. Pension commitments

#### Defined contribution pension scheme

The Group contributes to a defined contribution pension scheme, the UK Power Networks Personal Pension Plan. This plan was introduced in 2011 following the closure of the Group's defined benefit schemes to new members. New employees are automatically enrolled in the defined contribution scheme within their first month of employment, with the choice to opt out if they do not wish to be a member.

The employee contribution is set as a default rate of 4% of pensionable salary, although the employee can choose their rate, between a minimum of 3% and a maximum of 80%. As the employer, the Group pays into the plan at twice the rate of the employee's contribution up to a maximum of 10% of the pensionable salary.

During the year the Group made contributions to the scheme amounting to £22.2m (2024: £18.2m).

#### Defined benefit pension schemes

The Company contributes to two funded defined benefit pension schemes operated by the Group:

##### *The UK Power Networks Group of the ESPS (the UKPN Group) scheme*

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

##### *The UK Power Networks Pension Scheme (UKPNPS)*

The UKPNPS was formed from a number of legacy arrangements with membership dating back to 1994. It has been closed to new members since 2011.

Funding levels are monitored regularly and a funding schedule is formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The current funding schedules are based on the triennial valuation as at 31 March 2022. Deficit repair contributions to the UKPNPS scheme are set to eliminate the funding shortfall over the next three years. From January 2025 the Group is paying £25.6m per annum until 29 February 2028, increasing annually by CPI inflation. In relation to the UKPN Group scheme, the funding deficit was cleared by 1 March 2023 removing the need for ongoing deficit repair.

The accounting valuation at the balance sheet date, was prepared by actuaries in accordance with FRS 102, based on rolled-forward member data from the 31 March 2022 triennial valuation and reflecting updated financial and demographic assumptions. These assumptions are governed by FRS 102 and differ from those applied by the independent actuary in the triennial funding valuations.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 26. Pension commitments – continued

The next triennial valuation as at 31 March 2025 was in progress at the time of approval of these financial statements.

The defined benefit scheme assets and liabilities are assigned to participating entities using an allocation methodology based on employment records and attribution portions agreed with the industry regulator Ofgem.

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

GROUP	2025 %	2024 %
<b>Discount rate</b>		
- UKPN Group	5.8	4.8
- UKPNPS	5.8	4.8
<b>Rate of increase in RPI</b>		
- UKPN Group	2.8	2.9
- UKPNPS	2.6	2.7
<b>Rate of increase in CPI</b>		
- UKPN Group	2.5	2.6
- UKPNPS	2.2	2.2
<b>Rate of increase in salaries</b>		
- UKPN Group	3.3	3.4
- UKPNPS	3.1	3.2
<b>Rate of pension increases in payments</b>		
- Pensions in excess of GMP (UKPN Group)	2.8	2.9
- Post 88 GMP (UKPN Group)	2.1	2.1
- RPI up to 5% per annum (UKPNPS)	2.5	2.6
- RPI up to 2.5% per annum (UKPNPS)	1.8	1.9
- Post 88 GMP (UKPNPS)	1.8	1.9
<b>Rate of pension increases in deferment</b>		
- UKPN Group	2.8	2.9
- CPI up to 5% per annum (UKPNPS)	2.2	2.2
- CPI up to 2.5% per annum (UKPNPS)	2.2	2.2

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

GROUP	2025 Years	2024 Years
<b>UKPN Group</b>		
Life expectancy for male currently aged 60	25	26
Life expectancy for female currently aged 60	29	29
Life expectancy at 60 for male currently aged 40	27	27
Life expectancy at 60 for female currently aged 40	30	30
<b>UKPNPS Group</b>		
Life expectancy for male currently aged 65	22	22
Life expectancy for female currently aged 65	25	25
Life expectancy at 65 for male currently aged 45	23	23
Life expectancy at 65 for female currently aged 45	26	26

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**26. Pension commitments – continued**

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

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

GROUP	UKPN Grp 2025 £m	UKPNPS 2025 £m	Total 2025 £m	Total 2024 £m
Fair value of scheme assets	2,644.0	409.0	3,053.0	3,347.0
Present value of defined benefit obligations	(2,268.0)	(371.0)	(2,639.0)	(3,064.0)
Net surplus recognised on balance sheet	376.0	38.0	414.0	283.0

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

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

GROUP	UKPN Grp 2025 £m	UKPNPS 2025 £m	Total 2025 £m	Total 2024 £m
Current service cost	(10.0)	(11.0)	(21.0)	(23.0)
Past service cost	(1.5)	-	(1.5)	(1.0)
Net interest income/(cost) on pension scheme	16.0	(1.0)	15.0	22.0
	4.5	(12.0)	(7.5)	(2.0)
Recognised in other comprehensive income	22.4	46.0	68.4	(201.7)
	26.9	34.0	60.9	(203.7)

Of the charges shown above a net expense of £22.5m (2024: £24.0m) has been included in staff costs and net income of £16.0m (2024: £22.0m) included within net finance costs.

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

GROUP	UKPN Grp 2025 £m	UKPNPS 2025 £m	Total 2025 £m	Total 2024 £m
At 1 April	(2,617.0)	(447.0)	(3,064.0)	(3,096.0)
Current service cost	(10.0)	(11.0)	(21.0)	(23.0)
Past service cost	(1.5)	-	(1.5)	(1.0)
Interest cost	(121.0)	(21.0)	(142.0)	(142.0)
Actuarial gain	292.5	108.0	400.5	29.0
Benefits paid/(received)	189.0	-	189.0	169.0
At 31 March	(2,268.0)	(371.0)	(2,639.0)	(3,064.0)

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. On 25 July 2024, the Court of Appeal dismissed the appeal and upheld the decision of the High Court in the Virgin Media case. The preliminary assessment by the Group is there will not be a significant impact to the UKPN Scheme. The Trustees are awaiting further developments before assessing the UKPNPS Scheme.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 26. Pension commitments – continued

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

GROUP	UKPN Grp 2025 £m	UKPNPS 2025 £m	Total 2025 £m	Total 2024 £m
At 1 April	2,948.0	399.0	3,347.0	3,514.0
Interest income	137.0	20.0	157.0	164.0
Return on plan assets (excluding amounts included in net interest cost)	(270.1)	(62.0)	(332.1)	(230.7)
Contribution by employer	18.1	26.7	44.8	44.7
Deficit payments	-	25.3	25.3	24.0
Benefits paid	(189.0)	-	(189.0)	(169.0)
At 31 March	2,644.0	409.0	3,053.0	3,347.0

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

GROUP	UKPN Grp 2025 £m	UKPNPS 2025 £m	Total 2025 £m	Total 2024 £m
Liability-driven investments	1,889.0	174.0	2,063.0	2,212.0
Equities	48.0	96.0	144.0	223.0
Credit funds	104.0	69.0	173.0	184.0
Hedge funds	-	-	-	23.0
Alternatives <sup>1</sup>	562.0	60.0	622.0	674.0
Cash and net current assets	41.0	10.0	51.0	31.0
	2,644.0	409.0	3,053.0	3,347.0

<sup>1</sup>Investment vehicles investing in property, real estate debt, private equity, private debt and infrastructure.

### 27. Contingent liabilities and other obligations not provided for

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

The Group has received certain claims against the Group in respect of work performed to date. The Group takes legal advice as to the likelihood of success of such claims and actions and no provision is made where the Directors consider, based on that advice that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made. The Group has given performance guarantees in respect of its own contracts amounting to £4.0m (2024: £5.8m). The guarantees are in the form of letters of credit or performance bonds issued by third party financial institutions.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 28. Related parties

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

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

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
CKI Number 1 Limited	-	6.5	-	5.5
Devin International Limited	-	6.5	-	5.5
Eagle Insight International Limited	-	3.2	-	2.6
	-	16.2	-	13.6

These legacy receivable balances were settled in the period by a dividend in specie.

This amount is presented in debtors (note 15).

#### Group

##### *Shareholder loans*

Loans due to shareholders are disclosed in note 18. The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £71.3m (2024: £77.0m). Interest accrues on the shareholders' loans at a fixed rate of 8.125% per annum and is payable semi-annually in arrears. The interest payable at 31 March 2025 of £26.5m (2024: £32.2m) is presented within accruals (note 16).

##### *Joint ventures*

The Group's joint ventures are set out in note 13. During the year the Group made sales in the ordinary course of business to MUJV Limited of £12.6m (2024: £13.7m). In addition the Group recognised management fee income from MUJV Limited of £1.7m (2024: £1.7m). Balances with joint ventures are shown separately within debtors (note 15) and creditors (note 16).

#### Company

Loans due to shareholders are disclosed in note 18. The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £63.5m (2024: £68.6m). Interest accrues on the shareholders' loans at a fixed rate of 8.125% per annum and is payable semi-annually in arrears. The interest payable at 31 March 2025 of £23.6m (2024: £28.7m) is presented within accruals in creditors (note 16).

The Company is wholly owned by a consortium consisting of:

Shareholder	Ultimate parent undertakings
CKI Number 1 Limited (40%) <sup>1</sup>	CK Infrastructure Holdings Limited <sup>2</sup>
Devin International Limited (40%) <sup>4</sup>	Power Assets Holdings Limited <sup>3</sup>
Eagle Insight International Limited (20%) <sup>4</sup>	CK Asset Holdings Limited <sup>5</sup>

Incorporated in: <sup>1</sup>United Kingdom, <sup>2</sup>Bermuda, <sup>3</sup>Hong Kong, <sup>4</sup>British Virgin Islands, <sup>5</sup>Cayman Islands

It is the view of the Directors that the Company has no single controlling party as it is jointly controlled by the consortium.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 29. Business combinations

#### *Acquisition of Powerlink Renewable Assets Limited (formally SEEIT Sol Limited)*

On 3 May 2024, UK Power Network Services Holdings completed the acquisition of 100% of the share capital in Powerlink Renewable Assets Limited through the execution of a share purchase agreement. This represents an acquisition of established renewable energy assets with long-dated power purchase agreements. The new company houses a portfolio of 70 solar, wind and hydro energy plants, generating 68.7MW of electricity for United Utilities Water and allows for the expansion of the Group's Service Business portfolio of assets.

The total acquisition price was £87m and was settled in cash. The acquisition was accounted for using the purchase method.

GROUP	Fair value £m
<b>Fixed assets</b>	
Tangible (note 11)	58.4
Intangible (note 10)	46.5
	<u>104.9</u>
<b>Current assets</b>	
Debtors	2.5
Cash	1.2
	<u>3.7</u>
<b>Total assets</b>	<u>108.6</u>
<b>Creditors</b>	
Due within one year	(1.4)
Deferred tax on differences between fair values and tax bases	(16.9)
	<u>(18.3)</u>
<b>Net assets</b>	<b>90.3</b>
<b>Total purchase consideration (including expenses of £2.7m)</b>	
Initial consideration	34.5
Shareholder debt consideration	52.5
	<u>87.0</u>
<b>Cash outflow on acquisition</b>	<b>87.0</b>
Directly attributable costs	2.7
Deferred consideration	0.6
<b>Total cost</b>	<b>90.3</b>
Cash outflow on acquisition	87.0
Directly attributable costs	2.7
Cash acquired	(1.2)
<b>Purchase of subsidiary (net of cash acquired)</b>	<b>88.5</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 29. Business combinations continued

The net book value of the tangible assets materially approximates their fair values to the business. The excess purchase consideration above the fair value of assets acquired has been allocated to Intangible Assets representing the fair value of long-term revenue generating contracts acquired with the business. There are two revenue contracts with durations of 23 and 14 years respectively. These contracts provide guaranteed revenue off take at index-linked tariffs. There is no goodwill recognised on acquisition.

Deferred consideration represents the amount to fulfil obligations in relation to tax returns not yet submitted.

Deferred tax has been recognised on the intangible assets acquired and recognised.

Since the acquisition date, Powerlink Renewable Assets Limited has contributed £7.9m to group turnover and £0.6m to group profit.

### 30. Post balance sheet events

#### *Uncertain tax provision*

In March 2025, the Group's case regarding tax losses claimed by way of consortium relief between 2011 and 2016 from associated companies of one of the Group's shareholders was heard at the First-tier Tribunal. Whilst the tax authorities are in agreement that the Group is eligible to claim consortium relief, the parties had sought determination from the Tribunal regarding the amount of relief that may be claimed.

The decision of the First-tier Tribunal was released in June 2025 which decided in favour of the tax authorities. The Group is currently preparing to appeal against the decision to the Upper Tribunal, which if accepted would likely be heard in 2026. Whilst the Group maintains that the amount of tax losses claimed is consistent with those permitted under law, as a range of outcomes are possible management continue to include an appropriate provision, calculated using a number of estimates, in the accounts for the risk that the appeal is ultimately not successful in its entirety.

#### *Bond issue*

On 11 June 2025 LPN issued a €500m bond bearing fixed rate interest of 3.837% and maturing in 2037. Simultaneously, it was swapped to GBP with a fixed rate interest of 5.7155%. Net proceeds of £421.3m were received on 11 June 2025.