Registration number: 2366906

Eastern Power Networks plc

Annual Report and Financial Statements

for the Year Ended 31 March 2024

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COMPANY INFORMATION

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STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2024

About us:

Who we are
Eastern Power Networks plc (the "Company") is a wholly owned subsidiary of the UK Power Networks Group (the “Group”). The Company is responsible for operating and maintaining the network, the safe, reliable and efficient electricity supply to existing customers and the timely, cost-effective connections to new ones.

What we do
As an electricity distribution network operator (“DNO”), we provide electricity infrastructure to deliver electricity supply to over 3.6 million homes and businesses. The Company serves 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 huge coastline.

The Company operates 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 Company can charge its customers and the level of “allowed” revenue. In addition, Ofgem establishes incentives for outperformance and innovation relating to outputs, including safety performance, network reliability, customer service, the environment and efficiency.

In addition to allowed revenues, the Company collects income to cover the cost of connecting new customers to the network.

How we charge customers
The prices we charge 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 the 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 delivering good operational performance in areas such as network reliability and customer service, while 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 Company has the opportunity to outperform the allowed revenue either by delivering the agreed cost outputs at below the agreed allowance or through out performance against incentive mechanisms.

The RIIO-ED1 framework ran from 1 April 2015 until 31 March 2023. The new price control, 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 fourteen DNOs in Great Britain (including the Company) 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.

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

Meet the needs of consumers and network users

- 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.

Maintain a safe and resilient network

- World class levels of reliability - Proposals for 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 DNO's improve resilience in key areas of their operations.

Networks for Net Zero

- 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 the DNOs' commitments to deliver measurable outputs against specific targets.

The business plan can be found at: https://ed2.ukpowernetworks.co.uk/#business-plan

Our purpose, vision and values

The Company's vision and values are set out by the Group and guides the decisions taken by the Company. The Group's vision is to be consistently the best performing DNO Group and Distribution System Operator ("DSO") within an agreed set of values.

Our purpose
To deliver electricity to the East of England.

Our vision
There are four aspects to our vision:

An employer of choice

- the safest, with a strong safety record.
- an organisation that employees are proud to work for.
- creating a diverse and inclusive DNO and DSO.
- having a highly skilled and healthy workforce for both today and the long term.
- strong and collaborative relationships with Trade Unions.

A respected and trusted corporate citizen

- the most reliable networks.
- the best customer satisfaction.
- meeting the needs of customers in vulnerable circumstances, both now and in the future.
- the most socially and environmentally responsible in its sector.
- the most innovative in its sector.
- employing an efficient, sustainable and ethical supply chain.

Sustainably cost efficient

- delivering electricity at the lowest possible cost for customers.
- delivering frontier efficiency in the work the Group does.
- delivering on commitments in a collaborative way with others.
- delivering growth in the Services and Connections business.

Enabling the net zero transition for all

- operating an independent DSO to maximise customer participation and efficiency in the network.
- collaborating with local authorities and stakeholders to unlock regional decarbonisation plans.
- provide our customers and employees with information and support on low carbon technologies.
- play a leadership role in addressing inequality and unfairness resulting from the energy transition.

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Our values

The Company delivers high performance underpinned by the values of the UK Power Networks Group, which are embedded in its culture. The Group's values that the Company has adopted are as follows:

Integrity: We will do what we say we will do and build trust and confidence by being honest to colleagues, partners and customers.

Continuous improvement: We are committed to learning, development, innovation and achievement.

Diversity and inclusiveness: We recognise and encourage the value that difference and constructive challenge can bring.

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

Responsibility: We will 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 the Group's 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 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 carbon future. This is discussed on pages 23 to 29.

Our Strategy

The Group's long-term success is linked to its vision to be consistently the best performing DNO and DSO in the UK. The Board and Executive Management Team (“EMT”) develops, and executes, the Group’s strategy in order to support this vision.

Further information on the Group's strategy can be found within the UK Power Networks Holdings Annual report and Financial Statements for the year ended 31 March 2024.

Our key stakeholders

The Company has identified the following as its key stakeholders, for further details on engagement with these stakeholders, refer to pages 21 to 23. Although the Company has no employees of its own, it considers the employees of other Group companies to be key stakeholders.

Why we engage

The community
As a network operator the Company 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.

Customers
Customer engagement helps build a sustainable business, as it anchors the Company to the needs and expectations of customers and shapes its long-term vision and objectives. The Group carries out a broad, inclusive programme of engagement on an ongoing basis to deepen its understanding of the evolving needs of its customers.

Employees
The Company recognises that the Group's 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 pillars to its vision. A diverse workforce, with a range of backgrounds, abilities, skills and experience, is considered to be vital to achieving the best outcomes.

Suppliers
Good relationships with suppliers are key to delivering value efficiently and effectively. The resilience of the Company's supply chain will be important to meeting the future demands of the network.

Ofgem
The Group is regulated by Ofgem under the distribution licence which sets the requirements that the networks need to deliver for customers.

Shareholders
The support and engagement of the Group's shareholders is important to the success of the business in reaching its long-term objectives.

Operating review

Overview
The year ended 31 March 2024 was the first year of the new RIIO-ED2 price control, which will run for a period of five years to 31 March 2028. The new price control has established 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 Company. Importantly however, the price review provides certainty in the revenue the Company will earn over the price control period. The key performance indicators ("KPIs") used by the Board of Directors in their monitoring of the performance of the Company focus on the areas of safety, network performance, reliability, and customer service. During the year the Company has continued to perform well in terms of Customer Service. Network Reliability has been affected by unsettled weather resulting in modest increases in customer interruptions ("CIs") and customer minutes lost ("CMLs"). Whilst the Group continues to deliver good Safety performance, based on industry benchmarking, there was a small increase in lost time incidents ("LTIs") compared to the prior year. More detail is provided in the following paragraphs.

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Safety
The Group's highest priority is the safety of employees, supply chain, and members of the public. The risks associated with work carried out by the Group's employees can be high requiring robust management systems, and appropriate risk mitigation being put in place. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign is regularly undertaken for all employees, to see that safety remains front of mind at all times.

Lost time incidents ("LTIs"), defined as the number of injuries to employees or contractors which result in lost time of one day or more, is a key safety measure. The circumstances of each LTI are reported and investigated in detail with the aim of preventing the recurrence of such incidents. Findings from the investigations are used to improve training and safety procedures as well as raise awareness across the organisation.

The Group recorded 3 LTIs in the year ended 31 March 2024 which is an increase from 1 LTI recorded in the prior year. The Group remains focused on ensuring safety is the highest priority and in response to the increase in LTIs in the year has implemented additional safety measures including enhancements to its behavioural safety performance ("Stay Safe") as well as greater levels of field inspections and improved communications.

Network performance
The principal measures used to assess network performance are customer minutes lost ("CMLs") and customer interruptions ("CIs").

CMLs are the average length of time customers are without power for three minutes or longer and represent availability of electricity supply. CIs, the number of interruptions per 100 customers, are an indicator of network reliability.

As shown in the table below there was a modest increase in the Company's CMLs and CIs versus the prior year, due to prolonged periods of adverse weather. This performance represents a modest penalty under the more stringent RIIO-ED2 targets set by Ofgem.

	Year ended 31 March 2024	Year ended 31 March 2023
* Customer Minutes Lost per customer (CMLs)	**35.6**	33.1
* Customer Interruptions per 100 customers (CIs)	**46.3**	42.8

* The CMLs and CIs disclosed above exclude the impact of exceptional weather events (as defined by Ofgem) and are provisional, pending Ofgem's annual review. The comparatives have been restated to reflect any changes resulting from Ofgem's prior year assessment.

Customer satisfaction
The regulator ("Ofgem") measures customer satisfaction by surveys of customers across all licensed networks and relating to interruptions, minor connections and general enquiries. This rating is referred to as the Broad Measure of Customer Satisfaction or "BMCS".

The Company has maintained an average customer satisfaction score of 94% in the past two years, ranking second out of the fourteen electricity distribution networks in Great Britain.

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Customer satisfaction for low carbon technologies
For RIIO-ED2, the Group has developed an independent Low Carbon Technology Customer Satisfaction survey. The Company's average score for the year ended 31 March 2024 was 92%.

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 attract good people and to continuously improve the work environment by engaging with employees through multiple channels, listening to what they say, acting on their feedback and seeing they are informed about the business.

During the year the Group achieved an employee engagement score of 765 (2023: 709), through its annual employee engagement survey, its highest ever score. The survey is anonymously completed by the Group’s employees, externally facilitated by Best Companies and scored against the Best Companies Index.

In December 2023, the Inclusive Top 50 UK Employers List put UK Power Networks in second place on performance across a range of areas (up from sixth place in 2022). The announcement came alongside the Group’s National Equality Standard ("NES") reaccreditation. Further details on employee engagement can be found on page 22.

Financial review

	Year ended 31 March 2024	Year ended 31 March 2023
Financial key performance indicators (£m)		
Turnover	**710.2**	863.1
EBITDA	**444.9**	545.3
Profit after tax	**127.8**	304.3
Gross capital expenditure on tangible assets	**503.3**	396.7
Capital expenditure on tangible assets net of customer contributions received	**359.9**	278.5

Overview
The Company’s financial performance for the year was negatively impacted by the new RIIO-ED2 price control, which established a more challenging regulatory regime, with a lower allowed rate of return and more challenging incentive mechanisms. In addition, revenues are profiled, with lower revenues in the first year which increase over the duration of the price control period. As a result of these factors, as well as an increase in capital and operating expenditures to achieve commitments during RIIO-ED2, there is a reduction in turnover and overall profitability versus the prior year, which is typical in the first year of a new price control. Notwithstanding these external factors, the Company has performed well in the first year of RIIO-ED2 and remains profitable with good cash flow from operations and a low level of gearing.

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Market update
The UK Electricity sector is continuing to experience significant changes due to fluctuating wholesale electricity prices and inflationary pressures. The Company has continued to deliver on its operational and financial targets by focusing on efficiencies and cost control measures in a high inflation environment.

The increase in wholesale electricity prices since the end of 2021 has resulted in a number of electricity suppliers going out of business. A financial impact of electricity supplier failures on the Company 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 2024, £28.5m of material SOLR claims were incurred, and an equivalent amount of revenue recognised, (2023: £121.0m). In addition, cost of sales includes SOLR claims of £4.5m (2023: £2.7m) that fall below the materiality threshold defined by Ofgem and therefore are only recoverable through revenues in two years’ time, once tariffs are updated.

Turnover
Turnover decreased from £863.1m in the prior year to £710.2m for the year ended 31 March 2024. This is partially due to the reduction of SOLR related revenue of £92.5m. Excluding SOLR revenues, turnover decreased by £60.4m. This reduction is primarily the impact of the new regulatory price control, including the profiling of revenue and lower permitted rate of return, as explained above.

EBITDA/ Operating profit
Earnings before interest, tax, depreciation and amortisation (“EBITDA”) decreased by £100.4m from £545.3m to £444.9m. This is the result of lower revenue tariffs under RIIO-ED2 combined with higher costs, which include inflationary cost increases, and are largely as a result of additional expenditure and resources needed in order to see that the Company is able to meet its RIIO-ED2 commitments throughout the price control period.

The Company continues to deliver a positive EBITDA margin of 63% (2023: 63%).

The EBITDA measure 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:

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	Year ended 31 March 2024	Year ended 31 March 2023
Operating profit (£m)	**270.0**	378.0
Depreciation of tangible fixed assets (£m)	**165.1**	156.6
Amortisation of intangible assets (£m)	**9.8**	10.7
EBITDA (£m)	**444.9**	545.3

Profit after tax
Profit after tax has decreased by £176.5m from £304.3m to £127.8m, primarily driven by the EBITDA reduction of £100.4m as well as an increase in net finance costs of £100.0m.

The higher finance costs include the impact of fair value gains on inflation linked swap instruments reducing from £166.0m in the prior year to £20.9m in the current year. The fair value gains are primarily the result of higher market interest rates which have increased the discount rate for future cash flows and therefore had a downward impact on the present value of swap liabilities.

There were significantly higher fair value gains in the prior year due to a greater upward shift in the interest rate curve at that time. The variance relating to interest rate volatility was partly offset by lower accretion on inflation linked debt and swap instruments in the current year, due to the rate of inflation slowing.

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

Gross capital expenditure on tangible assets was £503.3m, an increase of £106.6m compared to the prior year due to higher capital work volumes arising from additional investment commitments during RIIO-ED2. This expenditure relates predominantly to improvements to the electricity network. Capital expenditure net of customer contributions increased by £81.4m to £359.9m.

	Year ended 31 March 2024	Year ended 31 March 2023
Gross capital expenditure on tangible assets (£m)	**503.3**	396.7
Less: Customer contributions received in the year (£m)	**(143.4)**	(118.2)
Capital expenditure net of customer contributions (£m)	**359.9**	278.5

Gross capital expenditure on tangible assets is disclosed in note 10 to the financial statements and customer contributions received are disclosed in note 20 to the financial statements.

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RAV gearing
The proportion of debt measured against the RAV of the business reflects the capacity of the business to source additional finance. This is a key metric for the Company's covenant arrangements with pension trustees and providers of finance and is monitored on a regular basis. The RAV gearing ratio has increased from 56% at 31 March 2023 to 59% at 31 March 2024, however remains well within pension and bank covenant targets. The increase reflects an increase in net debt which was proportionately higher than the growth in the RAV during the year.

	As at 31 March 2024	As at 31 March 2023
* Regulatory asset value (RAV) (£m)	**3,753.3**	3,578.1
**RAV gearing	**59%**	56%

* RAV is the Regulatory Asset Value of the business. The 31 March 2024 RAV presented is provisional at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The prior year comparatives have been restated to reflect the latest agreed position.

**RAV gearing is the ratio of net debt (as defined within certain of the Company's covenant arrangements), to the RAV.

Financial risk management objectives and policies
The Company is financed by a combination of equity and retained profits, bonds, and bank lending facilities. The Company's funding and liquidity are managed within a framework of documented treasury policies and guidelines.

In February 2024, the Company issued a £350m bond which bears interest at a fixed rate of 5.375% and matures in 2042. This replaces a 5.750% fixed interest rate bond of £350m which matured in March 2024.

At 31 March 2024 the Company had net debt of £2,023.6m (2023: £1,962.3m) comprising bonds of £1,506.3m (2023: £1,512.7m), loans from the European Investment Bank (EIB) of £303.7m (2023: £300.1m), other bank loans of £149.7m (2023: £149.6m) and Group borrowings of £68.5m (2023: £nil), offset by cash balances of £4.6m (2023: £0.1m). The Company's principal financial assets are its cash balances, trade and other receivables and loans to Group undertakings.

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

Interest rate risk
The interest rate exposure on the Company'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.

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Foreign exchange rate risk
Within its borrowings the Company holds a 5 billion JPY bond (nominal sterling value £33.7m) which is converted to sterling by way of a cross currency swap to provide protection against exchange rate movements.

Credit and liquidity risk
The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of an impairment allowance for expected credit losses. The credit risk on liquid funds and financial instruments is limited because the counterparties are large, recognised banks with investment grade credit-ratings assigned by international rating agencies.

The Company does not have a significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company 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 Company is not subject to excessive financing risk in any one year. The Company is able to raise finance in financial markets supported by cash flows generated by the RAV which in part determines the level of allowed revenue that may be recovered. The Company is required by the distribution licence to maintain an investment grade credit rating.

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 defined benefit schemes are closed to new members. A defined contribution pension scheme, introduced in 2011, is open to all new employees. There is automatic enrolment in the first month of employment with the choice to opt out if the employee does not wish to participate in the scheme.

The Company's share of the Group's defined benefit pension obligations at 31 March 2024 amounts to a surplus of £63.8m (2023: surplus of £94.1m) in the UKPN Group scheme and a deficit of £16.3m (2023: deficit of £22.9m) in the UKPNPS scheme. The sensitivity of the valuation to changes in discount rate is shown in note 3 to the financial statements and further detail on the assumptions used to estimate the defined benefit obligation is provided in note 19.

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

The Company 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 2024 the Company's net deferred tax liability was £363.7m (2023: £332.3m).

Factors likely to affect future development and performance
The Company's business model is considered robust with stable income streams supported by regulated price controls. The Company's key long-term objectives are not expected to change significantly.

The Company will be making significant additional investment under RIIO-ED2. The Company 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 Company's ability to achieve its targets. Any increase in inflation could negatively impact costs and cash flow in the short-term, however, the Company benefits from increased future revenues which are linked to inflation.

Going concern
The Company'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 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 Company continues to perform well, is profitable with strong underlying cashflows and with predictable revenues regulated by Ofgem under an established price control mechanism.
- £210m of undrawn committed borrowings under a revolving credit facility and the flexibility provided by centralised Group treasury arrangements which allow short term funding from other Group companies if required.
- The net current liability position of £410.5m including scheduled debt repayments of £334.1m during the going concern period and the financial covenants applicable to the Company's financing facilities.
- The impact of a higher inflationary environment, which negatively impacts costs but increases future revenues via higher tariffs.
- The Company has a successful track record of raising finance, supported by investment grade credit ratings.

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Company. 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 Company during the 12 months following the approval of these financial statements, the Company'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 Company'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.

Risk management

The UK Power Networks Holding Limited's Board ("Group Board") has the 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.

Managing 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 Group 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 ensure 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 and uncertainties
The Company's principal risks and uncertainties are managed at a Group level, 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.

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Risk	Mitigation
Health and safety incidents	
There is a risk that a fatality or serious injury occurs involving an employee, a contractor, a member of the public or a third party. Any such incident could lead to a prosecution or a fine and have an adverse impact on the reputation of the Company.	The Group aims to create and foster a culture in which safety is the highest priority in the minds of everyone who works for and on behalf of the Group. Safety measures include: - A health and safety strategy and action plan which sets out the policies and procedures of the Group and includes task risk assessments and on-site inspections to see that safety procedures are followed. - A range of “Stay Safe” training programmes aimed at staff, contractors and members of the public, to promote safety and increase awareness of the dangers of working with electricity. - Active monitoring, investigation and reporting of safety incidents, including near misses, to the Safety, Health and Environmental Committee which reviews the completion of follow up actions to improve safety procedures. - Communication of incidents and lessons learnt through monthly safety messages to employees with innovative renewal of health and safety messaging to keep safety fresh and front of mind across the organisation. - Control and monitoring of the health and safety practices of contractors to see that the Group’s safety procedures are understood and followed. - The Group maintains accreditation to 45001 (Health & Safety Management).

Risk	Mitigation
Inadequate response to major adverse events	
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.	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:
	- Business Continuity Plans and policies and procedures giving clear guidance of actions to be taken, roles and responsibilities.
An inadequate response to a major event could result in a failure in the Company'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.	- Scenario planning to stress test the business continuity plans for each business unit. - Regular communications via email, the intranet and frequent video briefings from the CEO, keeping employees informed of the response plan, procedures and changing risks. - 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, PPE allocation, adherence to new policies and procedures, financial impacts. - 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. - 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.

Risk	Mitigation
Failure of network assets	
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. Customer service and continuity/quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company.	- 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. - 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. - The Group maintains accreditations in 55001 (Asset Management), 9001 (Quality) and 14001 (Environment).
Achieving output and cost efficiency targets	
Output and cost efficiency targets are agreed with the Regulator within the price control framework. Supply chain disruption, higher levels of inflation and the availability of employee and contractor resourcing can impact delivery of targets. If the business does not meet the output and cost efficiency targets this could negatively impact financial performance.	- Clearly defined targets are set in the Strategic Plan and aligned with business performance targets. - 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. - 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. - The Asset Portfolio Planning tool tracks long term projects allowing monthly review of actual versus planned expenditure and monitoring progress at a project level. - 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.

Risk	Mitigation
Network unable to meet accelerated demand	
The Company has a role in facilitating the transition to net zero.	- 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 9/10 customer satisfaction.
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.	- 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. - Ongoing monitoring of the capacity of the network through physical monitors and using advanced analytical capabilities. - Supporting local authorities to develop regional investment plans for the electricity network. - Strong co-ordination with the Electricity System Operator ("ESO") to manage issues across the distribution and transmission boundary. - 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.
Regulatory compliance risk	
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.	- The Group's Governance and control framework sets out responsibilities and accountabilities. The Group Board reviews key compliance risks supported by the Group's risk management framework and internal audit.
Compliance obligations may be impacted by the prevailing political and economic climate. This includes the outcome of the UK General Election.	- The Group operates a Regulatory Compliance programme to understand regulatory risks and obligations and implement controls and processes to meet compliance requirements. These are monitored on a monthly basis. - The Strategy and Regulation team includes specialists focused on ensuring compliance.

Risk	Mitigation
Non-compliance with regulatory and legislative obligations could result in lower financial returns reputational damage, breach of licence conditions or fines.	- The Group has extensive engagement and consultation with Ofgem, the Government and HMRC. Relevant external advice is sought to ensure compliance.
Supply Chain Capacity and Long Lead Times	
Supply chain performance pressures have increased globally. This is resulting 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 the Group's ability to deliver against its targets.	- 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. - 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. - 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. - The Group continually assesses the supply chain for limited suppliers of critical materials, mitigation plans are established where dual sourcing cannot be ascertained.
Major Failure or Cyber security breach of IT Systems:	
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.	- The UK Government has warned of heightened cyber threats. The UK National Cyber Security Centre ("NCSC") published cyber guidance and advised UK organisations to take action. The Group meets this guidance and has put in place additional measures to manage the risk. - A Cyber Security Improvement Programme operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation.

Risk	Mitigation
	- The Group focuses its activities across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactively testing resilience. - All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation. - The Group operates a training programme to see that its employees 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.
Political and economic climate	
Political and global events can affect aspects of the Company's business. This includes events such as the conflict in the Ukraine and disruption to global supply chains.	- The Group regularly monitors exposure to economic factors through budgeting and forecasting and sensitivity analysis.
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.	- The Group maintains investment grade credit ratings for its DNOs which supports access to financing when required. Debt covenant and credit metrics are monitored monthly and debt maturities are spread out. - A proportion of the Company's debt is inflation linked to provide an inflation hedge. - Close collaboration and mitigation planning with suppliers has maintained supply chain resilience.

Our approach to responsible business

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

Stakeholder engagement
The Company is focused on delivering on its responsibilities across a range of key stakeholders. These include customers, particularly those in the most vulnerable circumstances. The Company and the Group engages 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 deliver the best outcomes for our customers and communities. Purposeful engagement with stakeholders is critical to understand the diverse needs that the Group serve, how those needs are changing, and the role the Company can play in supporting them. The insights gained through engagement allow the Group to inform its strategy, improve services and deliver better performance improvements. Set out below is how the Group engages with its key stakeholders, identified on pages 5 to 6:

The Community

- 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.
- The Group maintains a Priority Services Register (“PSR”) which, in the event of a power cut, allows it to deliver specific support to customers living in vulnerable circumstances. Many different services can be made available to over 2.5 million customers on the PSR.
- The PSR helps the Group to identify and provide extra care to update customers who need it most in the event of a power cut. The Group continually enhances its support to meet customers’ changing needs.
- 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.

Customers
- An important source of customer feedback is an independent survey of circa 300 customers a week, which feeds into Ofgem’s Broad Measure of Customer Satisfaction (“BMCS”) score. This is supplemented by an additional internally driven feedback mechanism in which customers give almost instant feedback on the service they have received.
- Panels formed of representative groups of customers are consulted to assess current key issues, such as how to improve our processes and customer-facing technologies.
- Based on the feedback from extensive engagement and research the Group is enhancing its service to customers in the following ways:

  - Improving our Low Carbon Technology connection journey by using automation and technology, in order to speed up the connections process for our customers. For the year ended 31 March 2024 the Company achieved a Low Carbon Technology customer satisfaction score of 92% which reflects the level of services provided to customers in this area.

  - Working with partners to promote the benefits of smart meter technology. The integration of smart meters with our communication channels allows us to proactively confirm if a power cut is network related.

Employees

- A comprehensive annual employee engagement survey by an external survey provider “Best Companies” in which employees provide their views on key matters pertinent to the success of the Group and their own engagement.
- Leadership conferences conducted by the executive management team and the Group's internal communications through its team briefs, internal webinars, local engagement forums, have all been used during the year to conduct meaningful engagement with our employees.
- 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 & Inclusion strategy and initiatives.
- 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.

Suppliers

- 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.
- 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.
- The Group is a signatory to the Prompt Payment Code, which sets standards for payment practices and best practice, working towards adopting 30-day payment terms as the norm, and to avoid any practices that adversely affect the supply chain.
- The Group’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.
- The Group has an alliance model with key strategic partners which works to promote closer working relationships and common practices on shared projects, with a focus on capital delivery.

Ofgem

- 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.
- The CEO and Executive management team 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.

Shareholders

- 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.

Sustainability at UK Power Networks

The Group has worked to embed its values, and the importance of the environment, within the business by:

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

Managing environmental impact
There are robust policies and procedures in place for compliance with all relevant environmental legislation and industry codes of practice. The Electricity Act specifically requires the Group to consider natural beauty, flora, fauna and geological or physiographical features of special interest, and sites, buildings and objects of architectural, historic or archaeological interest, and do what is reasonable to mitigate any effects. 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 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 its 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 the Group's Environment team represent the Group on the Electricity Networks Association (“ENA”) Environment Committee, helping to see that best practice is implemented from knowledge shared across the electricity and gas sectors.

Given the uncertainty around future climatic changes, 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 has a role in providing 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 change risks on its network and implementing appropriate mitigation measures, as detailed on pages 25 to 26.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2024

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 Group Board's strategy for responding to climate change, its risk management activities, and the use of metrics and targets to measure progress against the Group's strategy.

Governance
The Group Board provides strategic direction with respect to the Group's environmental performance. Its Environment, Social and Governance ("ESG") Board Sub-Committee, meets four times a year to review the Group's 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. In addition, a Senior Management Environmental Action Plan Committee has been established, to discuss progress on environmental targets and lead implementation of initiatives to support the achievement of these targets. 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 meets the ISO 14001:2015 standard requirements 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 the world's 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, surveys of customer attitudes and engagement with local authorities. 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.

To ensure continued alignment of its KPIs with the Group's vision and strategy, including climate related issues, for the year ended 31 March 2024 it has introduced a new KPI which relates to customer satisfaction in relation to low carbon technology work. For further information on this KPI 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. Through its innovation team and smart grid team the Group is working towards 'a smart grid for all' that enables customers and communities to benefit from a decentralised, decarbonised and digitised electricity system.

Risk management

The Group takes an integrated governance approach to managing climate-related risks through its established corporate risk management policies and procedures, which can be found on pages 14 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. The Group actively monitors and manages climate related risks. Its key activities to manage climate-related risk are as follows:

- The Group has implemented a Climate Resilience Strategy which assesses the threat and potential impacts different climate change scenarios could have on its operations. It uses the UK Climate Projections (UKCP18) to identify the climate-related hazards under the highest emission scenario, addressing eight hazards including flooding, extreme high temperatures and winds.
- As part of the Group's Climate Resilience Strategy, a Climate Change Resilience Steering Group has been established in order to better assess and monitor climate change risks on the network. This Group meets on a monthly basis and has cross directorate attendance, the meetings are chaired by the Director of Asset Management.
- It also works actively with the Energy Networks Association to collaboratively identify and assess the climate change hazards to the networks and identify solutions.
- The Group has business continuity plans in place to respond to major events, which may include climate related events that could affect its operations. These continuity plans are actively monitored and tested as part of the Group's resilience planning.
- Insurance policies are in place to mitigate the financial impact of significant adverse events, including those relating to climate events and natural disasters.
- The Group's environmental management systems are compliant with ISO14001:2015.

Climate change 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 Group. The Group 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 Group is also exposed to physical climate risks relating to adverse changes or variability in weather patterns. In particular, the severity or frequency of storms, high winds or flooding can have a negative impact in the form of increased damage and expenditure to the network.

The Group’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 Group’s 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 Group’s short and medium-term planning and beyond to 2100, which is consistent with UK Climate Projection timeframes.

Climate resilience
The Group’s overall resilience to climate-related 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 Group can subsequently recover from customers. The level of this investment 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 the Group’s resilience to the impact of climate 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 the Group to make the necessary investment to ensure power supplies are appropriately resilient to climate change and support the financial resilience of the Group.

The Group has 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 (Robustness, Redundancy, Rapidity, Resourcefulness).

Operational resilience is assessed against the climate-related hazards determined by the latest UK Climate Projections ("UKCP18") using the highest emissions scenario, Representative Concentration Pathway ("RCP") 8.5, which equates to a global mean surface temperature increase of 4.3°C by 2081- 2100.

This climate scenario was adopted and agreed by the ENA, Ofgem and applied across the energy sector (including other DNO Groups) to provide a consistent approach. The Group is of the view that there would be no additional benefit from performing additional climate scenarios outside of this approach agreed with the wider industry and which represents a reasonable worst-case for the sector.

The Group worked with the Met Office and members of the ENA to assess the impact of these climate change projections on the electricity network. As a result, 12 climate-related hazards have been identified, of which eight have been prioritised as particularly applicable to the electricity 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

These climate-related hazards have been reviewed against the Group's physical network systems to identify 15 priority-asset related risks. These risks have been assessed using the ENA scoring framework 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. Details of this risk assessment can be seen on pages 26 and 27 in the consolidated UK Power Networks Holdings Limited Annual Report and Financial Statements.

Through resilience improvements that have been in place or are planned, the main areas of residual risk related to vegetation growth impacted overhead lines and the risk of flood damage to assets. The results of this risk assessment were used to define the Group's adaptation pathway to continue to provide future resilience to climate-related hazards. Full details of the Group's Climate Resilience Strategy are available at: https://ed2.ukpowernetworks.co.uk/additional-information/Appendix 14.

Metrics and targets
The Group's Environmental Action Plan ("EAP") has set out 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 Environmental Action Plan was an important milestone for the Group, it does not mark the start of its journey to reduce our environmental impact. Rather, this plan builds on the significant positive action and research it undertook during RIIO-ED1 that has led the Group 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 it has formed specific, measurable commitments to its customers. These commitments are how it will be measured in delivering the outcomes of the actions it has proposed in our EAP. The commitments, and the actions that will deliver them, have both been developed based on customer research to deliver what customers expect from the Group in protecting the environment they live in.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2024

Environmental targets included in the RIIO-ED2 Business plan are:

Pillar	Objectives	Targets
Decarbonisation in line with our verified Science Based Target ("SBT")	- Science Based Target Initiative – exceed our verified Well Below 2 Degree target for scope 1, 2 and 3 emissions	- Exceed minimum reduction of 25% by 2028 compared to a 2018/19 baseline
	- Exceed an equivalent SBTi target of 1.5 for our Business Carbon Footprint (directly controlled emissions scopes 1 and 2 excluding network losses)	- Exceed minimum reduction of 42% by 2028
Reducing our impact on the world's limited resources	- 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.
	- Re-use street works spoil	- No recoverable waste to landfill by 2025
		- 99.5% recovered and reused by 2028
Increasing natural diversity	- Biodiversity Net Gain ("BNG") at all new grid and primary sites	- Achieve 10-20% BNG increase by 2028
	- BNG improvement at existing sites	- Achieve aggregate BNG increase of 30% by 2028
Reducing pollution produced by our business operations and network activity	- Reduce nitrogen oxide (NOx) emissions from our fleet and generators	- 33% reduction by 2028
	- Fluid filled cable leak reduction	- 15% decrease by 2028 compared to beginning of the period

Progress against these targets is reported annually in the Group's 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/about-us/environment-and-sustainability .

The report for the year ended 31 March 2024 will be published on the 31st of October 2024.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2024

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 2024, as detailed below.

Governance
A description of the Group's governance arrangements in relation to assessing and managing climate-related risks and opportunities can be found on pages 24 and 39.

Risk management
A description of how the Group identifies, assesses, and manages climate-related risks and opportunities can be found on pages 25 and 41. A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the entity's overall risk management process can be found on pages 14, 25 and 41.

A description of:
• The principal climate-related risks and opportunities arising in connection with the entity's operations, and
• The time periods by reference to which those risks and opportunities are assessed can be found on pages 25 and 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 can be found on pages 25 and 41. An analysis of the resilience of the entity's business model and strategy, taking into consideration different climate-related scenarios can be found on pages 26 and 27.

Metrics and targets
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 can be found on pages 28. 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 can be found on page 29 of the consolidated UK Power Networks Holdings Limited Annual Report and Financial Statements.

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

The Directors acknowledge their responsibility for setting and monitoring the culture, values and reputation of the Company. Every day our colleagues seek to live by the Company's values and use these to guide how it makes decisions. 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 Directors strive 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 its values and purpose.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2024

The below sets out how the Directors had regard to the factors outlined in Section 172, the key disclosures and where to read more about them for the year ended 31 March 2024:

a) The likely consequences of any decision in the long term:
- About us - pages 2 and 3
- Risk management - pages 14 to 20
- Our approach to responsible business - pages 21 to 29
- Opportunity & risk - pages 41 and 42

b) The interests of the Group's employees:
- Our purpose, vision & values - pages 4 and 5
- Our key stakeholders - page 6
- Employee engagement - page 8
- Stakeholder engagement - Employees - page 22
- Board engagement - page 38
- Remuneration - page 44

c) The need to foster the Group's business relationships with suppliers, customers and others:
- Our key stakeholders - pages 5 and 6
- Stakeholder engagement - pages 21 and 22
- Board engagement - page 38

d) The impact of the Group's operations on the community and the environment:
- Our key stakeholders - page 6
- Our approach to responsible business - pages 21 to 29

e) The desirability of the Group maintaining a reputation for high standards of business conduct:
- Our purpose, vision & values - pages 4 and 5
- Risk management - pages 14 to 20
- Our approach to responsible business - pages 21 to 29
- Board engagement - page 38
- Opportunity & risk - pages 41 and 42

f) The need to act fairly as between members of the Group:
- Our purpose, vision and values - pages 4 and 5
- Our key stakeholders - pages 5 and 6
- Our key performance indicators - pages 6 to 8
- Stakeholder engagement - pages 21 and 22
- Board engagement - page 38

Anti-corruption and anti-bribery
The Company is committed to achieving high standards. Being a trusted corporate citizen is a key pillar of the Company’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 Group are also required to follow these anti bribery and anti-corruption policies. In addition, the Group operates a whistleblowing policy and has in place a confidential, independent whistleblowing hotline.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2024

Human rights and modern slavery

The Group 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 8, 22 and 38
- Environmental matters: see page 23
- Social matters: see page 6
- Human rights: see page 31
- Anti-corruption and anti-bribery: see page 30
- Climate-related financial disclosures: see page 29

Fair, balanced and understandable

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

Approved by the Board on 19 July 2024 and signed on its behalf by:

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Basil Scarsella
Director

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2024

The Directors present their Annual Report including the Audited Financial Statements of the Company for the year ended 31 March 2024.

Details of the Company's financial risk management objectives and policies, future developments, going concern and the Section 172 statement on the duties of the Directors are included in the Strategic Report and form part of this report by cross reference.

Dividends
Dividends of £124.0m (2023: £97.0m) were paid during the year.

Political contributions
The Company made no political contributions during the year (2023: £nil).

Directors of the Company
The 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

Chi Tin Wan (resigned 1 July 2023)

Christopher Clarke

Paul Jeffery

Jenny Yu (appointed 1 July 2023)

None of the Directors had a service contract with the Company in the current or prior year.

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

Business relationships
The Company has identified its key stakeholders as: employees of the Group, customers, suppliers, the communities affected by the Company's operations, the Regulator and shareholders. Further information about how the Company has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 21 to 23.

Climate-related risks
The Company's strategy in addressing the risks and opportunities relating to climate change is discussed on pages 23 to 29.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2024

Disclosure of information to Auditor
Each of the persons who is a director of the Company at the date of approval of this Annual Report confirms that:

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

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

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

Approved by the Board on 19 July 2024 and signed on its behalf by:

....
Basil Scarsella
Director

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

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

The Company is a wholly owned subsidiary of UK Power Networks Holdings Limited and forms part of the UK Power Networks Holdings Group (the “Group”). The Group operates a range of governance principles and practices on a group-wide basis, which are adopted and implemented by its subsidiaries, including the Company, to the extent they are relevant to their operations.

Information on how the corporate governance principles have been applied to the Company in the context of the Group can be found in this report as follows:

Principle 1 - Purpose and Leadership

Purpose, values, vision and strategy
An effective board develops and promotes the purpose of a Company and ensures that its values, strategy, and culture align with that purpose.

• Our purpose, vision and values - pages 4 and 5
• Our key stakeholders - pages 5 and 6
• Our strategy - page 5
• Corporate governance overview - pages 35 to 44

Principle 2 - Board composition

Chair, balance and diversity, size and structure, effectiveness
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 Company.

• Corporate governance overview - pages 35 to 44

Principle 3 - Directors’ responsibilities

Accountability, committees, integrity of information
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 - pages 5 and 6
• Stakeholder engagement - pages 21 to 23
• Corporate governance overview- pages 35 to 44
• Directors’ Responsibility statement- page 45

Principle 4 - Opportunity and Risk

Opportunity, risk, responsibilities
A board should promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

• Our key stakeholders - pages 5 and 6
• Our strategy - page 5
• Operating review - pages 6 to 8
• Financial review - pages 8 to 12
• Risk management - pages 14 to 20
• Our approach to responsible business - pages 21 to 29
• Corporate governance overview - pages 35 to 44

Principle 5 - Remuneration

Setting remuneration, policies, delegating remuneration decisions
A board should promote executive remuneration structures aligned to long-term sustainable success of the Company, taking into account pay and conditions elsewhere in the Company.

• Our key performance indicators - pages 6 to 8
• Corporate governance overview - page 44

Principle 6 - Stakeholder Relationships and Engagement

External impacts, stakeholders, workforce
Directors should foster effective stakeholder relationships aligned to the Company'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 - pages 5 and 6
• Stakeholder engagement - pages 21 to 23
• Corporate governance overview - pages 35 to 44

Corporate governance overview

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

The Group Board has overall responsibility for leading and controlling the Group as well as the financial and operational performance of the Company. The Group Board and its subcommittees meet on a regular basis to conduct the affairs of the Group. The Board considers and acts on matters pertaining to the Company within this forum.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

Governance framework

The Group Board is collectively responsible for the oversight of the management of the Group and acts in the Group's best interests. The Group 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 key 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 Group 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 pages 38 and 39.

Below the Group Board and Board Committees, day-to-day responsibility for running 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 Group Board operates

The Group's 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 pages 29 and 30).

The Group 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.

Key matters reserved for the Group Board

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

Key matters reserved for the Group Board include:

- Safeguarding of Group assets by identifying, evaluating and managing risk.
- System of internal control and its effectiveness.
- Internal audit reviews.
- Annual review of and relationship with external auditors.
- Group's memorandum and articles of association.
- Prosecution, defence, or settlement of material litigation and/or legal and regulatory compliance.

• Grant of guarantees and indemnities other than those issued in the ordinary course of business.
• Annual review of Group Board effectiveness including terms of reference of Committees established by the Group Board.
• Group treasury and financing policies.
• Overall group strategy and corporate vision and driving performance.
• Group structure.
• Development and protection of brand.
• Annual accounts and regulatory reports.
• Significant changes in accounting policies.
• Group Board structure, composition and succession including appointments to the Board.
• Group remuneration policy including reward policy and framework.
• Group capital structure and dividend policy.
• Oversight of material ESG issues.

Composition of the Company Board
The Board of the Company ("the Board") comprises the Chief Executive Officer ("CEO") of the Group, eight Directors appointed to represent the shareholders and two Sufficiently Independent Directors ("SIDs") appointed to comply with regulatory licence conditions.

The role of the SIDs as defined by the Regulator is to mitigate the risk that Directors with executive roles within the wider ownership group could become conflicted at times of crisis.

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 Company. The positions of the Chairman of the Board and CEO are held by separate individuals with a view to maintaining effective segregation of duties between management of the Board and the day-to-day management of the Company. As such, the appointment of an independent Chairman is not deemed necessary.

The Board of the Company is identical to the board of the parent UK Power Networks Holdings Ltd ("the Group Board") with the exception of three additional Directors in the parent company and the two SIDs who are not members of the Group Board but do attend Group Board and Board Committee meetings.

A total of 5 meetings of the Group Board were held during the year with 9 to 11 members of the Company's Board present at each meeting.

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

The powers of the Directors have been set out in the Company’s Articles of Association. The Directors make active contributions to the affairs of the Group Board which acts in the best interests of the Company. Furthermore, the Group Board has established formal committees with specific responsibilities to assist in the execution of its duties and to allow detailed consideration of complex issues.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

Board engagement
Most engagement with key stakeholders is carried out by management teams and takes place at 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 and Group's long-term objectives. Details of engagement with each of the Group's key stakeholders can be seen on pages 21 to 23.

Further information on how the Group's Board considered its key stakeholders in its decision making can be found in the UK Power Networks Holdings Limited Annual Report and Financial Statements on page 37.

Group Board Committees
In order to assist the Group Board in fulfilling its oversight responsibilities the Group 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 Group Board effectiveness which includes a review of the terms of reference of each Committee.

- The Audit Committee assists the Group Board with its responsibilities for financial reporting, maintaining an effective system of internal control and internal and external audit processes. Using risk assessment methodology and taking into account the Company’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 of the Group may raise concerns in confidence about possible improprieties and monitors any investigations into concerns raised.
- The principal responsibilities of the Remuneration Committee include making recommendations to the Group 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 Group Board from time to time.
- The Treasury Committee oversees the treasury strategy, policy and procedure and sees that all treasury risks are identified, measured and controlled in a manner consistent with corporate strategy and treasury policy.
- The Risk Management and Compliance Committee assists the Group Board with its responsibilities in relation to risk management and to oversee compliance with obligations determined by statute, legislation, regulation, contract or agreement. The Group Board is responsible for approval of the risk management strategy while management is responsible for implementing the Group Board’s strategy and for developing policies and procedures to identify, manage and mitigate risks across the business.
- The Nominations Committee recommends Sufficiently Independent Directors ("SIDs") for appointment to the Boards of the Distribution companies. The Committee selects the candidates based on the criteria defined by condition 43A of the distribution licence which requires the SIDs to have a sufficient level of independence from the executive management of the Company and the shareholder companies.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

- The Environmental, Social and Governance ("ESG") committee's primary function is to assist the Group 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. 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 on a consolidated basis.

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

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

Purpose and leadership

The primary purpose of the Company is to deliver electricity to the East of England. As described on pages 4 and 5 of the Strategic report, the Company works within the purpose, vision, values and strategy of the Group to see it is well positioned to respond to changes in the operating environment.

The Group's 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 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 financial information

The consolidated financial statements of the Group and its subsidiaries (including the Company) 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 financial 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 Group's 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 accounts of each Directorate are reviewed during EMT meetings. Consolidated year to date financial information is presented at Group Board meetings attended by the CEO and the Finance Director. The annual report and accounts of the Company and 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 seeing 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 related notes, financial information and discussion to be included in the annual report. The results of the audit and the audit report are reviewed and enquiries are made as to whether there have been any material disagreements with management. The Audit Committee meets with the external auditor without members of management being present at least twice a year to discuss any matters that the external auditor or the Audit Committee believe should be discussed privately.

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.

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 Company is subject to consent by the Audit Committee. The lead external audit partner changed during the prior year in accordance with a five-year rotation schedule.

Opportunity and Risk

Opportunity

The Group strives to create and preserve value over the long term by consistently providing outstanding 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 Group's Board identifies and evaluates relevant opportunities to create long-term value for the Company and its stakeholders.

The electricity sector is undergoing a significant period of change as the UK works towards Net Zero. In the Group's role as a leading infrastructure provider, it is helping to build a smarter, more dynamic electricity network 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 ever-greater volumes of low carbon generation to its network to support sectors such as transport and domestic heating so as to decarbonise through electrification.

The Group's RIIO-ED2 business plan for 2023 to 2028 outlines our whole systems thinking to work toward achieving Net Zero. The Directors are focused on utilising digitalised solutions across the Group's 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 consolidated UK Power Networks Holdings Limited Annual Report and Financial Statements.

In order to support this change, the Group has established a Digital Skills Academy to provide DSO and digital future skills, 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 Group Board is also invested in seeing that the Group's commitment to sustainability includes leading by example and reducing its carbon footprint by 28% by the end of RIIO-ED2, aiming to exceed its carbon reduction target approved by the Science Based Targets initiative (SBTi). For more details on our environmental targets refer to page 28 of the Strategic report.

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

The Group Board (through the Audit Committee) 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, there are 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 Group Board facilitating the oversight of the risk management process of the Group. Pages 15 to 20 of the Strategic report outline the key risks and the related mitigating actions by the Group.

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 Group Board 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 Group Board.

Internal audit
The Internal Audit function has responsibility for providing independent assurance to the CEO and the 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 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 see that areas for improvement are identified and addressed.

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

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

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

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 Company has no employees of its own, it relies on the employees of other Group companies to deliver its services.

The Group has formed a Remuneration Committee, whose principal responsibilities include making recommendations to the Group 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 Group 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 ensures 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 Group Incentive Plan (employee bonus scheme), which is applicable to all of the Group's employees. Sixty per cent of the Group 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 team 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 6 of the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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, financial position and profit of Eastern Power Networks plc as at 31 March 2024; and
- the Strategic Report and the Directors' Report include a true and fair view of the development and performance of the business and the financial position of Eastern Power Networks plc, together with a description of its principal risks and uncertainties.

Approved by the Board on 19 July 2024 and signed on its behalf by:

....

Basil Scarsella
Director

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Eastern Power Networks PLC (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its 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 profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 22.

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).

2. Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

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

3. Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the accuracy of cost classification, which is consistent with the prior year.

Materiality	The materiality that we used in the current year was £15.0 million (2023: £16.5 million) which was determined on the basis of the last three year's average profit before tax adjusted for movements related to derivative financial instruments.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	As at 31 March 2023, we identified the accuracy and valuation of financial instruments as a key audit matter. The exclusion of this matter for the current year reflects the relatively lower complexity of the instruments remaining in the portfolio compared to historical levels. In the prior year, materiality was based on the prior year profit before tax adjusted for movements related to derivative financial instruments. In the current year, we determined materiality on the basis of an average of the last three years' profit before tax adjusted for movements related to derivative financial instruments.

4. 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 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;
- assessing 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 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 entity's reverse stress testing;
- 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 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.

5. Key audit matters

Key audit matters are those that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Accuracy of cost classification

Key audit matter description	The company continues to have an extensive capital investment programme. To meet the requirements of FRS 102.17 *Property Plant and Equipment* ("PP&E"), it is important that network costs are appropriately classified as either capital or operating expenditure in nature. In the year, the company capitalised £483.0 million (2023: £388.7 million) in relation to network assets, as disclosed in Note 10. The classification of activities between capital (additions or enhancements to network assets) and operating expenditure (maintenance or network repair) is impacted by judgements undertaken by management. Management uses the cost reflectivity model to apply these judgements to the total costs spent on the network to determine what is capitalised and what is expensed. Due to the judgements and complexity within the cost reflectivity model, we have identified the accuracy of cost classification to be a key audit matter as well as a potential fraud risk, specifically in relation to the indirect costs of £187.8 million (2023: £166.0 million). We identify this key audit matter as a potential fraud risk as management might be incentivised to fraudulently overstate capital expenditure and understate operating expenditure, in the determination of the cost drivers that underpin the classification of expenditure. The classification of costs has been disclosed as a critical accounting judgement in note 3, and the fixed asset note is included in note 10 to the financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures: • 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 to the cost reflectivity model 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 performing inquiries with operational teams and 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, including the judgement involved in assessing expenditure as capital and the judgement relating to the allocation of overhead cost.
Key observations	The results of our procedures were satisfactory and on the basis of these we concluded the accuracy of cost classification is appropriate.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£15.0 million (2023: £16.5 million)
Basis for determining materiality	We determined materiality on the basis of an average of the last three year's profit before tax adjusted for movements related to derivative financial instruments. We have also considered a range of additional metrics including cash generated from operations and shareholders' equity. Materiality of £15.0 million represents 7.5% of the average of the last three year's profit before tax adjusted for movements related to derivative financial instruments, 9.5% of current year profit before tax before tax adjusted for movements related to derivative financial instruments, 0.8% of shareholders' equity and 2.7% of cash generated from operations. The prior year materiality of £16.5 million was determined on the basis of the

	prior year profit before tax adjusted for movement related to derivative financial instruments.
Rationale for the benchmark applied	As a profit-making entity, profit before tax, adjusted for movements related to derivative financial instruments, is a key metric used by users of the financial statements. These movements do not form part of the company's core business performance and have therefore been excluded from our benchmark.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2024 audit (2023: 70%). In determining performance materiality, we considered the following factors:

a) our assessment of the company's control enviroment and our ability to rely on internal controls across a number of areas of the audit;
b) the stability of the business, the outcome of our risk assessment process; and
c) the low number of corrected and uncorrected misstatements identified in prior years.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £0.7 million (2023: £0.8 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including wider UK Power Networks Holdings Limited group-wide controls as relevant to the company , and assessing the risks of material misstatement at the company and group level. All the audit work is performed directly by the audit engagement team.

7.2. Our consideration of the control environment

Our controls approach is consistent with prior year other than we did not adopt a control reliance approach to Distribution Use of System ("DUoS") revenue and instead have taken a substantive audit approach to all revenue balances.

We have taken a controls reliance approach in performing our audit of the balances in operating expenses.

We have taken a substantive audit approach on all other areas not mentioned above.

The wider UK Power Networks Holdings group control environment that the company is included within contains a number of IT systems, applications and tools used to support business processes and reporting.

With the involvement of our IT specialist, we performed testing of General IT Controls ("GITCs") of the accounting system, typically covering controls pertaining to user access management, change management as well as controls over key reports generated from the accounting system and its supporting infrastructure (database and operating system).

Our procedures enabled us to place reliance on IT controls pertaining to the accounting system.

7.3. Our consideration of climate-related risks

Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the company, as explained in the strategic report on page 25. We have:

- assessed how the directors considered climate change in their assessment of the impact on the financial statements, including the going concern assumption, based on our understanding of the business environment;
- assessed how the impact of climate change has been considered within individual financial statement lines which are supported by forward looking forecasts and estimates; and
- read the climate risk disclosures included throughout the strategic report section of the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. 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.

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the accuracy of cost classification. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's compliance with the Ofgem licence requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified accuracy of cost classification as a key audit matter related to the potential risk of fraud. The key audit matter section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12.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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13.Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14.Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the group Audit Committee, we were appointed by the board in 2004 and were reappointed following an audit tender in 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the years ending 31 December 2004 to 31 March 2024.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. 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

Marianne Milnes FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

22 July 2024

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2024

	Note	2024 £ m	2023 £ m
Turnover	4	**710.2**	863.1
Cost of sales		**(53.9)**	(144.5)
Gross profit		**656.3**	718.6
Distribution costs		**(375.9)**	(333.3)
Administrative expenses		**(10.4)**	(7.3)
Operating profit	5	**270.0**	378.0
Net finance (cost)/income	7	**(86.1)**	13.9
Profit before tax		**183.9**	391.9
Taxation	8	**(56.1)**	(87.6)
Profit for the financial year		**127.8**	304.3

All results are derived from continuing operations.

The notes on pages 61 to 100 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2024

	2024 **£ m**	2023 £ m
Profit for the year	**127.8**	304.3
Fair value gains deferred to hedging reserves	**0.9**	4.4
Remeasurement losses on defined benefit pension schemes	**(33.2)**	(40.4)
Other comprehensive loss	**(32.3)**	(36.0)
Total comprehensive income for the year	**95.5**	268.3

The components of other comprehensive income are presented net of related tax effects.

BALANCE SHEET AS AT 31 MARCH 2024

	Note	2024 £ m	2023 £ m
Fixed assets			
Intangible assets	9	**25.8**	22.7
Tangible assets	10	**6,096.5**	5,758.5
		6,122.3	5,781.2
Current assets			
Debtors falling due within one year	11	**107.4**	212.3
Debtors falling due after more than one year	11	**237.7**	261.2
Cash and cash equivalents		**4.6**	0.1
		349.7	473.6
Creditors: Amounts falling due within one year	12	**(760.2)**	(754.5)
Net current liabilities		**(410.5)**	(280.9)
Total assets less current liabilities		**5,711.8**	5,500.3
Creditors: Amounts falling due after more than one year	12	**(3,504.2)**	(3,291.5)
Provisions for liabilities	16	**(397.5)**	(370.2)
Net assets		**1,810.1**	1,838.6
Capital and reserves			
Called up share capital	17	**125.8**	125.8
Share premium reserve	17	**5.6**	5.6
Capital redemption reserve	17	**10.6**	10.6
Hedging reserves	17	**4.3**	3.4
Profit and loss account	17	**1,663.8**	1,693.2
Total shareholders' funds		**1,810.1**	1,838.6

The financial statements of Eastern Power Networks plc, registered number 2366906, were approved by the Board and authorised for issue on 19 July 2024. They were signed on its behalf by:

....

Basil Scarsella
Director

The notes on pages 61 to 100 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2024

	Share capital £ m	Share premium reserve £ m	Capital redemption reserve £ m	Profit and loss account £ m	Hedging reserves £ m[1]	Total £ m
At 1 April 2022	125.8	5.6	10.6	1,526.3	(1.0)	1,667.3
Profit for the year	-	-	-	304.3	-	304.3
Remeasurement losses on defined benefit schemes	-	-	-	(40.4)	-	(40.4)
Fair value gains deferred to hedging reserves	-	-	-	-	4.4	4.4
Total comprehensive income	-	-	-	263.9	4.4	268.3
Dividends	-	-	-	(97.0)	-	(97.0)
At 31 March 2023	125.8	5.6	10.6	1,693.2	3.4	1,838.6

	Share capital £ m	**Share premium reserve £ m**	**Capital redemption reserve £ m**	**Profit and loss account £ m**	**Hedging reserves £ m[1]**	**Total £ m**
At 1 April 2023	**125.8**	**5.6**	**10.6**	**1,693.2**	**3.4**	**1,838.6**
Profit for the year	**-**	**-**	**-**	**127.8**	**-**	**127.8**
Remeasurement losses on defined benefit schemes	**-**	**-**	**-**	**(33.2)**	**-**	**(33.2)**
Fair value gains deferred to hedging reserves	**-**	**-**	**-**	**-**	**0.9**	**0.9**
Total comprehensive income	**-**	**-**	**-**	**94.6**	**0.9**	**95.5**
Dividends	**-**	**-**	**-**	**(124.0)**	**-**	**(124.0)**
At 31 March 2024	**125.8**	**5.6**	**10.6**	**1,663.8**	**4.3**	**1,810.1**

[1] Hedging reserves comprise the cash flow hedge reserve and cost of hedging reserve. Refer to note 17 for further detail.

The notes on pages 61 to 100 form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2024

	Note	2024 £ m	2023 £ m
Cash generated from operations[1]	20	**557.7**	634.7
Corporation tax paid		**(22.0)**	(32.4)
Net cash flows from operating activities		**535.7**	602.3
Cash flows from investing activities			
Proceeds from sale of tangible assets		**0.1**	1.5
Gross capital expenditure on tangible assets		**(500.1)**	(391.5)
Capital expenditure on intangible assets		**(12.9)**	(7.6)
Short-term loans to Group undertakings repaid/(advanced)[1]		**107.0**	(107.0)
Interest received		**7.3**	4.3
Net cash flows used in investing activities		**(398.6)**	(500.3)
Cash flows from financing activities			
Equity dividends paid		**(124.0)**	(97.0)
Interest paid		**(70.8)**	(62.9)
Proceeds from long-term borrowings		**343.7**	149.6
Proceeds from short-term borrowings		**68.5**	-
Repayment of short-term borrowings		**(350.0)**	(93.0)
Net cash flows used in financing activities		**(132.6)**	(103.3)
Net increase/(decrease) in cash and cash equivalents		**4.5**	(1.3)
Cash and cash equivalents at beginning of year		**0.1**	1.4
Cash and cash equivalents at end of year		**4.6**	0.1
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		**4.6**	0.1
Cash and cash equivalents		**4.6**	0.1

[1] Cash flows relating to short-term loans advanced to Group undertakings are presented as an investing activity in the cash flow statement. In previous years these cash flows were included in cash generated from operations as part of changes in debtors working capital. Restating the comparative has increased the prior year cash generated from operations by £107.0m and increased the cash used in investing activities by the same amount.

The notes on pages 61 to 100 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

1 General information

Eastern Power Networks plc (the "Company") is incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and is registered in England and Wales.

The principal activities of the Company and the nature of the Company's operations are set out in the Strategic Report on pages 2 to 31.

The address of its registered office is:

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

2 Accounting policies

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

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council (FRC).

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

Certain exemptions are allowed in the financial statements on the basis that the Company meets the definition of a “qualifying entity” under FRS 102, being:

“a member of a group where the parent of that Group (UK Power Networks Holdings Limited) prepares publicly available consolidated financial statements which are intended to give a true and fair view and the member (the Company) is included in the consolidation.”

The Company has taken the exemption not to disclose related party transactions with other wholly owned members of the Group.

2 Accounting policies (continued)

Going concern
The Company'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 are included in the relevant notes to the financial statements.

As discussed on page 13 of the strategic report, 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 Company continues to perform well, is profitable with strong underlying cashflows and with predictable revenues regulated by Ofgem under an established price control mechanism.
- £210.0m of undrawn committed borrowings under a revolving credit facility and the flexibility provided by centralised Group treasury arrangements which allow short term funding from other Group companies if required.
- The net current liability position of £410.5m which includes, scheduled debt repayments during the going concern assessment period of £334.1m and financial covenants applicable to the Company's financing facilities.
- The impact of a higher inflationary environment, which negatively impacts costs but increases future revenues via higher tariffs.
- The Company has a successful track record of raising finance, supported by investment grade credit ratings.

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Company. 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 Company at 31 March 2024, the Company'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 Company'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.

2 Accounting policies (continued)

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

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

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

Tangible 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
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:

Asset class	Depreciation
Network overhead and underground lines (Network)	45 to 60 years
Other Network plant and builidings (Network)	20 to 60 years
Non-Network land and buildings	60 years
Furniture, fixtures and equipment	4 to 8 years
Vehicles	5 to 10 years

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

Customer contributions toward the cost of connection to the network are credited to the balance sheet as deferred income on receipt, and amortised to revenue 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 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.

2 Accounting policies (continued)

Tax

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

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company'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 re-valued fixed assets only where there is a commitment to dispose of the re-valued 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 Company will be within scope of these rules for periods beginning on or after 1 April 2024. As the legislation was not effective at the reporting date the Company has no related current tax exposure. The Company 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.

2 Accounting policies (continued)

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 payments are received from customers in advance of services provided, the amounts are recorded as deferred income.

The majority of turnover is the revenue allowed under the regulatory price control, for the distribution of electricity through the Company's electricity network. Amounts invoiced are based on meter readings of the number of units distributed, charged at the tariffs set by the Regulator. The revenue recognised during the year includes an estimate of the sales value of units distributed between the date of the last meter reading and the year end.

The Company's second major revenue stream relates to connecting customers to the electricity network and an ongoing obligation to maintain those connections. Customer contributions received as payment for connections work 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 network assets.

Pension
The Company has obligations under defined benefit pension arrangements operated by the Group. 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. Remeasurement 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 or equivalent currency and term to the scheme liabilities.

Provisions
Provisions are recognised when the Company has an obligation at the reporting date as a result of a past event, it is probable that the Company 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).

2 Accounting policies (continued)

Financial instruments

The Company 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 Company becomes a party to the contractual provisions of the instrument. Subsequent measurement is either at amortised cost or fair value depending on the classification of the instrument.

Amortised cost is calculated as:

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

Less: The principal repayments;

Plus: The cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount. The effective interest rate exactly discounts estimated future cash flows through the expected life of the instrument back to the initial carrying amount recognised. Discounting is omitted where the effect of discounting is immaterial;

Less: Any loss allowance in respect of financial assets.

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

Financial assets

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

	Financial asset	Subsequent measurement
	Unlisted investments, trade and other receivables	At amortised cost less impairment
*	Derivatives not designated as hedging instruments	At fair value through profit or loss
*	Derivatives designated as hedging instruments	Hedge accounting at fair value

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

2 Accounting policies (continued)

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 residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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

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

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

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

2 Accounting policies (continued)

Derivative financial instruments
The Company uses derivative financial instruments to reduce exposure to interest rate and inflation rate movements. The Company 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 Company. Inflation linked swaps are used to economically hedge the exposure of the Company'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 profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges). This accounting treatment is discussed below under hedge accounting.

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

Hedge accounting
The Company designates certain derivatives as hedging instruments within cash flow hedge and fair value hedge relationships. At the inception of the hedge relationship, the Company 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 Company 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 Company actually hedges and the quantity of the hedging instrument that the Company actually used to hedge that quantity of hedged item.

Note 15 sets out details of the fair values of the derivative instruments used for hedging purposes.

2 Accounting policies (continued)

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.

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. 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.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company’s accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Company's accounting policies

Carrying value of property, plant and equipment
Tangible fixed assets as disclosed in note 10 represent over 90% of the Company’s total asset base. The carrying value of the Network asset of £6,031.4m (2023: £5,707.9m) is impacted by management’s judgement in the following areas:

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

- 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 taken from the actuary to determine a discount rate which falls within the norms of wider market practice.

Details of the defined benefit schemes and the assumptions used to estimate the defined benefit obligation are set out in note 19. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2024.

	Change in assumption	Impact on scheme liabilities			
		UKPN Grp 2024	UKPNPS 2024	UKPN Grp 2024 £m	UKPNPS 2024 £m
Discount rate	+/- 0.50%	**-5.5% to 6.1%**	**-11.0% to 12.8%**	**(27.7) - 30.6**	**(16.7) - 19.4**
RPI inflation	+/- 0.50%	**5.4% to -5.0%**	**10.1% to -9.4%**	**27.4 - (25.1)**	**15.3 - (14.3)**
Life expectancy	+/- 3 years	**12.4% to -13.3%**	**9.2% to -9.8%**	**62.6 - (67.1)**	**14.0 - (15.0)**
Rate of salary increases	+/- 0.50%	**0.3% to -0.3%**	**4.9% to -4.7%**	**1.7 - (1.7)**	**7.5 - (7.1)**

At 31 March 2024 the Company's share of scheme liabilities was valued at £504.3m (2023: £516.1m) for the UKPN Group scheme and £152.1m (2023: £149.5m) for the UKPNPS Scheme (as disclosed in note 19).

4 Turnover

Turnover for the year ended 31 March 2024 was £710.2m (2023: £863.1m), stated net of value added tax, arising entirely in the United Kingdom and attributable to the continuing activity of electricity distribution and the invoice value of other goods and services provided. This includes an estimate of the sales value of units distributed to customers between the date of the last meter reading and the year end.

Increases in wholesale energy prices and consequent supplier failures have led to an increase in SOLR claims received by the Company in the past two years. It was agreed with Ofgem that the majority of these costs would be recovered by revenue tariff increases during the same period as the settlement of the claims. In the current year the Company has recognised additional Distribution Use of System ("DuOS") revenues of £28.5m (2023: £121.0m) to offset the cost of material SOLR claims charged to cost of sales.

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 £51.8m (2023: £49.0m).

5 Operating profit

Arrived at after charging/(crediting):

	2024	2023
	£ m	£ m
Depreciation of tangible fixed assets	**165.1**	156.6
Amortisation of intangible assets	**9.8**	10.7
Operating lease rentals - land and buildings	**0.7**	0.6
Loss/(profit) on disposal of property, plant and equipment	**0.1**	(1.2)

SOLR impact on operating profit

Costs of approximately £28.5m (2023: £121.0m) relating to material SOLR claims are matched by higher revenues (refer to note 4), with no impact on operating profit. SOLR claims falling below a certain materiality threshold, as defined by Ofgem, are only recoverable through revenues in two years' time and have a cost impact of £4.5m (2023: £2.7m).

Auditor's remuneration

The amount payable to Deloitte LLP was £100,200 (2023: £91,100) in respect of audit services and £64,900 (2023: £58,900) in respect of non-audit services. The non audit services are audit related assurance services which include agreed upon procedures performed on behalf of the Regulator and the review of the half year accounts.

5 Operating profit (continued)

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

6 Directors' remuneration

In 2014 the Company appointed two "Sufficiently Independent Directors" (SIDs) to comply with licence requirements. Their total remuneration for the year in return for service on the Boards of the Group's three distribution companies was as follows:

Directors' remuneration

	2024	2023
	£	£
Emoluments	**105,000**	100,000

Remuneration of highest paid director

	2024	2023
	£	£
Emoluments	**52,500**	50,000

The directors' fees presented above are paid by UK Power Networks (Operations) Limited and recharged to the distribution companies, including the Company, using the same apportionment as for other central costs. The other directors of the Board did not receive any remuneration for services to the Company in the current or prior year.

7 Net finance (costs)/income

	2024 £ m	2023 £ m
Interest payable and similar expenses	**(122.1)**	(166.8)
Less: investment income	**12.0**	8.2
Other finance income	**24.0**	172.5
	(86.1)	13.9

	2024 £ m	2023 £ m
Investment income		
Income from other fixed asset investments	**0.1**	0.4
Interest receivable on Group loans	**6.0**	3.7
Other interest receivable and similar income	**1.2**	0.2
Net interest income on defined benefit pension surplus	**4.7**	3.9
	12.0	8.2

	2024 £ m	2023 £ m
Interest payable and similar expenses		
Interest on bank loans	**(15.0)**	(5.3)
Interest on bonds	**(66.3)**	(65.7)
Accretion on index linked debt	**(9.0)**	(20.8)
Interest payable on Group loans	**(1.0)**	(2.1)
Net interest on swap instruments	**2.8**	9.7
Accretion on swap instruments	**(36.8)**	(87.8)
	(125.3)	(172.0)
Finance costs capitalised	**3.2**	5.2
	(122.1)	(166.8)

Capitalised interest
Finance costs have been capitalised to tangible fixed assets on the basis of a capitalisation rate of 5.7% (2023: 9.3%), which is the weighted average rate of interest and accretion costs applicable to the Company's general borrowings during the year. The cumulative amount of finance costs capitalised within tangible fixed assets amounts to £58.2m (2023: £55.0m).

7 Net finance (costs)/income (continued)

	2024 £ m	2023 £ m
Other finance income		
Fair value gains on financial instruments		
Index linked swaps not in hedge relationships	**20.9**	166.0
Interest rate swaps in fair value hedge relationships	**2.1**	(11.5)
Hedged items in fair value hedge relationships	**(4.7)**	11.9
Exchange losses on cross currency swap	**(4.4)**	(0.8)
Exchange gains on JPY bond hedged by cross currency swap	**4.4**	0.8
Ineffectiveness on cash flow hedge swaps	**-**	(0.2)
Change in fair value of cost of hedging through profit or loss	**0.1**	0.5
	18.4	166.7
Amortisation of hedging adjustments		
Amortisation of fair value hedge adjustments	**6.6**	6.6
Net gain related to derivative financial instruments	**25.0**	173.3
Other costs		
Net interest cost on defined benefit pension deficit	**(0.7)**	(0.7)
Other charges	**(0.3)**	(0.1)
	24.0	172.5

8 Taxation

Tax charged to the profit and loss account

	2024 £ m	2023 £ m
Current taxation		
UK corporation tax	**16.2**	32.9
Adjustments in respect of prior years	**(2.4)**	(1.7)
Total current taxation	**13.8**	31.2
Deferred taxation		
Origination and reversal of timing differences	**30.5**	54.6
Adjustments in respect of prior years	**11.8**	1.8
Total deferred taxation	**42.3**	56.4
Total tax charge	**56.1**	87.6

The total tax assessed for the year was higher than the standard rate of 25% (2023: 19%) applied to profit before tax. The differences are reconciled below:

	2024 £ m	2023 £ m
Profit before tax	**183.9**	391.9
Corporation tax at standard rate	**46.0**	74.4
Income not taxable in determining taxable profit	**(0.1)**	(0.1)
Expenses not deductible for tax purposes	**0.8**	-
Deferred tax expense relating to changes in tax rates	**-**	13.2
Adjustments to current tax in respect of prior years	**(2.4)**	(1.7)
Adjustments to deferred tax in respect of prior years	**11.8**	1.8
Total tax charge	**56.1**	87.6

Tax rate changes

The current tax rate applied during the year was 25% (2023: 19%) and deferred tax was calculated at 25% (2023: 25%) based on the standard rate of corporation tax substantively enacted at the reporting date.

The standard rate of corporation tax increased from 19% to 25% with effect from 1 April 2023, as substantively enacted in the Finance Bill 2021 on 24 May 2021.

8 Taxation (continued)

Pillar Two
Pillar Two legislation was enacted in the UK in July 2023, and the Company will be within scope of these rules for periods beginning on or after 1 April 2024. As the legislation was not effective at the reporting date the Company has no related current tax exposure.

The UK Power Networks Group has performed an assessment of its exposure to Pillar Two income taxes for when it comes into effect, including under the UK domestic top-up tax (DTT) rules. Based on the assessment the Company does not currently expect to be subject to any additional tax liabilities under the new legislation. Further details regarding the assessment of the exposure are included in the Group consolidated financial statements of UK Power Networks Holdings Limited, which is the ultimate parent undertaking of the Company.

9 Intangible assets

IT software and development costs

	£ m
Cost	
At 1 April 2023	**124.0**
Additions	**12.9**
At 31 March 2024	**136.9**
Amortisation	
At 1 April 2023	**101.3**
Charge for the year	**9.8**
At 31 March 2024	**111.1**
Net book value	
At 31 March 2024	**25.8**
At 31 March 2023	22.7

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

10 Tangible assets

	Network £ m	Non-network land and buildings £ m	Motor vehicles £ m	Furniture, fixtures and equipment £ m	**Total £ m**
Cost					
At 1 April 2023	8,243.4	40.2	4.7	129.3	**8,417.6**
Additions	483.0	2.6	-	17.7	**503.3**
Disposals	(7.9)	-	(0.5)	-	**(8.4)**
At 31 March 2024	**8,718.5**	**42.8**	**4.2**	**147.0**	**8,912.5**
Depreciation					
At 1 April 2023	2,535.5	8.2	4.7	110.7	**2,659.1**
Charge for the year	159.3	0.7	-	5.1	**165.1**
Eliminated on disposal	(7.7)	-	(0.5)	-	**(8.2)**
At 31 March 2024	**2,687.1**	**8.9**	**4.2**	**115.8**	**2,816.0**
Net book value					
At 31 March 2024	**6,031.4**	**33.9**	**-**	**31.2**	**6,096.5**
At 31 March 2023	5,707.9	32.0	-	18.6	5,758.5

Network assets at 31 March 2024 include land with a book value of £25.2m (2023: £25.2m). Also within network assets are assets in the course of construction of £53.7m (2023: £58.2m). Approximately £50.2m of the prior year assets under construction were completed during the current year (2023: £14.8m).

Non-network land and buildings comprise freehold buildings only.

The cost of connecting customers to the network is included within network assets above. Capital contributions received from customers as payment for connections work are credited to the balance sheet as deferred income and released to profit or loss over the expected useful life of the related network assets. During the year income of £51.8m (2023: £49.0m) was recognised within turnover in respect of customer contributions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

11 Debtors

	Note	2024 £ m	2023 £ m
Amounts falling due within one year:			
Trade debtors		**84.8**	97.8
Amounts owed by Group undertakings		**1.0**	108.0
Other debtors		**0.1**	0.1
Prepayments		**3.4**	3.7
Corporation tax		**10.9**	2.7
Derivative financial assets	15	**7.2**	-
		107.4	212.3
Amounts falling due after more than one year:			
Amounts owed by Group undertakings		**144.5**	144.5
Derivative financial assets	15	**29.4**	22.6
Surplus in the UKPN Group defined benefit pension scheme	19	**63.8**	94.1
		237.7	261.2
		345.1	473.5

Amounts owed by Group undertakings due within one year are interest free trade balances repayable on demand (2023: interest free trade balances repayable on demand of £1.0m and a short-term loan of £107.0m from London Power Networks plc bearing interest at 4.53%).

Amounts owed by Group undertakings due after more than one year comprise a loan of £144.5m (2023: £144.5m) to the parent company UK Power Networks Holdings Limited, bearing interest at 2.56% and maturing in June 2026.

12 Creditors

	Note	2024 £ m	2023 £ m
Amounts falling due within one year:			
Borrowings	13	**334.1**	363.8
Amounts owed to Group undertakings		**89.9**	50.4
Other taxation and social security		**32.4**	42.8
Other creditors		**10.4**	11.6
Accruals		**61.8**	53.1
Deferred income		**231.6**	231.0
Derivative financial liabilities	15	**-**	1.8
		760.2	754.5
Amounts falling due after one year:			
Borrowings	13	**1,694.1**	1,598.6
Deferred income		**1,424.9**	1,336.7
Derivative financial liabilities	15	**385.2**	356.2
		3,504.2	3,291.5

Amounts owed to Group undertakings are interest free trade balances which are repayable on demand.

Deferred income falling due after one year 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. Deferred income falling due within one year includes £55.4m (2023: £52.0m) relating to customer contributions, expected to be released to turnover within one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

13 Borrowings

	2024 £ m	2023 £ m
Amounts due within one year		
Amounts due to Group undertakings	**68.5**	-
£350m 5.75% Bond due March 2024	**-**	349.9
£50m 0.01% Index linked EIB loan due November 2024	**73.7**	-
£40m 0.25% Index linked Bond due February 2025	**58.9**	-
£132.3m 8.5% Bond due March 2025	**132.2**	-
Adjustments for fair value hedge relationships	**0.8**	13.9
	334.1	363.8
Amounts falling due after more than one year		
£150m SONIA + 1.05% Bank loan due January 2030	**149.7**	149.6
£50m 0.01% Index linked EIB loan due November 2024	**-**	70.1
£15m 2.335% EIB loan due October 2025	**15.0**	15.0
£130m 2.234% EIB loan due March 2028	**130.0**	130.0
£35m 1.614% EIB loan due October 2028	**35.0**	35.0
£50m 2.224% EIB loan due February 2030	**50.0**	50.0
£40m 0.25% Index Linked Bond due February 2025	**-**	56.0
£35m 0.032% Index Linked Bond due October 2025	**51.8**	49.3
£132.3m 8.5% Bond due March 2025	**-**	132.1
£250m 2.125% Bond due November 2033	**248.0**	247.8
£300m 1.875% Bond due June 2035	**298.2**	298.1
£350m 6.25% Bond due November 2036	**346.7**	346.5
£350m 5.375% Bond due February 2042	**343.7**	-
£33.8m 1.035% JPY Bond due July 2038	**33.6**	33.6
Exchange gain adjustment on JPY bond	**(7.6)**	(3.3)
Adjustments for fair value hedge relationships	**-**	(11.2)
	1,694.1	1,598.6
	2,028.2	1,962.4

Amounts due to Group undertakings are short term loans of £59.0m from UK Power Networks Services (Contracting) Ltd and £9.5m from London Power Networks plc, bearing interest at 5.58%.

Borrowings are stated net of unamortised issue costs of £13.9m (2023: £8.5m) and include accretion of £59.5m (2023: £50.5m) on the index linked instruments. These balances together with the interest expense are allocated to the profit and loss account over the term of the debt.

13 Borrowings (continued)

Adjustments for fair value hedge relationships
The fair value adjustments to the bonds, which have arisen from fair value hedge relationships with interest rate swaps, amount to cumulative fair value gains of £0.8m (2023: losses of £13.9m) in current debt and £nil (2023: £11.2m gains) in non-current debt. The movement during the year comprises fair value losses of £4.7m (2023: gains of £11.9m) within existing hedge relationships and amortisation adjustments of £6.6m (2023: £6.6m) relating to discontinued hedge relationships.

New debt
To refinance debt which matured during the year the Company issued a £350m bond which bears interest at a fixed rate of 5.375% and matures in 2042.

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

Borrowing facilities
The Company has access to a credit facility of £210.0m until March 2026 which was undrawn at the balance sheet date.

14 Financial instruments

The carrying values of the Company’s financial assets are summarised by category below:

	Note	2024 £ m	2023 £ m
Financial assets			
Measured at fair value through profit or loss			
Derivative financial assets	15	**27.4**	21.1
Measured at fair value and designated in an effective hedge relationship			
Derivative financial assets	15	**9.2**	1.5
Measured at amortised cost			
Loans receivable from Group undertakings	11	**144.5**	251.5
Trade and other debtors, excluding corporation tax receivable, prepayments and accrued income	11	**85.9**	98.9
		267.0	373.0

14 Financial instruments (continued)

The carrying values of the Company's financial liabilities are summarised by category below:

		2024 £m	2023 £m
Financial liabilities			
Measured at fair value through profit or loss			
Derivative financial liabilities	15	**(381.5)**	(354.4)
Measured at fair value and designated in an effective hedge relationship			
Derivative financial liabilities	15	**(3.7)**	(3.6)
Measured at amortised cost and designated in an effective hedge relationship			
* Bonds	13	**(129.9)**	(287.8)
Measured at amortised cost			
** Bonds and loans payable	13	**(1,898.3)**	(1,674.6)
Trade and other payables, excluding taxation and social security and accruals and deferred income	12	**(100.3)**	(62.0)
		(2,513.7)	(2,382.4)

* The carrying value of bonds measured at amortised cost and designated in an effective hedge relationship includes net cumulative fair value losses of £0.3m (2023: gains of £0.4m) relating to fair value hedges and fair value gains of £7.6m (2023: £3.3m) relating to cashflow hedges.

**The carrying value of bonds measured at amortised cost includes a fair value loss adjustment of £0.5m (2023: £3.1m) related to discontinued fair value hedge relationships.

14 Financial instruments (continued)

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

	2024 £ m	2023 £ m
Derivative financial assets measured at fair value through profit or loss		
Index linked swaps not in hedge relationships		
- Net interest receivable	**4.6**	0.5
- Accretion payable	**(0.2)**	(0.4)
- Fair value gains	**6.0**	27.1
	10.4	27.2
Derivative financial assets measured at fair value and designated in effective hedge relationships		
Cross currency swap designated as a cash flow hedge		
- Net interest payable	**-**	(0.7)
- Fair value gains deferred to hedge reserve	**-**	5.0
- Change in fair value of cost of hedging through profit or loss	**-**	0.5
- Hedge ineffectiveness charged to profit or loss	**-**	(0.2)
- Exchange losses measured through profit or loss	**-**	(0.8)
Interest rate swaps designated as cash flow hedges		
- Net interest receivable	**2.3**	-
- Fair value gains deferred to hedging reserve	**1.1**	0.9
Interest rate swaps designated as fair value hedges		
- Net interest payable	**(1.7)**	-
- Fair value gains	**0.3**	-
Financial assets measured at amortised cost		
- Interest receivable on Group loans	**6.0**	3.7
	18.4	35.6

14 Financial instruments (continued)

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

	2024 £ m	2023 £ m
Derivative financial liabilities measured at fair value through profit or loss		
Index linked swaps not in hedge relationships		
- Net interest receivable	**0.8**	6.9
- Accretion payable	**(36.6)**	(87.4)
- Fair value gains	**14.9**	138.9
Derivative financial liabilities measured at fair value and designated in effective hedge relationships		
Cross currency swaps designated as cash flow hedges		
- Net interest payable	**(0.7)**	-
- Change in fair value of cost of hedging through profit or loss	**0.1**	-
- Exchange losses measured through profit or loss	**(4.4)**	-
Interest rate swaps designated as fair value hedges		
- Net interest (payable)/receivable	**(2.5)**	3.0
- Fair value gains/(losses)	**1.8**	(11.5)
	(0.7)	(8.5)
Financial liabilities which are hedged items in effective hedge relationships		
JPY bond hedged by cross currency swap		
- Net Interest payable	**(0.3)**	(0.3)
- Exchange gains measured through profit or loss	**4.4**	0.8
Bonds in fair value hedge relationships		
- Fair value (losses)/gains measured through profit or loss	**(4.7)**	11.9
Financial liabilities measured at amortised cost		
Interest payable on bonds and bank loans	**(81.0)**	(70.7)
Accretion payable on bonds and bank loans	**(9.0)**	(20.8)
Interest payable on Group loans	**(1.0)**	(2.1)
	(118.2)	(31.3)

15 Derivative financial instruments

	2024 £ m	2023 £ m
Derivative financial assets		
Amounts falling due within one year		
Interest rate swaps designated as effective fair value hedges	**7.2**	-
	7.2	-
Amounts falling due after more than one year		
Cross currency swaps designated as effective cash flow hedges	**-**	0.6
Interest rate swaps designated as effective cash flow hedges	**2.0**	0.9
Index linked swaps not designated in hedge relationships	**27.4**	21.1
	29.4	22.6
	36.6	22.6
Derivative financial liabilities		
Amounts falling due within one year		
Interest rate swaps designated as effective fair value hedges	**-**	(1.8)
	-	(1.8)
Amounts falling due after more than one year		
Interest rate swaps designated as effective fair value hedges	**-**	(1.8)
Cross currency swaps designated as effective cash flow hedges	**(3.7)**	-
Index linked swaps not designated in hedging relationships[1]	**(381.5)**	(354.4)
	(385.2)	(356.2)
	(385.2)	(358.0)

[1] The fair value of index linked swaps at 31 March 2024 includes cumulative RPI linked accretion of £167.7m (2023: £130.9m) which is analysed on page 89.

Interest rate swaps are used to manage the interest rate risk on the Company'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 Company 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 Company'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.

15 Derivative financial instruments (continued)

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 curves, adjusted for the Company’s own credit risk in respect of swap liabilities and counterparty credit risk in respect of swap assets.

The following tables and discussion detail the notional principal amounts, the fair values and remaining terms of swap contracts as at the reporting date.

Fair value hedge interest rate swaps

	Average contract fixed interest rate		**Notional principal value**		**Fair value**	
	2024	2023	**2024**	2023	**2024**	2023
	%	%	**£ m**	£ m	**£ m**	£ m
Maturity of outstanding contracts						
Receive fixed / pay floating						
Less than 1 year	**8.5%**	5.8%	**103.7**	154.3	**7.2**	(1.8)
1 to 2 years	**-**	8.5%	**-**	103.7	**-**	(1.8)
			103.7	258.0	**7.2**	(3.6)

Fair value hedge interest rate swaps exchange fixed rate interest for floating rate interest as a hedge against the fair value risk on a portion of the Company’s bond debt. The floating rate payable is SONIA plus a margin of 5.1%. Currently held swaps mature in March 2025.

Fair value gains of £2.1m (2023: losses of £11.5m) on the swaps were recognised in profit or loss during the year and fair value losses of £4.7m (2023: gains of £11.9m) adjusted to the carrying amount of the bonds as part of the hedge relationships.

Fair value adjustments to the bonds relating to discontinued fair value hedge relationships, amortise to profit or loss over the remaining term of the bonds. The amortisation for the year resulted in a gain of £6.6m (2023: gain of £6.6m) to profit or loss.

15 Derivative financial instruments (continued)

Cash flow hedge interest rate swaps

	Average contract fixed interest rate		Notional principal value		Fair value	
	2024	2023	**2024**	2023	**2024**	2023
	%	%	**£ m**	£ m	**£ m**	£ m
Maturity of outstanding contracts						
Receive floating / pay fixed: Interest rate swap contract						
5 years plus	**4.5%**	4.5%	**150.0**	150.0	**2.0**	0.9
Receive fixed JPY rate / pay fixed sterling rate: Cross currency swap						
5 years plus	**3.0%**	3.0%	**33.8**	33.8	**(3.7)**	0.6

Receive floating / pay fixed - Interest rate swap contracts
The Company has a floating to fixed rate contract to hedge the interest rate exposure on a £150m floating rate loan which carries interest at SONIA plus a margin of 1.05%. The swap exchanges this floating rate with a fixed rate of 4.5% and was effective as a cash flow hedge throughout the year. Fair value gains of £1.1m (2023: £0.9m) were deferred to the cash flow hedge reserve during the year. The maturation date of the swap is aligned to the maturity of the loan in 2030.

Receive fixed forex rate/ pay fixed sterling rate - Cross currency swap contracts
The Company holds a cross currency swap to hedge the exchange rate and interest rate exposure on the JPY 5 billion bond due for repayment in July 2028 and bearing interest at 1.035%. The swap is designated as an effective cash flow hedge, exchanging the JPY principal and the JPY interest payments with the equivalent values in Sterling.

In relation to the cross currency hedge, net gains of £nil (2023: £5.0m) were recognised during the year through other comprehensive income in the cash flow hedge reserve and cost of hedging reserve. Hedge ineffectiveness losses of £nil (2023: losses of £0.2m) and cost of hedging gains of £0.1m (2023: gains of £0.5m) were taken to profit or loss.

The hedge reserve movements arising from the cash flow hedges described above are shown in Note 17,

15 Derivative financial instruments (continued)

	Average contract fixed interest rate		Notional principal value		Fair value	
	2024	2023	**2024**	2023	**2024**	2023
	%	%	**£ m**	£ m	**£ m**	£ m
Maturity of outstanding contracts						
Receive fixed / pay fixed + RPI						
2 to 5 years	**6.0%**	-	**320.0**	-	**(269.3)**	-
5 years plus	**-**	6.0%	**-**	320.0	**-**	(252.4)
			320.0	320.0	**(269.3)**	(252.4)
Receive floating / pay fixed + RPI						
5 years plus	**-**	-	**150.0**	150.0	**(79.1)**	(80.9)
Receive RPI accretion / pay CPI accretion + fixed amount						
5 years plus	**-**	-	**772.1**	-	**(5.7)**	-
			1,242.1	470.0	**(354.1)**	(333.3)

The Company uses RPI and CPI linked swap contracts to convert a portion of fixed rate bond interest to an inflation linked rate. Although intended as an economic hedge against the new CPIH exposure of the Company's regulated income, which was previously linked to RPI, 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 2030 to 2041.

During the year the Company transacted new swap contracts which receive RPI accretion and pay CPI accretion plus a fixed amount on a notional value of £772.1m.

The amounts recognised in profit or loss relating to index linked swaps, were fair value gains of £20.9m (2023: gains of £166.0m), a net accretion charge of £36.8m (2023: £87.8m) offset by net interest receivable of £5.4m (2023: £7.4m).

Fair values at 31 March 2024 include cumulative accretion net of pay downs of £167.7m (2023: £130.9m). The RPI or CPI linked accretion movement on each swap arrangement is summarised in the table below:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

15 Derivative financial instruments (continued)

	Accretion at 1 April 2023 £ m	Accretion charge to Profit or Loss £ m	Accretion at 31 March 2024 £ m
Index linked swap arrangement			
Receive 6.0% fixed / pay RPI+margin on £320m notional, maturing November 2036 [1]	**(96.3)**	**(26.5)**	**(122.8)**
Receive SONIA+margin / Pay RPI+margin on £150m notional, maturing December 2041 [2]	**(34.6)**	**(11.8)**	**(46.4)**
Receive RPI accretion/Pay CPI accretion+fixed amount on £772m notional, maturing July and September 2030 [3]	**-**	**1.5**	**1.5**
	(130.9)	**(36.8)**	**(167.7)**

[1] Accretion is payable at 5 year intervals on a pay as you go basis and terms are renegotiated at mandatory break dates during the life of the swap to 2036.

[2] Accretion is payable at maturity of the swap in 2041. These contracts have no mandatory break clauses.

[3] Accretion is receivable/payable at maturity of the swaps in 2030. These contracts have no mandatory break clauses.

16 Provisions for liabilities

		2024 £ m	2023 £ m
Provision for deferred tax		**363.7**	332.3
Other provisions		**17.5**	15.0
		381.2	347.3
Defined benefit retirement obligations			
Deficit in the UKPNPS defined benefit pension scheme	19	**16.3**	22.9
		397.5	370.2

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

	Deferred tax £ m	Other provisions £ m	Total £ m
At 1 April 2023	**332.3**	**15.0**	**347.3**
Charged to profit or loss	**42.3**	**2.5**	**44.8**
Credited to comprehensive income	**(10.9)**	**-**	**(10.9)**
At 31 March 2024	**363.7**	**17.5**	**381.2**

16 Provisions for liabilities (continued)

Explanation of provisions

Other provisions comprise tax, legal and constructive obligations which are expected to become payable within the next two years.

Analysis of deferred tax

	2024 £ m	2023 £ m
Accelerated capital allowances	**397.8**	366.3
Deferred tax relating to defined benefit pension schemes	**11.9**	17.8
Timing differences relating to derivative financial instruments	**(45.8)**	(51.6)
Other timing differences	**(0.2)**	(0.2)
Net deferred tax liability	**363.7**	332.3

The Company 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.

17 Called up share capital and reserves

Share capital: Allotted, called up and fully paid

	2024 **£ m**	2023 £ m
251,513,142 ordinary shares at £0.50 each	**125.8**	125.8

The Company has one class of ordinary shares which carry no right to fixed income.

Reserves
The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses. The capital redemption reserve represents the value of historical repurchases of the Company's own capital. 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

Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments or foreign exchange risk in firm commitments or highly probable forecast transactions. Amounts accumulated in this reserve are reclassifed to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Cost of hedging reserve
The Company holds a cross currency swap to hedge the foreign currency risk on the JPY denominated bond, within a designated cash flow hedge relationship.

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 (within FRS 102 11.2c) 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 (within FRS 102 11.2c) 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.

17 Called up share capital and reserves (continued)

Hedging reserves continued

Movements in the hedging reserves in the current and prior year are shown below net of deferred tax:

	Cash flow hedge reserve £ m	Cost of hedging reserve £ m	Hedging reserves £ m
At 1 April 2022	**-**	**(1.0)**	**(1.0)**
Fair value gains net of deferred tax	**3.7**	**0.7**	**4.4**
At 31 March 2023	**3.7**	**(0.3)**	**3.4**
Fair value gains/(losses) net of deferred tax	**1.3**	**(0.4)**	**0.9**
At 31 March 2024	**5.0**	**(0.7)**	**4.3**

18 Commitments and contingencies

Through the ordinary course of business the Company 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.

Capital commitments

The total amount contracted for but not provided in the financial statements was £128.2m (2023: £63.5m).

Lease commitments

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

	2024 £ m	2023 £ m
Land and buildings		
- within one year	**0.6**	0.7
- between one and five years	**2.6**	2.8
- after five years	**12.9**	13.8
	16.1	17.3

19 Pension commitments

Defined benefit pension schemes

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 latest funding schedule, resulting from the triennial valuation as at 31 March 2022, was agreed on 27 February 2023 for the UKPN Group scheme and 5 April 2023 for the UKPNPS scheme. Deficit repair contributions to the UKPNPS scheme are set to eliminate the scheme's funding shortfall over the next four years. The Company's share of these contributions is £8.6m 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.

A valuation at the balance sheet date, in accordance with FRS 102, was provided by actuaries using 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 do not reflect the assumptions used by the independent actuary in the triennial funding valuations described above.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

19 Pension commitments (continued)

The key financial assumptions (% per annum) used to calculate scheme liabilities under FRS102 were:

	2024 %	2023 %
UKPN Group key financial assumptions		
Discount rate	**4.8**	4.8
Future salary increases	**3.4**	3.5
RPI inflation	**2.9**	3.0
CPI inflation	**2.6**	2.7
Pension increases in deferment	**2.9**	3.1
Pension increases in payment		
- pensions in excess of GMP	**2.9**	3.1
- post-88 GMP	**2.1**	2.1

	2024 %	2023 %
UKPNPS key financial assumptions		
Discount rate	**4.8**	4.6
Future salary increases	**3.2**	3.3
RPI inflation	**2.7**	2.8
CPI inflation	**2.2**	2.3
Pension increases in deferment		
- CPI up to 5% per annum	**2.2**	2.3
- CPI up to 2.5% per annum	**2.2**	2.3
Pension increases in payment		
- RPI up to 5% per annum	**2.6**	2.7
- RPI up to 2.5% per annum	**1.9**	1.9
- post-88 GMP	**1.9**	1.9

19 Pension commitments (continued)

The following life expectancies have been been assumed in the calculation of scheme liabilities:

	2024 Years	2023 Years
UKPN Group life expectancy assumptions		
Life expectancy for male currently aged 60	**26**	26
Life expectancy for female currently aged 60	**29**	29
Life expectancy at 60 for male currently aged 40	**27**	27
Life expectancy at 60 for female currently aged 40	**30**	30

	2024 Years	2023 Years
UKPNPS life expectancy assumptions		
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**	24
Life expectancy at 65 for female currently aged 45	**26**	26

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

The amounts recognised in the balance sheet in respect of the defined benefit schemes are as follows:

	UKPN Grp 2024 £ m	**UKPNPS 2024 £ m**	**Total 2024 £ m**	Total 2023 £ m
Fair value of scheme assets	**568.1**	**135.8**	**703.9**	736.8
Present value of defined benefit obligation	**(504.3)**	**(152.1)**	**(656.4)**	(665.6)
Defined benefit pension scheme surplus/(deficit)	**63.8**	**(16.3)**	**47.5**	71.2

In respect of the UKPN Group scheme, the Directors are of the view that the surplus is recoverable on the basis that a right of refund exists under the scheme rules, assuming the gradual settlement of the liabilities over time until all the members have left the scheme. Based on this view, the surplus is presented as a non-current asset within Debtors (note 11).

19 Pension commitments (continued)

Amounts recognised in the profit and loss account in respect of the defined benefit schemes were as follows:

	UKPN Grp 2024 £ m	UKPNPS 2024 £ m	Total 2024 £ m	Total 2023 £ m
Current service cost	**(5.6)**	**(4.3)**	**(9.9)**	(17.6)
Past service cost	**(0.4)**	**-**	**(0.4)**	(0.7)
Net interest income/(cost)	**4.7**	**(0.7)**	**4.0**	3.2
	(1.3)	**(5.0)**	**(6.3)**	(15.1)
Recognised in other comprehensive income	**(38.3)**	**(6.0)**	**(44.3)**	(53.9)
	(39.6)	**(11.0)**	**(50.6)**	(69.0)

Of the charge for the year a net expense of £10.3m (2023: £18.3m) has been included in distribution costs and net income of £4.0m (2023: £3.2m) included within net finance costs.

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

	UKPN Grp 2024 £ m	UKPNPS 2024 £ m	Total 2024 £ m	Total 2023 £ m
At 1 April	**(516.1)**	**(149.5)**	**(665.6)**	(872.0)
Current service cost	**(5.6)**	**(4.3)**	**(9.9)**	(17.6)
Past service cost	**(0.4)**	**-**	**(0.4)**	(0.7)
Interest cost	**(23.7)**	**(6.8)**	**(30.5)**	(23.5)
Actuarial gains	**8.3**	**9.2**	**17.5**	213.2
Benefits paid	**33.2**	**(0.7)**	**32.5**	35.0
At 31 March	**(504.3)**	**(152.1)**	**(656.4)**	(665.6)

The actuarial gains (2023: gains) include a net transfer out of scheme liabilities amounting to £8.3m (2023: £6.3m transfer out) to align the allocation of scheme liabilities across the Group to the attribution portions agreed with Ofgem.

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. The Group is awaiting the outcome of a scheduled appeal in June 2024 and any additional hearings before taking action. The initial view is that the ruling would not be expected to have a significant impact on the valuation of the pension obligation of the Company.

19 Pension commitments (continued)

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

	UKPN Grp 2024 £ m	UKPNPS 2024 £ m	Total 2024 £ m	Total 2023 £ m
At 1 April	**610.2**	**126.6**	**736.8**	972.1
Interest income	**28.4**	**6.1**	**34.5**	26.7
Return on plan assets (excluding amounts included in net interest cost)	**(46.6)**	**(15.2)**	**(61.8)**	(267.1)
Contributions by employer	**9.3**	**9.4**	**18.7**	18.0
Deficit payments	**-**	**8.2**	**8.2**	22.1
Benefits paid	**(33.2)**	**0.7**	**(32.5)**	(35.0)
At 31 March	**568.1**	**135.8**	**703.9**	736.8

The return on plan assets (excluding amounts included in net interest cost) includes a net transfer out of scheme assets amounting to £10.9m (2023: £6.6m transfer out) to align the allocation of scheme assets across the Group to the attribution portions agreed with Ofgem.

The fair value of scheme assets is analysed as follows:

	UKPN Grp 2024 £ m	UKPNPS 2024 £ m	Total 2024 £ m	Total 2023 £ m
Equities	**26.8**	**28.6**	**55.4**	64.6
Liability driven investments	**392.9**	**58.9**	**451.8**	480.9
Credit funds	**22.9**	**22.1**	**45.0**	38.5
Hedge funds	**-**	**7.8**	**7.8**	8.2
Alternatives [1]	**121.0**	**15.7**	**136.7**	135.1
Cash and net current assets	**4.5**	**2.7**	**7.2**	9.5
	568.1	**135.8**	**703.9**	736.8

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

20 Notes to the cash flow statement

Reconciliation of operating profit to cash flows

	2024 £ m	2023 £ m
Operating profit	**270.0**	378.0
Adjustment for		
Depreciation and amortisation of assets	**174.9**	167.3
Customer contributions recognised in turnover	**(51.8)**	(49.0)
Loss/(profit) on disposal of tangible fixed assets	**0.1**	(1.2)
Operating cash flow before movement in working capital	**393.2**	495.1
Decrease/(increase) in debtors[1]	**13.1**	(28.7)
Increase in creditors	**22.0**	73.4
Customer contributions received	**143.4**	118.2
Increase/(decrease) in provisions	**2.5**	(1.5)
Pension deficit repair payments	**(8.2)**	(22.1)
Employer pension contributions net of service costs	**(8.3)**	0.3
Cash generated from operations	**557.7**	634.7

[1] In previous years changes in debtors working capital included the cash flows relating to short term loans advanced to Group undertakings. These cash flows are now presented as part of investing activities on the face of the cash flow statement. Restating the comparative has reduced the prior year increase in debtors by £107.0m and increased cash generated from operations by £107.0m, while increasing the cash used in investing activities on the face of the cash flow statement by the same amount.

20 Notes to the cash flow statement (continued)

Reconciliation of net debt

	At 1 April 2023 £ m	Cash flows £ m	Fair value and exchange rate changes £ m	Other non-cash changes £ m	At 31 March 2024 £ m
Cash at bank and in hand	0.1	4.5	-	-	4.6
Cash equivalents	-	-	-	-	-
	0.1	4.5	-	-	4.6
Debt due within one year	(363.8)	281.5	13.1	(264.9)	(334.1)
Debt due after more than one year	(1,598.6)	(343.7)	(6.9)	255.1	(1,694.1)
	(1,962.4)	(62.2)	6.2	(9.8)	(2,028.2)
Net debt excluding derivatives	(1,962.3)	(57.7)	6.2	(9.8)	(2,023.6)
Net derivative liabilities	(335.4)	1.0	19.8	(34.0)	(348.6)
Net debt including derivatives	(2,297.7)	(56.7)	26.0	(43.8)	(2,372.2)

Other non-cash changes in net debt include accretion on index linked debt of £9.0m, accretion on index linked derivatives of £36.8m and amortisation of debt issue costs of £0.8m, partially offset by interest accrued on derivatives of £2.8m. In addition £258.2m relating to debt maturing within 12 months, was reclassified from "Debt due within more than one year", to "Debt due within one year".

21 Related party transactions

The Company has taken an exemption under FRS 102 (section 33 2.2) not to disclose transactions with other wholly owned members of the Group.

The Company qualifies for this exemption on the basis that it is a wholly owned subsidiary of a parent which prepares publicly available consolidated financial statements intended to give a true and fair view of the financial position and results of the group, and the Company is included within the consolidation.

22 Parent and ultimate parent undertaking

The Company's immediate parent is UK Power Networks Holdings Limited, incorporated in the United Kingdom and registered in England and Wales, at the following address:

Newington House
237 Southwark Bridge Road
London
SE1 6NP

UK Power Networks Holdings Limited is the parent of both the smallest and largest Group in which the Company's financial statements are consolidated. Copies of the financial statements of UK Power Networks Holdings Limited may be obtained from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX.

UK Power Networks Holdings Limited is owned by a consortium comprising:

• **CK Infrastructure Holdings Limited** (40% shareholding) incorporated in Bermuda;

• **Power Assets Holdings Limited** (40% shareholding) incorporated in Hong Kong; and

• **CK Asset Holdings Limited** (20% shareholding) incorporated in the Cayman Islands.

In the Directors' opinion UK Power Networks Holdings Limited has no single controlling party as it is jointly controlled by the consortium.