EASTERN POWER NETWORKS PLC

Registration number: 2366906

Interim report and condensed financial statements

for the six months ended 30 September 2023

CONTENTS

COMPANY INFORMATION

Directors

Andrew John Hunter (Chairman)
Hing Lam Kam
Neil Douglas McGee
Basil Scarsella
Charles Chao Chung Tsai
Loi Shun Chan
Duncan Nicholas Macrae
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Company Secretary

Andrew Pace

Registered Office

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INTERIM MANAGEMENT REPORT

About us:

Who we are and what we do
Eastern Power Networks plc (the "Company") is a wholly owned subsidiary of the UK Power Networks Group (the “Group”). As an electricity distribution network operator (“DNO”), we see that the electricity infrastructure is in place to deliver power to over 3.6 million homes and businesses. The Company is responsible for operating and maintaining the network, the safe, reliable and efficient electricity supply to existing customers and timely, cost-effective connections to new customers.

The Company operates within a regulatory framework under licence from Ofgem (Office of Gas and Electricity Markets). 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, the environment and efficiency.

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

Operating review

Overview
The Company has performed well operationally in respect of safety, network performance and customer service during a period of continued uncertainty for energy markets in the UK.

Price control
The RIIO-ED1 price control finished on 31 March 2023. The new price control, RIIO-ED2, operates from 1 April 2023 to 31 March 2028 and has been agreed following final determination and after extensive review and consultation with Ofgem.

The RIIO-ED2 price control represents an increase in expenditure of approximately 25% compared to RIIO-ED1. Delivering on this commitment to invest in the electricity network and support the UK’s ambition to reduce carbon emissions to net zero by 2050 (“the transition to net zero”), will be key challenges for the Company going forward. The Company will need to make additional investment to support the rollout of electric vehicles, heat pumps and renewable generation.

The new price control establishes a more challenging regulatory framework in respect of incentive targets and the allowed rate of return which has reduced relative to RIIO-ED1. This will make financial outperformance more challenging for the Company and has impacted financial results relative to the prior year comparative period. Importantly however, the price review provides certainty in the revenue the Company will earn for the next five years.

Market update
The UK Energy sector continues to experience elevated wholesale energy prices and an inflationary environment.

Within the regulatory framework the Company’s revenue and Regulatory Asset Value (“RAV”) are both linked to inflation indices. Inflation growth has a positive overall impact on the Company in the form of increased income in future periods and growth in the RAV, which benefits Debt to RAV gearing levels. However, in the short-term and during the period increased inflation has negatively impacted profitability and cash flow due to higher accretion charges on index linked instruments and pressure on operating costs, including labour and the cost of goods. The Company has continued to deliver on its operational and financial targets by focusing on efficiencies and cost control measures. The Company delivered EBITDA of £195.2m at an EBITDA margin of 60.2% (six months ended 30 September 2022: £252.7m at 62.6% margin).

INTERIM MANAGEMENT REPORT continued

The increase in wholesale energy prices since the end of 2021 has resulted in a number of energy suppliers going out of business. A financial impact of energy supplier failures on the Company is that all DNOs have been required to pay more claims under the supplier of last resort ("SOLR") scheme managed by Ofgem. It was agreed with Ofgem that the majority of these SOLR claims would be recovered by revenue tariff increases during the same period as the settlement of the claims.

In the six months ended 31 September 2023 claims of £16.7m (six months ended 31 September 2022 £60.0m) were expensed to cost of sales and offset by an equivalent amount of revenues recognised, with no impact on operating profit. At the balance sheet date, the Company had SOLR claims of £16.3m yet to be accrued which will become payable and recovered via tariff increases in the remaining months to 31 March 2024.

Operational key performance indicators ("KPIs")
The key performance indicators used by the Board of Directors in their monitoring of the performance of the Company focus on areas of safety, network performance and reliability, customer service.

Safety
The Group's highest priority is the safety of employees, contractors and the general public. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign is ongoing for all staff and contractors. The safety performance of the Group as a whole is reviewed in the Group's annual report and financial statements for the year ended 31 March 2023.

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 these investigations are used to improve training and safety procedures as well as raise awareness across the organisation.

1 LTI has occurred within the Group in the six months ended 30 September 2023 compared to 1 LTI in the same period last year.

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 supply. CIs, the number of interruptions per 100 customers, are an indicator of network reliability.

CMLs and CIs are officially measured and agreed with Ofgem on an annual basis to 31 March and presented in the Company's annual report and financial statements. Performance year to date to 30 September 2023 is in line with the prior year comparative period.

Customer satisfaction
Ofgem measures customer satisfaction through surveys which record the experience of customers receiving services from distribution network operators for interruptions, minor connections and general enquiries. This is one of the most important measures of performance for the business.

The Company maintained an average of 94% customer satisfaction in the six months ended 30 September 2023, the same as in the prior year comparative period, and was ranked second out of the fourteen distribution networks in Great Britain.

Financial review and key performance indicators ("KPIs")

The Company's key financial performance indicators relating to the period under review are set out in the table below.

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Turnover	**324.3**	403.4
EBITDA [1]	**195.2**	252.7
Profit after tax	**65.1**	196.0
Gross capital expenditure on tangible assets	**230.9**	184.7
Capital expenditure on tangible assets net of customer contributions received	**152.6**	128.6

1 EBITDA is a non-statutory measure, and is calculated by adding back amortisation and depreciation to operating profit (also discussed in subsequent paragraphs). The impact of the SOLR claims explained on page 3 is to increase turnover and costs with no impact on EBITDA.

Turnover

Turnover has reduced from £403.4m to £324.3m. There has been a reduction in SOLR related revenues of £43.3m which are offset by a corresponding reduction in SOLR related costs recorded in cost of sales. Turnover excluding SOLR claims has reduced by £35.8m mainly driven by tariff reductions under the new price control RIIO-ED2.

EBITDA

Earnings before interest, tax, depreciation and amortisation ("EBITDA") reduced by £57.5m to £195.2m. This is the result of lower revenue tariffs under RIIO-ED2 combined with higher costs which include inflationary cost increases. SOLR claims had no impact on EBITDA in either period due to costs being matched by additional DuOS revenues.

The EBITDA measure excludes the effect of interest, taxation, depreciation and amortisation from earnings and thus reflects the operational performance of the business. It is also the basis for certain of the Company's covenant metrics. The closest statutory measure is operating profit which is reconciled to EBITDA as follows:

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Operating profit	**109.4**	170.1
Depreciation of tangible assets	**81.0**	77.3
Amortisation of intangible assets	**4.8**	5.3
EBITDA	**195.2**	252.7

Removing the effect of depreciation and amortisation from operating profit provides a clearer measure of operating metrics within the business and enables comparison with industry peers.

INTERIM MANAGEMENT REPORT continued

Profit after tax

Profit after tax of £65.1m is lower than the £196.0m in the prior year comparative period, driven by lower EBITDA and higher net finance costs. The £107.4m increase in net finance costs includes the impact of fair value gains on inflation linked swap instruments reducing from £163.6m in the prior period to £43.7m in the current period. 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 reduced the present value of swap liabilities. There were significantly higher fair value gains in the prior period due to a greater upward shift in the interest rate curve at that time.

Capital expenditure

Gross capital expenditure is a measure of the Company's investment in the electricity distribution network during the period. Capital expenditure net of customer contributions is set out in the table below:

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Gross capital expenditure on tangible assets	**230.9**	184.7
Less: Customer contributions received in the period	**(78.3)**	(56.1)
Capital expenditure net of customer contributions	**152.6**	128.6

Gross capital expenditure on tangible assets is disclosed in note 7 to the financial statements and customer contributions received are disclosed in note 16 to the financial statements.

The higher expenditure in the current period reflects more work on the network compared to the prior year comparative period.

RAV gearing

The proportion of debt measured against the Regulatory Asset Value (RAV) of the business indicates 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. At 30 September 2023 the RAV gearing ratio remains at historically levels of 56%.

	As at 30 September 2023 £m	As at 31 March 2023 £m
Regulatory asset value (RAV) [1]	**3,692.5**	3,557.3
RAV gearing [2]	**56%**	56%

1 "RAV" is the Regulatory Asset Value of the business. The values presented are based on the information available at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The 31 March 2023 RAV is the same as that disclosed in the 31 March 2023 statutory accounts, pending confirmation of the final position with Ofgem.

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

Dividends

Dividends of £35.0m were paid during the period (six months ended 30 September 2022: £37.0m).

Principal risks and uncertainties

In the view of the Board, the principal risks relevant to the Company at 30 September 2023 and during the remaining six months of the financial year ended 31 March 2024, are consistent with those that were contained in the Company's 2023 annual report. These risks are summarised below and are presented in more detail together with the mitigating actions being taken by management, in the 2023 Annual Report and Accounts available at www.ukpowernetworks.co.uk/about-us/investor-relations.

Risk
Health and safety incidents There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public or a third party. Any such incident could lead to a prosecution or a fine and have an adverse impact on the reputation of the Company.
Inadequate response to major adverse events Adverse event 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 damage and increased expenditure to the network. An inadequate response to a major adverse 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.
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, fine or a serious injury or fatality. Customer service, continuity and 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.
Network unable to meet accelerated demand The Company has a key role in facilitating the transition to net zero. An inability to meet the accelerated demand on the network resulting from the uptake of low carbon technologies, could result in reputational damage.
Regulatory compliance risk The Company is subject to extensive regulatory and legislative obligations. These include obligations set by the regulator (Ofgem) as well as statutory requirements, including taxation. Compliance obligations may be impacted by the prevailing political and economic climate. Non-compliance with regulatory and legislative obligations could result in lower financial returns reputational damage, breach of licence conditions or fines.

INTERIM MANAGEMENT REPORT continued

Risk
Achieving output and cost efficiency targets Output and cost efficiency targets are agreed with the Regulator within the price control framework. The RIIO-ED2 price control has established more challenging performance and incentive targets and a lower allowed rate of return. Supply chain disruption, higher levels of inflation and the availability of employee and contractor resourcing could impact the meeting of targets. If the business does not meet the output and cost efficiency targets, this could negatively impact financial performance.
Supply Chain Capacity and Long Lead Times Supply chain pressures have increased globally due to inflation, the energy crisis and skills shortages. This is resulting in increased risks of price fluctuations, extended lead times for critical components, insolvency of key suppliers and scarcity of skilled contractor workforce. If these challenges are not managed effectively, it may impact UK Power Networks' ability to meet its targets.
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 Company'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.
Political and economic climate Political and global events can affect aspects of the Group's business. This includes events such as the conflict in the Ukraine and disruption to global supply chains. Changes in the macroeconomic environment, such as credit markets, inflation and interest rates could negatively impact financial results and the Group's access to funding.

Going concern

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 is profitable with strong underlying cashflows and predictable revenues regulated by Ofgem under an established price control mechanism.
- A more challenging regulatory framework in respect of incentive targets and the allowed rate of return under the new price control RIIO-ED2 effective from 1 April 2023 to 31 March 2028.
- £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 £363.3m which includes, scheduled debt repayments during the going concern period of £350m and financial covenants applicable to the Company's financial 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 an investment grade credit rating.

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 and a reduction in connections income.

INTERIM MANAGEMENT REPORT continued

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.

Approved by the Board and signed on its behalf by:

....
Basil Scarsella
Director

14 December 2023
Newington House
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The interim financial information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules (DTR) of the United Kingdom Financial Conduct Authority.

As required by Chapter 4 of the DTR in respect of companies with listed debt, the Directors confirm to the best of their knowledge that:

- The condensed interim financial statements for the six months ended 30 September 2023 have been prepared in accordance with FRS 104 Interim Financial Reporting; and

- The interim management report includes a fair review of the information required by DTR 4.2.7R (an indication of important events and their impact during the first six months of the financial year, and a description of principal risks and uncertainties for the remaining six months of the financial year).

Signed on behalf of the Board of Directors of Eastern Power Networks plc on 14 December 2023.

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Basil Scarsella
Director

INDEPENDENT REVIEW REPORT OF EASTERN POWER NETWORKS PLC ('THE COMPANY')

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 which comprises the condensed profit and loss statement, condensed statement of comprehensive income, condensed balance sheet, condensed statement of changes in equity, condensed cash flow statement and related notes 1 to 16.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with the International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the company are 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"). The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusions, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

INDEPENDENT REVIEW REPORT OF EASTERN POWER NETWORKS PLC ('THE COMPANY')

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

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Deloitte LLP
Statutory Auditor
London, United Kingdom
14 December 2023

CONDENSED PROFIT AND LOSS STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	**Six months ended 30 September 2023 £m**	Six months ended 30 September 2022 £m
Turnover	2	**324.3**	403.4
Cost of sales		**(26.0)**	(70.7)
Gross profit		**298.3**	332.7
Distribution costs		**(184.3)**	(159.6)
Administrative expenses		**(4.6)**	(3.0)
Operating profit	3	**109.4**	170.1
Net finance (cost)/income	4	**(21.6)**	85.8
Profit before taxation		**87.8**	255.9
Taxation	5	**(22.7)**	(59.9)
Profit for the period		**65.1**	196.0

All results are derived from continuing operations.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	**Six months ended 30 September 2023 £m**	Six months ended 30 September 2022 £m
Profit for the period		**65.1**	196.0
Fair value gains deferred to hedging reserves	13	**6.5**	5.7
Remeasurement (losses)/gains on defined benefit pension schemes	15	**(27.1)**	17.1
Other comprehensive (loss)/income		**(20.6)**	22.8
Total comprehensive income		**44.5**	218.8

The components of other comprehensive (loss)/income are stated net of tax related effects.

CONDENSED BALANCE SHEET
AS AT 30 SEPTEMBER 2023

	Note	30 September 2023 £m	31 March 2023 £m
Fixed assets			
Intangible assets	6	**24.4**	22.7
Tangible assets	7	**5,908.4**	5,758.5
		5,932.8	5,781.2
Current assets			
Debtors			
- amounts falling due within one year	8	**144.0**	212.3
- amounts falling due after more than one year	8	**254.5**	261.2
Cash and cash equivalents		**13.8**	0.1
		412.3	473.6
Creditors: amounts falling due within one year	9	**(775.6)**	(754.5)
Net current liabilities		**(363.3)**	(280.9)
Total assets less current liabilities		**5,569.5**	5,500.3
Creditors: amounts falling due after more than one year	9	**(3,339.0)**	(3,291.5)
Provisions for liabilities	12	**(382.4)**	(370.2)
Net assets		**1,848.1**	1,838.6
Capital and reserves			
Called up share capital		**125.8**	125.8
Share premium		**5.6**	5.6
Capital redemption reserve		**10.6**	10.6
Hedging reserve	13	**9.9**	3.4
Profit and loss account		**1,696.2**	1,693.2
Shareholder's funds		**1,848.1**	1,838.6

The condensed financial statements of Eastern Power Networks plc, registered number 2366906, were approved and authorised for issue on 14 December 2023 by the Board of Directors. They were signed on its behalf by:

....
Basil Scarsella
Director

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Called-up share capital £m	Share Premium Reserve £m	Capital re-demption Reserve £m	Profit and loss account £m	Hedging reserves[1] £m	Total £m
At 1 April 2023	125.8	5.6	10.6	1,693.2	3.4	**1,838.6**
Profit for the period	-	-	-	65.1	-	**65.1**
Remeasurement losses on defined benefit pension schemes	-	-	-	(27.1)	-	**(27.1)**
Cash flow hedges						
Gains arising during the period	-	-	-	-	6.5	**6.5**
Total comprehensive income	-	-	-	38.0	6.5	**44.5**
Dividends	-	-	-	(35.0)	-	**(35.0)**
At 30 September 2023	**125.8**	**5.6**	**10.6**	**1,696.2**	**9.9**	**1,848.1**

	Called-up share capital £m	Share Premium Reserve £m	Capital re-demption Reserve £m	Profit and loss account £m	Hedging reserves[1] £m	Total £m
At 1 April 2022	125.8	5.6	10.6	1,526.3	(1.0)	**1,667.3**
Loss for the period	-	-	-	196.0	-	**196.0**
Remeasurement gains on defined benefit pension schemes	-	-	-	17.1	-	**17.1**
Cash flow hedges						
Gains arising during the period	-	-	-	-	5.7	**5.7**
Total comprehensive income	-	-	-	213.1	5.7	**218.8**
Dividends	-	-	-	(37.0)	-	**(37.0)**
At 30 September 2022	**125.8**	**5.6**	**10.6**	**1,702.4**	**4.7**	**1,849.1**

1 Hedging reserves comprise the cash flow hedge reserve and cost of hedging reserve. Refer to note 13 for further detail.

CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	**Six months ended 30 September 2023 £m**	Six months ended 30 September 2022 £m
Cash generated from operations	16	**311.7**	282.2
Corporation tax paid		**(6.6)**	(15.4)
Net cash flows from operating activities		**305.1**	266.8
Cash flows from investing activities			
Proceeds from sale of tangible assets		**0.1**	0.7
Gross capital expenditure on tangible assets		**(228.8)**	(182.3)
Capital expenditure on intangible assets		**(6.5)**	(2.4)
Interest received		**4.2**	2.0
Net cash flows used in investing activities		**(231.0)**	(182.0)
Cash flows from financing activities			
Equity dividends paid		**(35.0)**	(37.0)
Interest paid		**(25.4)**	(19.9)
Repayment of short-term borrowings		**-**	(26.0)
Net cash flows used in financing activities		**(60.4)**	(82.9)
Net increase in cash and cash equivalents		**13.7**	1.9
Cash and cash equivalents at beginning of period		**0.1**	1.4
Cash and cash equivalents at end of period		**13.8**	3.3
Cash and cash equivalents comprise:			
Cash at bank		**13.8**	3.3
Cash and cash equivalents		**13.8**	3.3

1. General information and basis of accounting

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 address of the Company's registered office is shown on page 1.

The condensed financial statements for the six months ended 30 September 2023 have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with FRS 104 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority. The interim financial information is unaudited but has been reviewed by the Company's Auditor. The Auditor's review opinion is presented on page 10.

The interim financial information does not constitute the Company's statutory accounts which have been prepared under the Financial Reporting Standard 102 (FRS 102) for the year ended 31 March 2023 and filed with the registrar of companies. The Auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

The interim financial information should be read in conjunction with the annual report and financial statements for the year ended 31 March 2023 comprising the statutory accounts. The accounting policies applied in the preparation of the condensed interim financial statements and the significant accounting judgements and key sources of estimation uncertainty therein, are consistent with those of the financial statements for the year ended 31 March 2023.

The financial information for the year ended 31 March 2023 presented as comparatives in the balance sheet and notes to the balance sheet is derived from the statutory accounts for that year but should not be regarded as statutory accounts within the meaning of s434 of the Companies Act 2006.

Going concern
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 predictable revenues regulated by Ofgem under an established price control mechanism.
- A more challenging regulatory framework in respect of incentive targets and the allowed rate of return under the new price control RIIO-ED2 effective from 1 April 2023 to 31 March 2028.
- £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 £363.3m which includes, scheduled debt repayments during the going concern period of £350m and financial covenants applicable to the Company's financial 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 an investment grade credit rating.

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 and a reduction in connections income.

NOTES TO THE FINANCIAL STATEMENTS continued

1. General information and basis of accounting continued

Going concern continued
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. Turnover

Turnover for the six months ended 30 September 2023 was £324.3m (six months ended 30 September 2022: £403.4m), 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 electricity 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 period the Company has recognised additional Distribution Use of System ("DuOS") revenues of £16.7m (six months ended 30 September 2023: £60.0m) to offset the cost of SOLR claims charged to cost of sales. At 31 March 2023 the Company had claims of £16.3m not yet accrued. Under the agreement with Ofgem these will become payable and recovered via higher tariffs in the remaining months to 31 March 2024.

Turnover also 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. During the period this amounted to £25.4m (six months ended 30 September 2022: £24.1m).

3. Operating profit

Operating profit is stated after charging/(crediting):

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Depreciation of tangible assets	**81.0**	77.3
Amortisation of intangible assets	**4.8**	5.3
Profit on disposal of tangible fixed assets	**(0.1)**	(0.7)

SOLR impact on operating profit
Costs of approximately £16.7m (six months ended 30 September 2022: £60.0m) relating to material SOLR claims are matched by higher revenues (refer to note 2), with no impact on operating profit.

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

NOTES TO THE FINANCIAL STATEMENTS continued

4. Net finance (cost)/income

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Interest payable and similar expenses	**(74.9)**	(85.2)
Less: Investment income	**6.5**	3.9
Other finance income	**46.8**	167.1
Net finance (cost)/income	**(21.6)**	85.8

Investment income		
Interest receivable on Group loans	**3.8**	1.9
Other interest receivable and similar income	**0.4**	0.1
Net interest income on defined benefit pension scheme	**2.3**	1.9
	6.5	3.9

Interest payable and similar expenses		
Interest on bank loans	**(6.9)**	(2.6)
Interest on bonds	**(32.9)**	(33.0)
Accretion on index linked debt	**(7.8)**	(10.9)
Net interest receivable on swap instruments	**3.8**	5.4
Accretion on swap instruments	**(33.2)**	(45.8)
Interest payable on Group loans	**-**	(0.7)
	(77.0)	(87.6)
Finance costs capitalised	**2.1**	2.4
	(74.9)	(85.2)

4. Net finance (cost)/income

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Other finance income		
Fair value gains on financial instruments		
Index linked swaps not in hedge relationships	**43.7**	163.6
Interest rate swaps in fair value hedge relationships	**(0.7)**	(16.8)
Hedged items in fair value hedge relationships	**0.9**	17.0
Ineffectiveness on cash flow hedge swaps	**-**	(0.2)
Exchange losses on cross currency swap	**(3.1)**	(0.3)
Exchange gains on JPY bond hedged by cross currency swap	**3.1**	0.3
Change in fair value of cost of hedging through profit or loss	**-**	0.5
	43.9	164.1
Amortisation of fair value hedge adjustment	**3.3**	3.3
Net gain related to derivative instruments	**47.2**	167.4
Net interest cost on defined benefit pension scheme	**(0.3)**	(0.3)
Other charges	**(0.1)**	-
	46.8	167.1

5. Taxation

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
UK current tax		
UK corporation tax charge on profit for the period	**3.0**	13.0
Adjustments in respect of prior periods	**-**	-
	3.0	13.0
UK deferred tax		
Origination and reversal of timing differences	**19.7**	46.9
Adjustments in respect of prior periods	**-**	-
	19.7	46.9
Total tax charge for the period	**22.7**	59.9

Tax rate changes
The current tax rate applied during the six months ended 30 September 2023 was 25% (six months ended 30 September 2022: 19%) and deferred tax was calculated at 25% (six months ended 30 September 2022: 25%) based on the standard rate of corporation tax substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS continued

6. Intangible assets

IT software and development costs	Total £m
Cost	
At 1 April 2023	**124.0**
Additions	**6.5**
At 30 September 2023	**130.5**
Amortisation	
At 1 April 2023	**101.3**
Charge for the period	**4.8**
At 30 September 2023	**106.1**
Net book value	
At 30 September 2023	**24.4**
At 31 March 2023	22.7

7. Tangible fixed assets

	Total £m
Cost	
At 1 April 2023	**8,417.6**
Additions	**230.9**
Disposals	**(0.2)**
At 30 September 2023	**8,648.3**
Depreciation	
At 1 April 2023	**2,659.1**
Charge for the period	**81.0**
Eliminated on disposal	**(0.2)**
At 30 September 2023	**2,739.9**
Net book value	
At 30 September 2023	**5,908.4**
At 31 March 2023	5,758.5

8. Debtors

	30 September 2023 £m	31 March 2023 £m
Amounts falling due within one year		
Trade debtors	**69.2**	97.8
Amounts owed by Group undertakings	**61.0**	108.0
Corporation tax receivable	**6.3**	2.7
Other debtors	**0.1**	0.1
Prepayments	**4.6**	3.7
Derivative financial assets (note 11)	**2.8**	-
	144.0	212.3
Amounts falling due after more than one year		
Derivative financial assets (note 11)	**45.8**	22.6
Amounts owed by Group undertakings	**144.5**	144.5
Defined benefit pension surplus (note 15) UK Power Networks Group of the ESPS (UKPN Group Scheme)	**64.2**	94.1
	254.5	261.2
	398.5	473.5

Amounts owed by Group undertakings due within one year comprise a loan of £60.0m to UK Power Networks Holdings Ltd bearing interest at 5.6% and interest free trade balances repayable on demand.

Amounts owed by Group undertakings due after more than one year comprise a loan of £144.5m to UK Power Networks Holdings Ltd bearing interest at 2.6% and maturing in 2026.

9. Creditors

	30 September 2023 £m	31 March 2023 £m
Amounts falling due within one year		
Borrowings (note 10)	**363.2**	363.8
Amounts owed to Group undertakings	**58.6**	50.4
Other taxation and social security	**26.9**	42.8
Other creditors	**12.6**	11.6
Accruals	**79.6**	53.1
Deferred income	**234.7**	231.0
Derivative financial liabilities (note 11)	**-**	1.8
	775.6	754.5
Amounts falling due after more than one year		
Borrowings (note 10)	**1,600.2**	1,598.6
Deferred income	**1,388.6**	1,336.7
Derivative financial liabilities (note 11)	**350.2**	356.2
	3,339.0	3,291.5
	4,114.6	4,046.0

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

Deferred income due after more than 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 due within one year includes customer contributions of £52.9m (31 March 2023: £52.0m) expected to be released to profit or loss within one year.

10. Borrowings

	30 September 2023 £m	31 March 2023 £m
Amounts falling due within one year		
£350m 5.75% Bond due March 2024	**350.0**	349.9
Adjustments for fair value hedge relationships	**13.2**	13.9
	363.2	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	**73.2**	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	**58.5**	56.0
£35m 0.032% Index linked Bond due October 2025	**51.5**	49.3
£132.3m 8.5% Bond due March 2025	**132.2**	132.1
£250m 2.125% Bond due November 2033	**248.0**	247.8
£300m 1.875% Bond due June 2035	**298.1**	298.1
£350m 6.25% Bond due November 2036	**346.6**	346.5
£33.8m 1.035% JPY bond due July 2038	**33.6**	33.6
Exchange gain adjustment on JPY bond	**(6.4)**	(3.3)
Adjustments for fair value hedge relationship	**(14.8)**	(11.2)
	1,600.2	1,598.6
	1,963.4	1,962.4

Carrying amounts are net of unamortised issue costs of £8.1m (31 March 2023: £8.5m) and include accretion of £58.3m (31 March 2023: £50.5m) on the index linked instruments. These balances together with the interest expense are allocated to profit or loss over the term of the debt.

The cumulative adjustment to the carrying amount of the bonds, arising from fair value hedge relationships with interest rate swaps, amounts to fair value losses of £13.2m (31 March 2023: £13.9m) within current borrowings and fair value gains of £14.8m (31 March 2023: £11.2m) within non-current borrowings. These amounts are disclosed separately in the table above. The movement recognised in profit or loss during the period comprises a fair value gain of £0.9m (six months ended 30 September 2022: gain of £17.0m) relating to existing fair value hedge relationships and an amortisation adjustment of £3.3m (six months ended 30 September 2022: £3.3m) relating to a discontinued hedge relationship (refer to note 4). The fair value adjustment amortises to profit or loss from the date of cessation of the fair value hedge until the maturity of the hedged debt.

10. Borrowings continued

No security has been given over the assets of the Company in respect of external debt or amounts owed to Group undertakings.

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

11. Derivative financial instruments

	Due within one year		Due after one year	
	30 Sep 2023 £m	31 March 2023 £m	**30 Sep 2023 £m**	31 March 2023 £m
Derivative financial assets				
Index linked swaps not designated in hedge accounting relationships	**-**	-	**36.3**	21.1
Cross currency swaps designated as effective cash flow hedges	**-**	-	**-**	0.6
Interest rate swaps designated as effective cash flow hedges	**-**	-	**7.9**	0.9
Interest rate swaps designated as effective fair value hedges	**2.8**	-	**1.6**	-
	2.8	-	**45.8**	22.6
Derivative financial liabilities				
Index linked swaps not designated in hedge accounting relationships	**-**	-	**(349.3)**	(354.4)
Interest rate swaps designated as effective fair value hedges	**-**	(1.8)	**-**	(1.8)
Cross currency swaps designated as effective cash flow hedges	**-**	-	**(0.9)**	-
	-	(1.8)	**(350.2)**	(356.2)
	2.8	(1.8)	**(304.4)**	(333.6)

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 contracts convert floating or fixed interest rates to inflation linked rates. A cross currency swap is used to hedge the exchange rate exposure on the JPY 5 billion bond exchanging the JPY principal and the JPY interest payments with the equivalent values in Sterling until the maturity of the bond in July 2038.

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 is derived from forward interest rate and RPI curves adjusted for the Company's own credit risk in respect of swap liabilities and counterparty credit risk in respect of swap assets. Interest payable and receivable on the swaps is settled on a net basis, annually or semi-annually.

12. Provisions for liabilities

	30 September 2023 £m	31 March 2023 £m
Deferred tax liability	**345.2**	332.3
Defined benefit pension obligations (note 15)		
UK Power Networks Pension Scheme (UKPNPS)	**18.8**	22.9
Other provisions	**18.4**	15.0
Total provisions for liabilities	**382.4**	370.2

Movements in the defined benefit pension schemes are detailed in note 15. Other provisions comprise tax, legal and constructive obligations which are expected to become payable within the next two years.

13. Hedging reserves

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

Cost of hedging reserve
A cross currency swap is used to hedge the foreign currency risk on the Company's 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[1] 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[1] allows for the fair value changes in the currency basis spreads to be recorded in a separate cost of hedging reserve, through other comprehensive income, to the extent those changes are aligned with the hedged item. Excluding these movements from the hedge relationship helps to increase hedge effectiveness and mitigate volatility in profit or loss.

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

Group	**Cash flow hedge reserve £m**	**Cost of hedging reserve £m**	**Hedging reserves £m**
At 1 April 2023	3.7	(0.3)	**3.4**
Fair value gains during the period	6.5	-	**6.5**
At 30 September 2023	**10.2**	**(0.3)**	**9.9**

[1] The Company applies 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.

14. Capital commitments

Amounts contracted for but not provided in the condensed financial statements amounted to £103.6m (31 March 2023: £63.5m).

15. Pension commitments

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. In relation to the UKPN Group scheme, previous deficit repair contributions were sufficient to clear the funding deficit by 1 March 2023, removing the need for ongoing deficit repair. However, deficit repair contributions will continue to the UKPNPS, with the aim of eliminating the scheme's funding shortfall over the next five years. The Company's share of these contributions is set at approximately £8.1m per annum from 1 January 2023 to 29 February 2028 increasing annually by CPI inflation.

A valuation under FRS 102 at the balance sheet date 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.

15. Pension commitments continued

The principal financial assumptions (% per annum) used to calculate scheme liabilities were:

	30 September 2023 %	31 March 2023 %
Discount rate		
- UKPN Group	**5.5**	4.8
- UKPNPS	**5.3**	4.6
Rate of increase in RPI		
- UKPN Group	**3.0**	3.0
- UKPNPS	**2.8**	2.8
Rate of increase in CPI		
- UKPN Group	**2.7**	2.7
- UKPNPS	**2.3**	2.3
Rate of increase in salaries		
- UKPN Group	**3.5**	3.5
- UKPNPS	**3.3**	3.3
Rate of pension increases in payment		
- Pensions in excess of GMP (UKPN Group)	**3.1**	3.1
- Post 88 GMP (UKPN Group)	**2.1**	2.1
- RPI up to 5% per annum (UKPNPS)	**2.7**	2.7
- RPI up to 2.5% per annum (UKPNPS)	**1.9**	1.9
- Post 88 GMP (UKPNPS)	**1.9**	1.9
Rate of pension increases in deferment		
- UKPN Group	**3.1**	3.1
- CPI up to 5% per annum (UKPNPS)	**2.3**	2.3
- CPI up to 2.5% per annum (UKPNPS)	**2.3**	2.3

The demographic assumptions used in the calculation of the pension liability on the 30 September 2023 balance sheet are consistent with those reported in the statutory accounts for the year ended 31 March 2023.

15. Pension commitments continued

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

	UKPN Grp 30 Sep 2023 £m	UKPNPS 30 Sep 2023 £m	Total 30 Sep 2023 £m	Total 31 Mar 2023 £m
Fair value of scheme assets	551.8	113.3	665.1	736.8
Present value of defined benefit pension obligations	(487.6)	(132.1)	(619.7)	(665.6)
Surplus/(deficit) in schemes	64.2	(18.8)	45.4	71.2

The movement in the defined benefit pension schemes during the period is analysed as follows:

	UKPN Grp 2023 £m	UKPNPS 2023 £m	Total 2023 £m
Opening surplus/(deficit) at 1 April	94.1	(22.9)	71.2
Current service cost	(2.8)	(2.1)	(4.9)
Past service cost	(0.2)		(0.2)
Net interest credit/(cost)	2.3	(0.3)	2.0
Contributions by employer	4.7	4.7	9.4
Deficit repair payments	-	4.0	4.0
Actuarial losses	(33.9)	(2.2)	(36.1)
Closing surplus/(deficit) at 30 September	64.2	(18.8)	45.4

16. Notes to the cash flow statement

Reconciliation of operating profit to operating cash flows

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Operating profit	**109.4**	170.1
Adjustment for		
Depreciation and amortisation	**85.8**	82.6
Customer contributions recognised in turnover	**(25.4)**	(24.1)
Profit on disposal of tangible fixed assets	**(0.1)**	(0.7)
Operating cash flow before movement in working capital	**169.7**	227.9
Decrease/(increase) in debtors	**74.6**	(10.0)
(Decrease)/increase in creditors	**(5.9)**	20.2
Increase/(decrease) in provisions	**3.4**	(1.1)
Customer contributions received	**78.3**	56.1
Pension deficit repair payments	**(4.0)**	(11.1)
Pension adjustments	**(4.4)**	0.2
Cash generated from operations	**311.7**	282.2

Reconciliation of net debt

	At 1 Apr 2023 £m	Cash flows £m	Fair value and exchange rate changes £m	Other non-cash changes £m	At 30 Sep 2023 £m
Cash and cash equivalents					
Cash at bank	0.1	13.7	-	-	13.8
	0.1	13.7	-	-	13.8
Borrowings					
Debt due within one year	(363.8)	-	0.6	-	(363.2)
Debt due after more than one year	(1,598.6)	-	6.7	(8.3)	(1,600.2)
	(1,962.4)	-	7.3	(8.3)	(1,963.4)
Net debt	(1,962.3)	13.7	7.3	(8.3)	(1,949.6)

Other non-cash changes in borrowings comprise accretion on index linked debt of £7.8m and amortisation of debt issue costs of £0.5m.