EASTERN POWER NETWORKS PLC
(DISTRIBUTION BUSINESS)

Registration number: 2366906

Interim report and condensed financial statements

for the six months ended 30 September 2018

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COMPANY INFORMATION

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Basil Scarsella
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INTERIM MANAGEMENT REPORT

Business model

The Company distributes electricity to approximately 3.6 million customers in the East Anglia / North London area via a network of underground cables and overhead lines, taking power from the National Grid at high voltage and transforming it down to lower voltage before delivery to customer premises.

The Company's objectives are to:

- maintain the safety and reliability of the electricity network;
- efficiently connect new customers to the electricity network, including power generators;
- restore supply as quickly as possible to customers who experience interruption;
- innovate to improve efficiency and the service provided to customers;
- facilitate a low-carbon environment by investing in assets, processes and initiatives that enable low carbon technology to be connected to the network; and
- extend and upgrade the network to meet the future needs of customers.

The key performance indicators used to measure progress against the Company's safety, efficiency and customer service objectives are discussed on pages 3 to 5.

The Company is a wholly owned subsidiary of the group headed by UK Power Networks Holdings Limited (the Group), which incorporates:

- three electricity distribution businesses: Eastern Power Networks plc, South Eastern Power Networks plc, London Power Networks plc;
- a management business: UK Power Networks (Operations) Limited;
- a transport services provider: UK Power Networks (Transport) Limited;
- a groundworks services provider: UK Power Networks (South East Services) Limited; and
- a contracting business which manages a number of private networks and infrastructure: subsidiaries of UK Power Networks Services Holdings Limited.

The Company employs no staff (31 March 2018: nil). Staff are employed by UK Power Networks (Operations) Limited, which operates the electricity distribution network on the Company's behalf with the support of UK Power Networks (Transport) Limited and UK Power Networks (South East Services) Limited.

Review of the business

The revenues of the Company are subject to the regulatory price control framework set by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which provides economic incentives to maximise operating, capital and financing efficiencies. The Directors aim to optimise shareholder returns through the safe operation of and efficient investment in the network, while seeing that the business delivers high levels of customer service and operates within the boundaries of the price control allowances.

Allowed revenue is calculated under this price control framework in order to finance an efficient level of operating costs, a capital expenditure programme and to deliver a return on investment on the regulatory asset value. The Company has an opportunity to outperform these allowed returns through the delivery of efficiencies beyond the regulatory cost allowances and through other performance based incentive mechanisms. Such outperformance delivers benefits to customers and creates value for shareholders. The Company's key areas of focus are:

- outperforming the cost allowances set by Ofgem through the delivery of sustainable efficiencies;
- improving network performance by reducing the number and length of power interruptions and outperforming the reliability targets set by Ofgem; and
- improving the levels of customer service across key areas of the business.

Review of the business continued

The performance of the Company in the six months ended 30 September 2018 is compared to the six months ended 30 September 2017 (the prior period), in the discussion below.

Earnings before interest, taxation, depreciation and amortisation (EBITDA) has decreased by £0.5m to £198.1m reflecting a reduction in turnover of £7.1m partially offset by reduction in operating costs (excluding depreciation and amortisation) of £6.6m. Gross capital expenditure on tangible assets was £168.5m, an increase of £12.3m compared to the prior period. This expenditure relates primarily to improvements to the electricity network. Capital expenditure net of customer contributions has reduced by £7.2m to £114.8m reflecting the increase of £19.5m in customer contributions which exceeded the increase in gross capital expenditure.

During the period a greater proportion of connections projects were capital in nature resulting in a higher proportion of costs and income deferred to the balance sheet. This has contributed to the reduction in operating costs and turnover, together with the higher capital expenditure and customer contributions, noted above.

Compared to the prior period, profit after tax has reduced from £73.7m to £64.0m due predominantly to higher finance costs resulting from changes to the fair value of derivative swap instruments.

Key performance indicators (KPI's)

The key performance indicators used by the Board of Directors in their monitoring of the Company focus on the areas of safety, operational efficiency and customer service.

Financial key performance indicators

	Six months ended 30 September 2018	Six months ended 30 September 2017
Turnover (£m)	**287.7**	294.8
EBITDA (£m) [1]	**198.1**	198.6
Profit after tax (£m)	**64.0**	73.7
Gross capital expenditure on tangible assets (£m)	**168.5**	156.2
Capital expenditure on tangible assets net of customer contributions (£m)	**114.8**	122.0

	As at 30 September 2018	As at 31 March 2018
Regulatory asset value (RAV) (£m) [2]	**2,686.0**	2,630.4
RAV gearing [3]	**62%**	65%

1 EBITDA is a non-statutory measure, and is calculated by adding back amortisation and depreciation to operating profit (also discussed in subsequent paragraphs).

2 "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 2018 RAV has been restated from that previously published in the 31 March 2018 statutory accounts, to reflect the latest position agreed with Ofgem.

3 RAV gearing represents borrowings (excluding unamortised fees and fair value adjustments to bonds) net of cash and divided by the RAV.

Financial key performance indicators continued

EBITDA

The EBITDA measure excludes the effect of interest, taxation, depreciation and amortisation from earnings and is therefore relevant in monitoring 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 2018	Six months ended 30 September 2017
Operating profit (£m)	**125.8**	129.6
Depreciation of tangible assets (£m)	**66.4**	63.8
Amortisation of intangible assets (£m)	**5.9**	5.2
EBITDA (£m)	**198.1**	198.6

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.

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, 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.

	Six months ended 30 September 2018	Six months ended 30 September 2017
Gross capital expenditure on tangible assets (£m)	**168.5**	156.2
Less: Customer contributions received in the period (£m)	**(53.7)**	(34.2)
Capital expenditure net of customer contributions (£m)	**114.8**	122.0

RAV gearing

The proportion of debt measured against the Regulatory Asset Value 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. The reduction from 65% to 62% since 31 March 2018 reflects continued strong performance based on achieving a balance between generating sufficient funds to operate the business and providing a return to shareholders.

Non financial key performance indicators

The principal non-financial key performance indicators focus on network safety and performance.

Safety

The Group's top priority is the safety of employees, contractors and the general public. 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 2018. 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. During the six months ended 30 September 2018 the Group recorded 1 LTI which is the same as that recorded in the prior period.

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 measured on an annual basis to 31 March and presented in the Company's annual report and financial statements. Performance in the period to 30 September 2018 is broadly in line with the prior period.

Dividends

There were no dividends paid during the period (six months ended 30 September 2017: £51.5m).

Principal risks and uncertainties

As well as the opportunities the Company has to grow and develop its business, certain risks and uncertainties are faced in achieving its objectives. The Company's principal risks and uncertainties are set out below.

Health and safety
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. Such an incident could lead to a potential prosecution or a fine and have an adverse impact on the reputation of the Company.

Regulation
The electricity industry is subject to extensive regulatory obligations with which the regulated business must comply. Non-compliance can result in financial penalties and have a negative reputational impact. As outlined above, the prices which can be charged for the use of the Company's networks are determined in accordance with the Regulator approved price controls. The outcome of each price control review base-lines the revenues that will be allowed over a pre-determined period (historically five years but currently eight years from 1 April 2015). In addition targeted incentive schemes have been introduced by the Regulator whereby the Company has the opportunity to outperform against agreed targets and thereby increase its revenue or incur penalties if performance is below the targets.

Network assets
There are significant risks associated with network assets where failure could result in a loss of supply of electricity to customers. 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.

Information Technology (IT)
A cyber security breach or failure of the Company's core systems, applications or associated IT processes could have a significant impact in a number of areas. Business operations could be affected and 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.

Principal risks and uncertainties continued

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

Going concern

In considering the going concern basis in preparing the condensed financial statements the Directors have taken the Company's annual budget and long term strategic plan into account as well as the following factors:

- The Company profitably operates the regulated electricity distribution network in the East Anglia / North London area. The revenue of the Company is regulated by Ofgem via established price control mechanisms providing a stable and predictable source of cash flows.

- The Company is funded predominantly by long term debt with an average maturity of 8 years and has access to an undrawn credit facility of £105.0m until March 2022. Total borrowings (excluding derivatives) at 30 September 2018 amounted to £1,777.3m (31 March 2018: £1,749.0m) all of which were long term. In July 2018 the Company raised additional financing of £33.8m from the issue of a 20 year fixed rate bond for JPY 5 billion. The exchange rate exposure on the bond is hedged by a cross currency swap transacted on the same date. Taking into account the effect of the cross currency swap, the net fixed interest rate is 2.972% per annum.

- As required by the electricity distribution licence the Company has an investment grade credit rating. The Company has the ability to access external debt markets supported by cash generated by its operations.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, demonstrate that the Company will be able to operate within its credit facilities. The Directors are satisfied that the Company has adequate resources to continue operating for the foreseeable future and on this basis the principle of going concern has been adopted in the preparation of the condensed financial statements.

Approved by the Board and signed on its behalf by:

Basil Scarsella
Director

4 December 2018
Newington House
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The half year 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 2018 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 4 December 2018.

Basil Scarsella
Director

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

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 September 2018 which comprises the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and related notes 1 to 15. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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.

Directors' responsibilities
The interim financial report 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 Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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 interim financial report have been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed financial statements in the interim financial report based on our review.

Scope of review
We conducted our review in accordance with the International Standard on Review Engagements (UK and Ireland) 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. 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.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the interim financial report for the six months ended 30 September 2018 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.

Deloitte LLP

Deloitte LLP
Statutory Auditor
London, United Kingdom
4 December 2018

CONDENSED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Note	**Six months ended 30 September 2018 £m**	Six months ended 30 September 2017 £m
Turnover		**287.7**	294.8
Cost of sales		**(15.0)**	(15.8)
Gross profit		**272.7**	279.0
Distribution costs		**(143.8)**	(146.4)
Administrative expenses		**(3.1)**	(3.0)
Operating profit	3	**125.8**	129.6
Finance costs (net)	4	**(45.9)**	(35.0)
Profit before taxation		**79.9**	94.6
Taxation	5	**(15.9)**	(20.9)
Profit for the period		**64.0**	73.7

All results are derived from continuing operations.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Profit for the period	**64.0**	73.7
Cash flow hedges		
Losses arising during the year	**(1.5)**	-
Reclassified to profit or loss from hedge reserve	**-**	0.4
Remeasurement of net defined benefit pension liability	**11.3**	4.8
Other comprehensive income	**9.8**	5.2
Total comprehensive income	**73.8**	78.9

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

CONDENSED BALANCE SHEET
AS AT 30 SEPTEMBER 2018

	Note	30 September 2018 £m	31 March 2018 £m
Fixed assets			
Intangible assets	6	**44.4**	45.9
Tangible assets	7	**4,751.4**	4,649.3
		4,795.8	4,695.2
Current assets			
Debtors			
- amounts falling due within one year	8	**94.1**	74.6
- amounts falling due after more than one year	8	**192.4**	198.0
Cash and cash equivalents		**65.4**	7.4
		351.9	280.0
Creditors: amounts falling due within one year	9	**(329.1)**	(267.6)
Net current assets		**22.8**	12.4
Total assets less current liabilities		**4,818.6**	4,707.6
Creditors: amounts falling due after more than one year	9	**(3,154.5)**	(3,083.0)
Provisions for liabilities	12	**(240.2)**	(274.5)
Net assets		**1,423.9**	1,350.1
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		**(1.5)**	-
Profit and loss account		**1,283.4**	1,208.1
Shareholder's funds		**1,423.9**	1,350.1

The condensed financial statements of Eastern Power Networks plc, registered number 2366906, were approved and authorised for issue on 4 December 2018 by the Board of Directors. They were signed on its behalf by:

Basil Scarsella
Director

CONDENSED STATEMENT OF CHANGES IN EQUITY
AS AT 30 SEPTEMBER 2018

	Called-up share capital £m	Share Premium Reserve £m	Capital re-demption Reserve £m	Profit and loss account £m	Hedging reserve £m	Total £m
At 1 April 2018	125.8	5.6	10.6	1,208.1	-	**1,350.1**
Profit for the period	-	-	-	64.0	-	**64.0**
Remeasurement of defined benefit pension liability	-	-	-	11.3	-	**11.3**
Cash flow hedges						
Losses arising during the period	-	-	-	-	(1.5)	**(1.5)**
Total comprehensive income	-	-	-	75.3	(1.5)	**73.8**
At 30 September 2018	**125.8**	**5.6**	**10.6**	**1,283.4**	**(1.5)**	**1,423.9**

	Called-up share capital £m	Share Premium Reserve £m	Capital re-demption Reserve £m	Profit and loss account £m	Hedging reserve £m	Total £m
At 1 April 2017	125.8	5.6	10.6	1,115.8	(0.4)	1,257.4
Profit for the period	-	-	-	73.7	-	73.7
Remeasurement of defined benefit pension liability	-	-	-	4.8	-	4.8
Cash flow hedges						
Reclassified to profit or loss	-	-	-	-	0.4	0.4
Total comprehensive income	-	-	-	78.5	0.4	78.9
Dividends	-	-	-	(51.5)	-	(51.5)
At 30 September 2017	125.8	5.6	10.6	1,142.8	-	1,284.8

NOTES TO THE FINANCIAL STATEMENTS

1. General information and basis of accounting

Eastern Power Networks plc (the "Company") is incorporated in the United Kingdom under the Companies Act. 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 2018 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 8.

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 2018 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 2018 comprising the statutory accounts. With the exception of the change in accounting policy noted below, 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 2018.

The financial information for the year ended 31 March 2018 presented as comparatives in the balance sheet and notes to the balance sheet is derived from the statutory accounts for that year but should be not be regarded as statutory accounts within the meaning of s434 of the Companies Act 2006.

Going concern

Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Interim Management Report on page 6.

Change in accounting policy:

Recognition and measurement provisions of IFRS 9 'Financial Instruments'

In previous periods the Company applied the recognition and measurement provisions of IAS 39 'Financial Instruments: Recognition and Measurement (as adopted for use in the EU)' with disclosure and presentation requirements of Sections 11 and 12 of FRS 102. This accounting policy choice is provided by Section 11.2b of FRS 102.

For financial years beginning on or after 1 January 2018, IAS 39 is replaced by IFRS 9 'Financial instruments' under international accounting standards. For consistency with shareholder reporting, the Company has chosen to apply Section 11.2c of FRS 102, which allows the recognition and measurement provisions of IFRS 9 'Financial instruments' (as adopted in the EU) with disclosure and presentation requirements of Sections 11 and 12 of FRS 102. The change in accounting policy is effective from the start of the Company's financial year 1 April 2018.

The principal changes relevant to the Company under the recognition and measurement principles of IFRS 9 are as follows:

- Impairment of financial assets is calculated using a forward-looking "expected credit loss" model which replaces the incurred loss model under IAS 39. The Company has applied the simplified approach to calculate the expected credit losses on trade debtors. This has not resulted in any material adjustment to the bad debt provision and carrying amount of trade debtors.

NOTES TO THE FINANCIAL STATEMENTS continued

1. General information and basis of accounting continued

Recognition and measurement provisions of IFRS 9 'Financial Instruments' continued

- IFRS 9 introduces new rules for hedge accounting which are more principles based and aligned with the risk management objectives and strategy of the entity. The Company has prospectively applied the hedge accounting measurement and recognition requirements of IFRS 9 from 1 April 2018. The Company's hedge relationships that qualified as hedges under IAS 39 also meet the hedging criteria under IFRS 9. These arrangements are regarded as continuing hedge relationships with no transition adjustment required.

  The Company holds a fixed to floating rate interest rate swap which was de-designated from a fair value hedge relationship in December 2017 when it failed to meet the hedging criteria of IAS 39. This instrument was re-designated as a fair value hedge from 1 April 2018 following the introduction of new hedging criteria under IFRS 9. The resulting hedge adjustment for the six months ended 30 September 2018 was a £4.8m fair value gain to profit or loss against the carrying amount of the bonds (the hedged item in the fair value hedge relationship).

A summary of the Company's derivative instruments is presented in note 11. The accounting policies developed under the recognition and measurement provisions of IFRS 9 will be described in more detail in the Company's annual report and financial statements for the year ended 31 March 2019.

2. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is 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. It also includes contributions from customers towards the cost of connections to the network. This income is amortised to turnover over the expected useful lives of the related network assets. During the period this amounted to £19.5m (six months ended 30 September 2017: £18.6m).

3. Operating profit

Operating profit is stated after charging/(crediting):

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Depreciation of tangible assets	**66.4**	63.8
Amortisation of intangible assets	**5.9**	5.2
Profit on disposal of tangible fixed assets	**(0.2)**	(0.1)

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

NOTES TO THE FINANCIAL STATEMENTS continued

4. Finance costs (net)

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Interest payable and similar expenses	**(38.5)**	(42.2)
Less: Investment income	**2.1**	1.9
Other finance (costs) / income	**(9.5)**	5.3
Finance costs (net)	**(45.9)**	(35.0)

Investment income		
Interest receivable on Group loans	**2.0**	1.9
Other interest receivable and similar income	**0.1**	-
	2.1	1.9

Interest payable and similar expenses		
Interest on bank loans	**(3.5)**	(2.9)
Interest on bonds	**(36.4)**	(36.3)
Accretion on index linked debt	**(1.7)**	(2.5)
Interest payable on Group loans	**-**	(0.1)
Net interest on swap instruments	**9.0**	9.0
Accretion on swap instruments	**(7.0)**	(10.7)
	(39.6)	(43.5)
Finance costs capitalised	**1.1**	1.3
	(38.5)	(42.2)

NOTES TO THE FINANCIAL STATEMENTS continued

4. Finance costs (net) continued

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Other finance (costs)/income		
Fair value (losses)/gains on financial instruments		
Interest rate swaps not in hedge relationships	**-**	0.4
Index linked swaps not in hedge relationships	**(10.7)**	10.7
Interest rate swaps in fair value hedge relationships	**(5.2)**	(7.5)
Hedged items in fair value hedge relationships	**4.3**	3.0
	(11.6)	6.6
Reclassified to profit or loss from hedge reserve	**-**	(0.5)
Amortisation of fair value hedge adjustment	**2.6**	-
Amortisation of novation adjustment on index linked swaps	**0.3**	0.3
Net (loss)/gain related to derivative instruments	**(8.7)**	6.4
Net interest on defined benefit pension liability	**(0.8)**	(1.1)
	(9.5)	5.3

NOTES TO THE FINANCIAL STATEMENTS continued

5. Taxation

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
UK current tax		
UK corporation tax charge on profit for the period	**13.1**	13.0
Changes to Group losses for prior periods[1]	**23.8**	-
	36.9	13.0
UK deferred tax		
Origination and reversal of timing differences	**1.9**	7.9
Release of provisions[1]	**(22.9)**	-
	(21.0)	7.9
Total tax charge for the period	**15.9**	20.9

1. During the period a net settlement of £23.8m was made in connection with changes to group losses utilised in prior periods. This was recognised as a charge to current tax offset by the release of £22.9m from the deferred tax provision. The net effect in the period was an increase to the total tax charge of £0.9m.

Tax rate changes

The Finance Act 2016 enacted a reduction in the UK Corporation tax rate from 19% to 17% with effect from 1 April 2020.

The current tax rate applied during the period was 19% (six months ended 30 September 2017: 19%) and deferred tax was calculated at 17% (six months ended 30 September 2017: 17%) based on the standard rate of corporation tax substantively enacted at the reporting date.

6. Intangible assets

IT software and development costs	Total £m
Cost	
At 1 April 2018	**82.5**
Additions	**4.4**
At 30 September 2018	**86.9**
Amortisation	
At 1 April 2018	**36.6**
Charge for the period	**5.9**
At 30 September 2018	**42.5**
Net book value	
At 30 September 2018	**44.4**
At 31 March 2018	45.9

7. Tangible fixed assets

	Total £m
Cost	
At 1 April 2018	**6,642.7**
Additions	**168.5**
Disposals	**(0.8)**
At 30 September 2018	**6,810.4**
Depreciation	
At 1 April 2018	**1,993.4**
Charge for the period	**66.4**
Disposals	**(0.8)**
At 30 September 2018	**2,059.0**
Net book value	
At 30 September 2018	**4,751.4**
At 31 March 2018	4,649.3

8. Debtors

	30 September 2018 £m	31 March 2018 £m
Amounts falling due within one year		
Trade debtors	**53.3**	69.2
Amounts owed by Group undertakings	**37.0**	1.1
Other debtors	**0.1**	0.1
Prepayments and accrued income	**3.7**	4.2
	94.1	74.6
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**144.5**	144.5
Derivative financial assets (note 11)	**47.9**	53.5
	192.4	198.0
	286.5	272.6

Amounts owed by Group undertakings due within one year comprise interest free trade balances repayable on demand and a loan of £36.0m to London Power Networks plc, bearing interest at 1.15%.

Amounts owed by Group undertakings due after more than one year comprise a loan of £144.5m to UK Power Networks Holdings Limited, bearing interest at 2.56% and due for repayment in June 2021.

9. Creditors

	30 September 2018 £m	31 March 2018 £m
Amounts falling due within one year		
Amounts owed to Group undertakings	**69.0**	9.7
Corporation tax	**8.5**	29.7
Trade creditors	**0.2**	0.1
Other taxation and social security	**25.0**	31.4
Other creditors	**1.1**	1.2
Accruals and deferred income	**225.3**	195.5
	329.1	267.6
Amounts falling due after one year		
Borrowings (note 10)	**1,777.3**	1,749.0
Deferred income	**1,087.5**	1,054.0
Derivative financial liabilities (note 11)	**289.7**	280.0
	3,154.5	3,083.0
	3,483.6	3,350.6

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

Deferred income 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. Accruals and deferred income due within one year include £40.3m (31 March 2018: £39.6m) of deferred income relating to customer contributions, expected to be released to profit or loss within one year.

NOTES TO THE FINANCIAL STATEMENTS continued

10. Borrowings

	30 September 2018 £m	31 March 2018 £m
Amounts falling due after more than one year		
£80m 2.35% EIB loan due January 2020	**80.0**	80.0
£50m 0.01% Index linked EIB loan due November 2024	**54.7**	54.1
£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 2030	**50.0**	50.0
£400m 4.75% Bond due September 2021	**401.6**	401.9
£350m 5.75% Bond due March 2024	**349.6**	349.6
£40m 0.25% Index linked Bond due February 2025	**43.6**	43.1
£35m 0.032% Index linked Bond due October 2025	**38.4**	37.9
£132.3m 8.5% Bond due March 2025	**131.8**	131.7
£350m 6.25% Bond due November 2036	**345.3**	345.2
£33.8m 1.035% JPY bond due July 2038	**33.7**	-
Fair value adjustments relating to interest rate swap fair value hedges	**68.6**	75.5
	1,777.3	1,749.0

Carrying amounts are net of unamortised issue costs of £6.0m (31 March 2018: £6.1m) and include an unamortised net premium of £1.6m (31 March 2018: £1.9m) on the 4.75% bond and accretion of £12.0m (31 March 2018: £10.4m) 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.

The cumulative adjustment to the carrying amount of the bonds, arising from fair value hedge relationships with interest rate swaps, amounts to £68.6m (2017: £75.5m). This is presented on a separate line in the table above. The movement during the period comprises a fair value gain of £4.3m (six months ended 30 September 2017: gain of £3.0m) relating to existing fair value hedge relationships and an amortisation adjustment of £2.6m (six months ended 30 September 2017: £nil) relating to a discontinued hedge relationship. 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.

In July 2018 the Company issued a 20 year fixed rate bond for JPY 5 billion with a fixed coupon of 1.035% and maturing in July 2038. Simultaneously a fixed rate GBP cross currency swap with the same nominal value and maturity was traded to hedge the exchange rate exposure on the bond. The resulting net fixed coupon is 2.972% per annum payable semi-annually. Proceeds from the issue comprised a nominal value of £33.8m net of finance fees of £0.1m.

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

Borrowing facilities
The Company has access to an undrawn revolving credit facility of £105.0m until March 2022.

11. Derivative financial instruments

	Due after one year	
	30 September 2018 £m	31 March 2018 £m
Derivative financial assets		
Interest rate swaps designated as effective fair value hedges	**47.9**	22.7
Interest rate swaps not designated in hedge accounting relationships	**-**	30.8
	47.9	53.5
Derivative financial liabilities		
Index linked swaps not designated in hedge accounting relationships	**(287.8)**	(280.0)
Cross currency swaps designated as effective cash flow hedges	**(1.9)**	-
	(289.7)	(280.0)
	(241.8)	(226.5)

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 RPI inflation linked rates.

In July 2018 the Company transacted a cross currency swap to hedge the exchange rate exposure on the JPY 5 billion bond issued on the same date. 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 until the maturity of the bond in July 2028.

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 2018 £m	31 March 2018 £m
Deferred tax liability	**171.2**	190.2
Defined benefit pension obligations		
UK Power Networks Group of the ESPS (UKPN Group Scheme)	**35.7**	37.6
UK Power Networks Pension Scheme (UKPNPS)	**19.3**	34.0
	55.0	71.6
Other provisions	**14.0**	12.7
Total provisions for liabilities	**240.2**	274.5

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

Movements in the defined benefit pension schemes are detailed in note 14.

13. Capital commitments

Amounts contracted for but not provided in the condensed financial statements amounted to £55.4m (31 March 2018: £43.2m).

14. 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 annually and a funding schedule is formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The current funding schedule is based on the triennial valuation as at 31 March 2016. The agreed contribution rates are considered sufficient to eliminate the current deficit over the next six years.

A valuation under FRS 102, at the balance sheet date was provided by actuaries using rolled forward member data from the 31 March 2016 triennial actuarial valuation and reflecting updated financial and demographic assumptions. 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.

14. Pension commitments continued

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

	30 September 2018 %	31 March 2018 %
Discount rate		
- UKPN Group	**2.9**	2.7
- UKPNPS	**3.0**	2.6
Rate of increase in RPI		
- UKPN Group	**3.2**	3.1
- UKPNPS	**3.1**	3.0
Rate of increase in CPI		
- UKPN Group	**2.1**	2.0
- UKPNPS	**2.0**	1.9
Rate of increase in salaries		
- UKPN Group	**3.7**	3.6
- UKPNPS	**3.6**	3.5
Rate of pension increases in payment		
- Pensions in excess of GMP (UKPN Group)	**3.2**	3.1
- Post 88 GMP (UKPN Group)	**1.9**	1.8
- RPI up to 5% per annum (UKPNPS)	**3.0**	2.9
- RPI up to 2.5% per annum (UKPNPS)	**2.2**	2.1
- Post 88 GMP (UKPNPS)	**1.8**	1.7
Rate of pension increases in deferment		
- UKPN Group	**3.2**	3.1
- CPI up to 5% per annum (UKPNPS)	**2.0**	1.9
- CPI up to 2.5% per annum (UKPNPS)	**2.0**	1.9

The demographic assumptions used in the calculation of the pension liability on the 30 September 2018 balance sheet are consistent with those reported in the statutory accounts for the year ended 31 March 2018.

14. 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 2018 £m	UKPNPS 30 Sep 2018 £m	Total 30 Sep 2018 £m	Total 31 Mar 2018 £m
Fair value of scheme assets	**562.9**	**117.6**	**680.5**	684.6
Present value of defined benefit pension obligations	**(598.6)**	**(136.9)**	**(735.5)**	(756.2)
Deficit in schemes	**(35.7)**	**(19.3)**	**(55.0)**	(71.6)

The analysis of the movement in the deficit during the period is as follows:

	UKPN Grp 2018 £m	UKPNPS 2018 £m	Total 2018 £m
Opening deficit at 1 April	**(37.6)**	**(34.0)**	**(71.6)**
Current service cost	**(6.4)**	**(3.7)**	**(10.1)**
Past service cost	**(0.5)**	**-**	**(0.5)**
Net interest cost	**(0.5)**	**(0.3)**	**(0.8)**
Contributions by employer	**5.3**	**2.5**	**7.8**
Deficit repair payments	**5.8**	**0.8**	**6.6**
Actuarial (losses) / gains	**(1.8)**	**15.4**	**13.6**
Closing deficit at 30 September	**(35.7)**	**(19.3)**	**(55.0)**

Guaranteed Minimum Pension (GMP) equalisation
In October 2018 the High Court issued a judgment in a case brought by Lloyds Banking Group Pensions Trustees Ltd in relation to Guaranteed Minimum Pension (GMP) equalisation. The judgment affects both of the defined benefit schemes operated by the UK Power Networks Group.

The GMP has been calculated previously in accordance with statutory rules, however the judgment requires the equalisation of the calculations for male and female members. This will impact the Company's pension obligations. The pension deficit at 30 September 2018, as presented above, does not reflect any accounting consequences of the GMP equalisation indicated by the judgment. The measurement of the financial impact will be dependent on the outcome of detailed analysis of member data by the scheme actuaries.

The Company will be considering the judgment and assessing its impact in the coming months.

15. Contingent liabilities

The Company has a contingent liability relating to the effect of GMP equalisation on the Company's defined benefit pension obligation, which is described in note 14 above. No provision for this liability has been made in the condensed financial statements, as a reliable estimate of the cost to the pension schemes is not yet available.