

Registration number: 2366906

Eastern Power Networks plc

Annual Report and Financial Statements

for the Year Ended 31 March 2025

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COMPANY INFORMATION

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This report relates to Eastern Power Networks plc which is a wholly owned subsidiary of UK Power Networks Holdings Limited, which is the parent company of the UK Power Networks Group.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

About us:

Who we are

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

What we do

As an electricity distribution network operator ("DNO"), we provide electricity infrastructure to deliver electricity supply to over 3.6 million homes and businesses. The Company operates in the East of England region which extends from the Wash in the east, to North London and the Thames estuary, encompassing a diverse range of urban and rural areas as well as a huge coastline.

The Company operates within a regulatory framework under licence from the Office of Gas and Electricity Markets ("Ofgem"). Ofgem works with government, industry and consumer groups to establish a regulatory framework to promote a sustainable electricity network which delivers value for customers. Ofgem sets the price control which determines what the Company can charge its customers and the level of "allowed" revenue. In addition, Ofgem establishes incentives for outperformance and innovation relating to outputs, including safety performance, network reliability, customer service, the environment and efficiency.

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

How we charge customers

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

Regulatory Framework

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

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

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

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

Meet the needs of consumers and network users

- Delivering high quality customer service - Incentives to drive the DNOs to continue to improve the quality of services to customers and effectively resolve any complaints.
- Support for consumers in vulnerable situations - An incentive framework with stretching targets and common metrics to drive further improvements in the support delivered to consumers in vulnerable situations.
- Provide a quality service for consumers seeking a connection - A package of incentives to drive quality services for both minor and major connections customers.

Maintain a safe and resilient network

- World class levels of reliability - Proposals for the Interruptions Incentive Scheme ("IIS") to deliver world class levels of reliability and funding for DNOs to improve service provision for their 'worst served customers'.
- Asset resilience - A Network Asset Risk Metric output to hold companies accountable for their investment decision.
- Environmental and information resilience - A package of measures, including new strategy requirements and uncertainty mechanisms to ensure DNOs improve resilience in key areas of their operations.

Networks for Net Zero

- Delivering an environmentally sustainable network - Funding, including uncertainty mechanisms, for the DNOs to undertake activities to deliver an environmentally sustainable network with annual reporting to track progress.

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

The business plan can be found at: <https://ed2.ukpowernetworks.co.uk>.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Our purpose, vision and values

The Company's vision and values are set out by the Group and guide the decisions taken by the Company.

Our purpose

To deliver electricity to the East of England.

Our vision

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

There are four aspects to our vision:

An employer of choice

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

A respected and trusted corporate citizen

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

Sustainably cost efficient

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

Enabling the net zero transition for all

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Our values

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

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

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

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

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

Responsibility: We will act in an ethical, safe and socially/environmentally aware manner.

Unity: We are stronger together and this comes from a shared vision, a common purpose, supportive and collaborative working.

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

Our Strategy

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

Further information on the Group's strategy can be found within the UK Power Networks Holdings Annual report and Financial Statements for the year ended 31 March 2025.

Our key stakeholders

The Company has identified the following as its key stakeholders, for further details on engagement with these stakeholders, refer to pages 20 to 22. Although the Company has no employees of its own, it considers the employees of other Group companies to be key stakeholders.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Who we engage with

The community

As a network operator the Company recognises that its activities have a significant impact on the communities in which it operates. Being a respected and trusted corporate citizen is a key part of the Group's vision and we work closely with communities and their representatives to identify areas where we can play an active, beneficial role.

Customers

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

Employees

The Company recognises that the Group's employees are fundamental to the achievement of its objectives and to its longer-term success and has articulated being an Employer of Choice as one of the four pillars to its vision. A diverse workforce, with a range of backgrounds, abilities, skills and experience, is considered to be vital to achieving the best outcomes.

Suppliers

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

Ofgem

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

Shareholders

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

Operating review

Overview

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

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The Company has continued to perform well in the second year of RIIO-ED2. There was an improvement in network reliability, with a reduction in both customer minutes lost ("CMLs") and customer interruptions ("CIs") compared to the prior year comparative period. In customer service the Company continues to be one of the best performing of the fourteen DNOs in Great Britain. Safety performance has also seen an improvement. The Group is pleased to report that there was a decrease in lost time incidents ("LTIs") compared to the prior year comparative period. More detail is provided in the following paragraphs.

Safety

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

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

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

Network performance

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

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

The Company has improved its performance in both measures compared to the prior year comparative period.

	Year ended 31 March 2025	Year ended 31 March 2024
* Customer Minutes Lost per customer (CMLs)	32.5	35.6
* Customer Interruptions per 100 customers (CIs)	44.6	46.2

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025*Customer satisfaction*

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

The Company's average score has increased from 94.1% for the prior year, to 94.4% in the current year, ranking first out of the fourteen electricity distribution networks in Great Britain.

Customer satisfaction for low carbon technologies

For RIIO-ED2, the Group has developed an independent Low Carbon Technology Customer Satisfaction survey. The Company's average score for the year ended 31 March 2025 has increased to 95% versus 92% in the prior year comparative period.

Employee engagement

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

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

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

Financial review

	Year ended 31 March 2025	Year ended 31 March 2024
Financial key performance indicators (£m)		
Turnover	970.7	710.2
EBITDA	695.8	444.9
Profit after tax	355.3	127.8
Gross capital expenditure on tangible assets	580.3	503.3
Capital expenditure on tangible assets net of customer contributions received	438.5	359.9

Overview

During the year the Company has seen a significant increase in financial performance. This was due to an increase in revenues collected in the period, as expected. This is mainly due to the recovery of additional amounts relating to higher inflation, which was under-recovered in previous financial periods owing to actual rates of inflation being much higher than those assumed when revenue tariffs were set. In addition, revenues in the year include higher incentives relating to the RIIO-ED1 price control, which are collected on a two-year lag. From 1 April 2025 revenues, and therefore financial performance, are expected to be lower due to these items, which are non-recurring.

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

The financial impact of energy supplier failures on the Group is that all DNOs have been required to pay claims under the supplier of last resort ("SOLR") scheme managed by Ofgem. It was agreed with Ofgem that the majority of the SOLR claims, would be recovered by tariff increases during the same period as the settlement of the claims. For the year ended 31 March 2025, £nil (2024: £28.5m) of material SOLR claims were incurred, and an equivalent amount of revenue recognised.

Turnover

Turnover increased from £710.2m in the prior year to £970.7m for the year ended 31 March 2025. If this reduction in SOLR revenue is excluded, turnover in the current year has increased by £289.0m compared to the prior year comparative. This increase to turnover was a result of higher inflation and incentive recovery as detailed above.

EBITDA/ Operating profit

Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by £250.9m from £444.9m to £695.8m. This increase is mainly driven by the increase in turnover.

The EBITDA measure excludes the effect of interest, taxation, depreciation and amortisation from earnings and reflects the operational performance of the business. The closest statutory measure is operating profit which is presented in the profit and loss account. Removing the effect of depreciation and amortisation from operating profit provides a clearer measure of operating efficiencies within the business and enables comparison with industry peers. It is also the basis for certain of the Group's covenant metrics.

Operating profit is reconciled to EBITDA as follows:

	Year ended 31 March 2025	Year ended 31 March 2024
Operating profit (£m)	509.4	270.0
Depreciation of tangible fixed assets (£m)	177.5	165.1
Amortisation of intangible assets (£m)	8.9	9.8
EBITDA (£m)	695.8	444.9

Profit after tax

Profit after tax increased by £227.5m from £127.8m to £355.3m. This is largely attributable to the £250.9m increase in EBITDA.

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Capital expenditure

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

Gross capital expenditure on tangible assets was £580.3m, an increase of £77.0m compared to the prior year due to higher capital work volumes arising from additional investment commitments during RIIO-ED2. This expenditure relates predominantly to improvements to the electricity network.

Capital expenditure net of customer contributions increased by £78.6m to £438.5m.

	Year ended 31 March 2025	Year ended 31 March 2024
Gross capital expenditure on tangible assets (£m)	580.3	503.3
Less: Customer contributions received in the year (£m)	(141.8)	(143.4)
Capital expenditure net of customer contributions (£m)	438.5	359.9

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

RAV gearing

The proportion of debt measured against the RAV of the business reflects the capacity of the business to source additional finance. This is a key metric for the Company's covenant arrangements with pension trustees and providers of finance and is monitored on a regular basis. The RAV gearing ratio remains within pension and bank covenant targets, the ratio improved from 58% at 31 March 2024 to 56% at 31 March 2025. The improvement reflects the growth in the RAV, primarily due to indexation resulting from higher RPI and continued investment.

	As at 31 March 2025	As at 31 March 2024
* Regulatory asset value (RAV) (£m)	4,083.9	3,795.6
**RAV gearing	56%	58%

* RAV is the Regulatory Asset Value of the business. The 31 March 2025 RAV presented is provisional at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The prior year comparatives have been restated to reflect the latest agreed position.

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

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Financial risk management objectives and policies

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

At 31 March 2025 the Company had net debt of £2,137.7m (2024: £2,023.6m) comprising bonds of £1,761.7m (2024: £1,506.3m), loans from the European Investment Bank (EIB) of £230.0m (2024: £303.7m) of which £15.0m is current (2024: £73.7m), other bank loans of £149.7m (2024: £149.7m) and Group borrowings of £nil (2024: £68.5m), offset by cash and cash equivalents of £3.7m (2024: £4.6m). The Company's principal financial assets are its cash balances, trade and other receivables and loans to Group undertakings.

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

Interest rate risk

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

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

Foreign exchange rate risk

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

Credit and liquidity risk

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

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

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

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

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Pension commitments

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

The Company's share of the Group's defined benefit pension obligations at 31 March 2025 amounts to a surplus of £72.5m (2024: surplus of £63.8m) in the UKPN Group scheme and a surplus of £12.9m (2024: deficit of £16.3m) in the UKPNPS scheme. The sensitivity of the valuation to changes in discount rate is shown in note 3 to the financial statements and further detail on the assumptions used to estimate the defined benefit obligation is provided in note 19.

Taxation

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

The Company has a significant long term capital expenditure programme which generates a charge against taxable profit through capital allowances. The timing of the tax relief on these allowances has the effect of delaying the payment of corporation tax and giving rise to a deferred tax liability. At 31 March 2025 the Company's net deferred tax liability was £421.2m (2024: £363.7m).

Factors likely to affect future development and performance

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

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

Going concern

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

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

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- The Company continues to perform well, is profitable with strong underlying cashflows and with predictable revenues regulated by Ofgem under an established price control mechanism.
- £210m of undrawn committed borrowings under the 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 £74.7m, the scheduled debt repayments during the going concern period and the financial covenants applicable to the Company's financing facilities.
- The Company has a successful track record of raising finance, supported by investment grade credit ratings.

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

Given the significant amount of liquidity available to the Company during the 12 months following the approval of these financial statements, the Company's forecasts under all reasonable scenarios show that there is significant headroom in respect of available liquidity and compliance with financial covenants. Stress testing has been performed and indicates that the level of decline in the Company's financial performance to result in a financial covenant breach is considered remote. Accordingly, the Directors are satisfied it is appropriate to adopt the going concern basis of accounting in the preparation of these financial statements.

Risk management

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

Managing risks

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

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

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

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

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Principal risks and uncertainties

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

Risk**Mitigation****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.

The Group's number one priority is safety and aims to create a strong safety culture for all employees and contractors, as well as keeping members of the public safe from the activities performed. The approach includes ensuring there are/is:

- Clear Policies & Procedures: A structured health and safety strategy that defines expectations and best practices.
- Risk Assessments & Inspections: Routine evaluations of our work activities to ensure compliance with our safety rules and procedures.
- Safety Training & Awareness: Our Behavioural Safety Training Programme "Stay Safe: Think, Feel, Act" has been designed for employees and extended to our supply chain (contractors), to support improvement in our safety culture and health and safety performance.
- Incident Management: Proactive reporting, monitoring, and investigation of safety incidents (including near misses) to ensure lessons are learned and improvements are made to prevent recurrence through corrective actions.
- Safety Communication: Monthly safety updates keep employees informed about incidents and lessons learned. Health and safety messaging helps keep awareness high and reinforces keeping safety front of mind.
- Corporate Oversight: The Board monitored safety performance throughout the year.
- The Group maintains accreditation to 45001 (Health & Safety Management).

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Risk	Mitigation
Inadequate response to major adverse events	
Adverse events include risks relating to weather patterns, in particular the severity or frequency of storms, high winds or flooding which can have a negative impact in the form of increased damage and expenditure to the network.	Senior Management addresses this risk in three main forums: the Organisational Resilience Leadership team, the Incident Leadership team and the Strategic Operational team. Mitigating measures include: - Business Continuity Plans and policies and procedures giving clear guidance of actions to be taken, roles and responsibilities.
An inadequate response to a major event could result in a failure in the Company's performance (e.g. power outages at key facilities, safety incidents, poor customer service and/or breach of licence conditions) resulting in significant financial and reputational damage.	- Scenario planning to stress test the business continuity plans for each business unit. - Regular communications via email, the intranet and frequent video briefings from the CEO, keeping employees informed of the response plan, procedures and changing risks. - Monitoring by senior management of key performance areas which could be impacted by the event e.g. network safety and performance, customer satisfaction levels, employee health and absenteeism, PPE allocation, adherence to new policies and procedures, financial impacts. - Review and reprioritisation of work on the network as required, in response to the changing risks. This includes recovery plans to monitor work back-logs against strategic targets and resume work as quickly as possible if projects are impacted by the event. - The Group has a well developed plan for dealing with storms and other major weather events setting out roles, responsibilities and co-ordination processes for employees.

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Failure of network assets

There are significant risks associated with network assets where failure of asset management procedures, systems or equipment could result in a major outage, major fine or a serious injury/fatality. Customer service and continuity/quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company.

- The reliability of the Group's network is a key performance indicator and is closely monitored. Investment in the network is prioritised to those projects which are likely to have a beneficial impact on reliability. The Group strives to continually innovate to improve the ways in which it identifies and manages the risk of outages.
- The results of Inspection and Maintenance programmes, Compliance Monitoring, Asset Health index monitoring and other asset risk assessments are reported to senior management on a monthly basis and feed into long term asset management plans.
- The Group is making additional investment through its Quality of Supply programme to improve network performance and resilience.
- The Group maintains accreditations in 55001 (Asset Management), 9001 (Quality) and 14001 (Environment).

Achieving output and cost efficiency targets

Output and cost efficiency targets are agreed with the Regulator within the price control framework.

Supply chain disruption, higher levels of inflation and the availability of employee and contractor resourcing can impact delivery of targets.

If the business does not meet the output and cost efficiency targets this could negatively impact financial performance.

- Clearly defined targets are set in the Strategic Plan and aligned with business performance targets.
- The planning cycle includes bottom up budgeting as well as top down target setting with specific actions to deliver on agreed cost targets. Clear accountabilities are established for each target, incentive area and RIIO-ED2 commitment.
- Unit cost efficiency monitoring provides timely information to executive management to optimise performance against the regulatory contract. Efficiency targets are cascaded down to operational teams to drive accountability for performance.
- The Asset Portfolio Planning tool tracks long term projects allowing monthly review of actual versus planned expenditure and monitoring progress at a project level.
- Management actively manages costs to limit the impacts of inflation. The Group is able to offset higher costs via an increase in future revenue tariffs linked to inflation.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Risk	Mitigation
Network unable to meet accelerated demand	- An ongoing research and engagement programme to understand the needs, expectations and low carbon ambitions of customers and other stakeholders. The objective is to improve services and solutions for customers and deliver high customer satisfaction. - Deliver timely network capacity upgrades based on regular forecasts of the impacts on the network from electric vehicles, heat pumps, renewable generation and battery storage. - Ongoing monitoring of the capacity of the network through physical monitors and using advanced analytical capabilities. - Supporting local authorities to develop regional investment plans for the electricity network. - Strong co-ordination with the Electricity System Operator ("ESO") to manage issues across the distribution and transmission boundary. - Detailed resource planning for a range of Net Zero scenarios as part of workforce and supplier chain resilience plans with the aim of increasing the flexibility of delivery capabilities.
Regulatory compliance risk	- The Group's Governance and control framework sets out responsibilities and accountabilities. The Group Board reviews key compliance risks supported by the Group's risk management framework and internal audit. - The Group operates a Regulatory Compliance programme to understand regulatory risks and obligations and implement controls and processes to meet compliance requirements. These are monitored on a monthly basis. - The Strategy and Regulation team includes specialists focused on ensuring compliance.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Risk	Mitigation
	- The Group has extensive engagement and consultation with Ofgem, the Government and HMRC. Relevant external advice is sought when required. - Industry regulation is set by Ofgem, who operate independently of the DNOs, and therefore the Group has limited ability to directly influence regulatory outcomes. However, the Group engages regularly with Ofgem through formal consultation processes to ensure its interests are represented in the development of the ED3 price control.
Supply Chain Capacity and Long Lead Times Supply chain performance pressures have increased globally due to inflation, the energy crisis, people shortages and Net Zero commitments. This has resulted in increased risks of price fluctuations, extended lead times for critical materials, insolvency of key suppliers and scarcity of skilled contractor workforce. If these challenges are not managed effectively, it may impact UK Power Networks ability to deliver against its targets.	- The Group has well established processes for governing contract management and supplier relationships, as well as for continued monitoring of key contractors' financial and stability indicators. Management reviews these processes to have sufficient agility to respond to the increasing pressures. - Long term integrated management plans are devised and routinely reviewed to enable forward ordering of materials to manage long lead times and to source skilled contracted labour. - The Group closely monitors supplier performance using leading key risk indicators to assess trends in the quality and timely delivery of materials against its Key Material Stock Policy. - The Group continually assesses the supply chain for limited suppliers of critical materials, mitigation plans are established where dual sourcing cannot be ascertained.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Major Failure or Cyber security breach of IT Systems:

A failure or cyber security breach of core IT systems could have a considerable impact on business operations. If the breach or failure is related to control systems, the Group's ability to operate the network could be impacted. Data breaches could result in legal or regulatory non-compliance with resulting financial penalties and reputational damage.

- In response to the current political tensions and heightened cyber threat and activity the UK National Cyber Security Centre published cyber guidance and advised UK organisations to take action. The Group meets these requirements and has put in place additional measures to manage the risk.
- A Cyber Security Improvement Programme operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation.
- The Group focuses its activities across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactively testing resilience.
- All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation.
- The Group operates a training programme to see that its employees are aware of cyber risks and know how to minimise and manage those risks, as well as how to respond in the event of a suspected breach.

Political and economic climate

Political and global events can affect aspects of the Company's business. This includes events such as the conflict in the Ukraine and disruption to global supply chains.

Changes in the macroeconomic environment, such as credit markets, inflation and interest rates could negatively impact financial results and the Group's access to funding.

- The Group regularly monitors exposure to economic factors through budgeting and forecasting and sensitivity analysis.
- The Group maintains investment grade credit ratings for its DNOs which supports access to financing when required. Debt covenant and credit metrics are monitored monthly and debt maturities are spread out.
- A proportion of the Company's debt is inflation linked to provide an inflation hedge.
- Close collaboration and mitigation planning with suppliers has maintained supply chain resilience.
- The Group monitors updates on the UK political environment and the Group's engagement with government on key policy matters as required.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Our approach to responsible business

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

Stakeholder engagement

The Company is focused on engaging with key stakeholders. These include customers, particularly those in the most vulnerable circumstances. The Company and the Group engages with a wide range of stakeholders, from local authorities to low carbon technology installers, as well as partners and employees, to understand issues and shape actions that deliver the best outcomes for our customers and communities. Purposeful engagement with stakeholders is critical to understand the diverse needs that the Group serve, how those needs are changing, and the role the Company can play in supporting them. The insights gained through engagement allow the Group to inform its strategy, improve services and deliver better performance improvements. Set out below is how the Group engages with its key stakeholders, identified on pages 5 to 6:

The Community

- The Group regularly engages with local community groups, councils, businesses and customers through a programme of events and forums to understand the key issues and shape actions that deliver the best outcomes for communities.
- The Group's Priority Services Register ("PSR") helps to identify and provide extra care to customers who need it most in the event of a power cut. The Group continually enhances its support to meet customers' changing needs.
- The Group has implemented automated and highly frequent sharing of PSR data with water companies so that customers only need to register once to quickly receive support in the event of a power cut.
- The Group works with community energy groups, charities and local organisations to share and learn from examples of best practice, provide energy efficiency advice and advise on the most efficient way communities can reduce their carbon emissions.

Customers

- An important source of customer feedback is an independent survey of circa 250 customers a week, which feeds into Ofgem's Broad Measure of Customer Satisfaction ("BMCS") score. This is supplemented by an additional internally driven feedback mechanism in which customers give almost instant feedback on the service they have received.
- We use focus groups and panels, such as our Vulnerable Customer online community, to test journey changes and understand how customer expectations are changing and adapt accordingly.
- Based on the feedback from extensive engagement and research the Group is enhancing its service to customers in the following ways:
 - Continuing to improve our low carbon technology service offerings, for customers and installers, achieving a regulatory year score of 95.4% to 31 March 2025.
 - Adapting our support offers and alternative provision options for vulnerable customers based on their feedback, such that our 2024/25 regulatory year score for our vulnerable customers was 93.5%.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Employees

- A comprehensive annual employee engagement survey by an external survey provider “Best Companies” in which employees provide their views on key matters pertinent to the success of the Group and their own engagement.
- Leadership conferences conducted by the executive management team and the Group's internal communications through its team briefs, internal webinars, local engagement forums, have all been used during the year to conduct meaningful engagement with our employees.
- The values of Equality, Diversity, and Inclusion are key considerations in the Group's recruitment, training, and communication programmes. A range of training is provided to employees to increase awareness and promote an inclusive culture, such as inclusive behaviour training. Through various forums, employees are asked to share their views on diversity and inclusiveness in the work place and make recommendations for improvement. A Steering Committee made up of senior managers meets quarterly to support and monitor the Group's Diversity & Inclusion strategy and initiatives.
- There is a Confidential Reporting facility in the event that employees wish to raise any issues confidentially, issues will be reported to the CEO, with any serious instances being reported to the Board.

Suppliers

- The Group has published guidance to suppliers, both current and prospective, on how to operate in accordance with UK Power Networks vision, values and standards. It outlines its approach to business ethics and sustainable procurement and clarifies the standards and behaviours it expects to be adopted throughout the supply chain.
- The Group assesses its suppliers through a pre-qualification platform Achilles Utilities Vendor Database (“UVDB”). As an industry-recognised risk management framework, Achilles UVDB provides a fair, open and transparent means of supplier selection for potential tender opportunities.
- The Group is a signatory to the Prompt Payment Code, which sets standards for payment practices and best practice, working towards adopting 30-day payment terms as the norm, and to avoid any practices that adversely affect the supply chain.
- The Group's Logistics team works closely with suppliers to forecast demand and maintain high inbound performance levels. The Group's materials contracts are long-term, enabling suppliers to invest in manufacturing equipment and work in partnership with the Group.
- The Group has an alliance model with key strategic partners which works to promote closer working relationships and common practices on shared projects, with a focus on capital delivery.

Ofgem

- The Group regularly engages with Ofgem through formal consultation processes, and with other industry bodies in various forums, to share information, to ensure the Group understands its obligations as set out by Ofgem, and to ensure the Group's interests are represented in industry discussions.
- The CEO and Executive management team regularly engage Ofgem with the overall aim of developing a regulatory price control framework that contains the right balance of customer focused outputs and economic incentives, which help to deliver the Government's energy objectives and de-carbonisation targets. All key communications and engagements with Ofgem are discussed at Board meetings.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Shareholders

- The Group's shareholders are represented on the Board of Directors, and as such receive regular reporting on financial and operational matters and are directly involved in strategic decision making.

Sustainability at UK Power Networks

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

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

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

Climate-related Financial Disclosures

Effective for periods commencing on or after 6 April 2022, mandatory Climate-related Financial Disclosures ("CFD") have been introduced under the Companies Act in the UK. The Company's climate related risk and governance are the same as the Group. Detailed CFD information is available within the consolidated Annual Report and Financial Statements of the Group (pages 23-30).

Section 172 (1) statement

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

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

The Directors acknowledge their responsibility for setting and monitoring the culture, values and reputation of the Company. Every day our colleagues seek to live by the Company's values and use these to guide how it makes decisions. When making decisions, the Directors have regard to all stakeholders but also acknowledge that not every decision will result in each stakeholder's preferred outcome. The Directors strive to balance the different and competing priorities and interests of its stakeholders in a way compatible with the long-term, sustainable success of the business and which maintains a standard of business conduct aligned to its values and purpose.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

The below sets out how the Directors had regard to the factors outlined in Section 172, the key disclosures and where to read more about them for the year ended 31 March 2025:

a) The likely consequences of any decision in the long term:

- About us - pages 2 and 3
- Risk management - pages 13 to 19
- Our approach to responsible business - pages 20 to 22
- Opportunity & risk - pages 34 and 35

b) The interests of the Group's employees:

- Our purpose, vision & values - pages 4 and 5
- Our key stakeholders - page 6
- Employee engagement - page 8
- Stakeholder engagement - Employees - page 21
- Board engagement - page 31
- Remuneration - page 37

c) The need to foster the Group's business relationships with suppliers, customers and others:

- Our key stakeholders - pages 5 and 6
- Stakeholder engagement - pages 20 to 22
- Board engagement - page 31

d) The impact of the Group's operations on the community and the environment:

- Our key stakeholders - page 6
- Our approach to responsible business - pages 20 to 22

e) The desirability of the Group maintaining a reputation for high standards of business conduct:

- Our purpose, vision & values - pages 4 and 5
- Risk management - pages 13 to 19
- Our approach to responsible business - pages 20 to 22
- Board engagement - page 31
- Opportunity & risk - pages 34 and 35

f) The need to act fairly as between members of the Group:

- Our purpose, vision and values - pages 4 and 5
- Our key stakeholders - pages 5 and 6
- Our key performance indicators - pages 6 to 8
- Stakeholder engagement - pages 20 to 22
- Board engagement - page 31

Anti-corruption and anti-bribery

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

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2025

Human rights and modern slavery

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

Non-financial and sustainability information statement

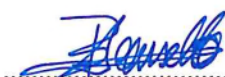
In accordance with section 414CB of the Companies Act 2006 we have reported on non-financial information as follows:

- Employees: see pages 8 and 21
- Environmental matters: see page 22
- Social matters: see page 6
- Human rights: see page 24
- Anti-corruption and anti-bribery: see page 23
- Climate-related financial disclosures: see page 22

Fair, balanced and understandable

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

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



.....
Basil Scarsella

Director

25 July 2025

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2025

The Directors present their Annual Report including the Audited Financial Statements of the Company for the year ended 31 March 2025.

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

Dividends

Dividends of £105.0m (2024: £124.0m) were paid during the year.

Political contributions

The Company made no political contributions during the year (2024: £nil).

Subsequent events

Uncertain tax position

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

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

Directors of the Company

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

Andrew John Hunter (Chairman)

Hing Lam Kam

Neil Douglas McGee

Basil Scarsella

Charles Chao Chung Tsai

Loi Shun Chan

Duncan Nicholas Macrae

Kee Ham Chan

Christopher Clarke

Paul Jeffery

Jenny Yu

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2025

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

Business relationships

The Company has identified its key stakeholders as: employees of the Group, customers, suppliers, the communities affected by the Company's operations, the Regulator and shareholders. Further information about how the Company has regard to the interests of these stakeholders, and how it fosters good business relationships with them, can be found on pages 20 to 22.

Energy and Carbon Reporting

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

Disclosure of information to Auditor

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

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

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

Auditor

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

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



.....
Basil Scarsella
Director

25 July 2025

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

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

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

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

Principle 1 - Purpose and Leadership

Purpose, values, vision and strategy

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

- Our purpose, vision and values - pages 4 and 5
- Our key stakeholders - pages 5 and 6
- Our strategy - page 5
- Corporate governance overview - pages 27 to 37

Principle 2 - Board composition

Chair, balance and diversity, size and structure, effectiveness

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience, and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the Company.

- Corporate governance overview - pages 27 to 37

Principle 3 - Directors' responsibilities

Accountability, committees, integrity of information

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

- Our key stakeholders - pages 5 and 6
- Stakeholder engagement - pages 20 to 22
- Corporate governance overview - pages 27 to 37
- Directors' Responsibility statement - page 38

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

Principle 4 - Opportunity and Risk

Opportunity, risk, responsibilities

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

- Our key stakeholders - pages 5 and 6
- Our strategy - page 5
- Operating review - pages 6 to 8
- Financial review - pages 8 to 12
- Risk management - pages 13 to 19
- Our approach to responsible business - pages 20 to 22
- Corporate governance overview - pages 27 to 37

Principle 5 - Remuneration

Setting remuneration, policies, delegating remuneration decisions

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

- Our key performance indicators - pages 6 to 8
- Corporate governance overview - page 28

Principle 6 - Stakeholder Relationships and Engagement

External impacts, stakeholders, workforce

Directors should foster effective stakeholder relationships aligned to the Company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

- Our key stakeholders - pages 5 and 6
- Stakeholder engagement - pages 20 to 22
- Corporate governance overview - pages 27 to 37

Corporate governance overview

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

Governance framework

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

Each Committee provides reports to the Group Board on matters discussed during each Committee meeting, to ensure that all Directors have visibility of, and the opportunity to discuss, the matters being considered by each Committee. Details of the terms of reference of each committee can be found on pages 31 and 32.

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

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

How the Group Board operates

The Group's Board of Directors is the principal decision-making forum for the Group. It has overall responsibility for leading the Group and for its financial and operational performance. It sees that there is a balance in strategy between promoting long-term growth and delivering short-term objectives, with due regard to risk. It considers key stakeholders in its decision making and, in doing so, sees that Directors comply with their duty under section 172 of the Companies Act 2006 (see pages 22 and 23).

The Group Board and Board Committees meet regularly, and on an as needed basis, to oversee the management of the Group as a whole and where appropriate to consider and act on matters pertaining to individual subsidiary companies.

Key matters reserved for the Group Board

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

Key matters reserved for the Group Board include:

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

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

Composition of the Company Board

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

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

The CEO of the Group is the only Executive Board member. The other directors do not hold executive roles and therefore maintain an acceptable level of independence from the executive management of the Company. The positions of the Chairman of the Board and CEO are held by separate individuals with a view to maintaining effective segregation of duties between management of the Board and the day-to-day management of the Company. As such, the appointment of an independent Chairman is not deemed necessary.

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

A total of 7 meetings of the Group Board were held during the year with 9 to 11 members of the Company's Board present at each meeting.

Directors' responsibilities

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

Board engagement

Most engagement with key stakeholders is carried out by management teams and takes place at business level. Reporting mechanisms are in place to collate feedback and developments from such engagement and enable a flow of this information to the Board to inform decision making.

By receiving regular updates on business programmes and objectives, the Board monitors that management is acting in accordance with the agreed purpose, vision and values. Processes are in place to ensure that the Board receives all relevant business information to enable it to monitor performance in support of the Company and Group's long-term objectives. Details of engagement with each of the Group's key stakeholders can be seen on pages 20 to 22.

Further information on how the Group's Board considered its key stakeholders in its decision making can be found in the UK Power Networks Holdings Limited Annual Report and Financial Statements on page 38.

Group Board Committees

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

- The Environmental, Social and Governance ("ESG") committee's primary function is to assist the Group Board in seeing that the Group has a suitable and sufficient strategy in place to deliver the key ESG based commitments in the Group's RIIO-ED2 business plan. The Committee also provides oversight of the future development of strategy and policy as the external ESG environment evolves, and reports performance against ESG targets on a consolidated basis.

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

The Group's Executive Management Team oversees the safety, operational and financial performance of the Group. It is responsible for making the day-to-day management and operational decisions it considers necessary to safeguard the interests of the Group and to execute the strategy, business objectives and targets established by the Group Board. It is supported by a number of other management committees including the Regulatory Governance Committee, Contract Governance Committee, Health, Safety & Sustainability Steering Committee and the Operational Performance Committee.

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

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

Purpose and leadership

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

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

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

Integrity of financial information

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

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

External audit

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

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

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

Independence and objectivity of external auditor

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

Opportunity and Risk

Opportunity

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

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

The Group's RIIO-ED2 business plan for 2023 to 2028 outlines our whole systems thinking to work toward achieving Net Zero. The Directors are focused on utilising digitalised solutions across the Group's operations and aim to instil a culture that maximises every opportunity to work smarter for its customers. For details of achievements in the current year in relation to our strategic priority - Innovation to facilitate Net Zero, refer to page 6 of the consolidated UK Power Networks Holdings Limited Annual Report and Financial Statements.

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

The Group Board is also invested in seeing that the Group's commitment to sustainability includes leading by example and reducing its carbon footprint by 28% by the end of RIIO-ED2. For more details on our environmental targets refer to page 29 of the consolidated UK Power Networks Holdings Limited Annual Report and Financial Statements.

Risk

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

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

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

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

Emerging and principal risks are regularly reported to the Group Board facilitating the oversight of the risk management process of the Group. Pages 13 to 19 of the Strategic report outline the key risks and the related mitigating actions by the Group.

Internal control framework

Control procedures have been implemented throughout the Group and are designed to achieve complete and accurate accounting for financial transactions, to safeguard the Group's assets and for compliance with laws and regulations. These control procedures form the Integrated Management System, a controlled framework of policy and procedural documentation. Control procedures are subject to regular review and formal ratification and approval. As part of the Integrated Management System, procedural implementation and compliance is subject to regular monitoring. The Group Board has established an internal audit function which is responsible for reviewing the effectiveness of the Group's systems of internal control and reports to the Audit Committee of the Group Board.

Internal audit

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

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

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

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

Monitoring and corrective action

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

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

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

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

Effectiveness review of internal control

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

The shareholder companies, CK Infrastructure Holdings Limited and Power Assets Holdings Limited, require that the Group conducts a bi-annual Internal Control Self-Assessment on the quality of the internal control system covering key business processes and outlining, where necessary, material control weaknesses.

In forming a view of the quality of the systems of internal control, the EMT consider audit findings; compliance review findings; risks with controls assessed as sub-optimal; and status of corrective actions related to these areas. These assessments enable the Group to identify areas where attention is required to improve the system of internal control, business performance and operating effectiveness.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

Remuneration

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

The Group has formed a Remuneration Committee, whose principal responsibilities include making recommendations to the Group Board on the Group's policies and structure in relation to the remuneration of senior management and the employees of the Group by reference to corporate goals and objectives resolved by the Group Board from time to time. The Remuneration Committee is formed by members of the Board and one of the SIDs and meets on at least an annual basis. The Remuneration Committee ensures that it considers remuneration across the wider workforce when determining senior management remuneration as well as the overall policy and practices. As a result, the Group has clear remuneration structures that are designed to reward good performance, attract the best talent, and are aligned to the achievement of the Group's vision and values.

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

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

The remuneration of directors is disclosed in note 6 of the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

The Directors confirm to the best of their knowledge that:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets and liabilities, financial position and profit of Eastern Power Networks plc as at 31 March 2025; and
- the Strategic Report and the Directors' Report include a true and fair view of the development and performance of the business and the financial position of Eastern Power Networks plc, together with a description of its principal risks and uncertainties.

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



Basil Scarsella
Director

25 July 2025

Report on the audit of the financial statements

1. Opinion

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

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

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 23.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the accuracy of cost classification, which is consistent with the prior year.
Materiality	The materiality that we used in the current year was £19.5 million which was determined on the basis of the last three years' average profit before tax adjusted for movements related to derivative financial instruments.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There were no significant changes in our approach compared with the prior year.

4. Conclusions relating to going concern

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

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

- obtaining an understanding of the relevant controls relating to the going concern process;
- understanding the financing facilities available to the company, including assessing all bank covenants and facility expiry dates, and recalculating current and forecast covenant compliance;
- obtaining an understanding of the going concern forecast prepared by management, including the downside scenarios as well as evaluating any plan for future actions;
- assessing the key assumptions, including forecast revenue and capital expenditure cash flows, on which the assessment is based and evaluating the consistency of assumptions with other assumptions within the going concern assessment as well as related assumptions used in other areas;
- evaluating management's assessment of the impact of inflation and of the demand for electric capacity within the forecast;
- testing the mathematical accuracy of the model used to prepare the going concern forecast;
- assessing the level of headroom in the forecast, with regard to both liquidity and debt covenant tests;
- assessing the outcome of the company's reverse stress testing on cash flows, in respect to the debt covenants;
- assessing whether any additional facts or information has become available since the date management made its assessment; and
- evaluating the appropriateness of the going concern disclosures in the financial statements.

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

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

5. Key audit matter

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

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

5.1. Accuracy of cost classification

Key audit matter description	The company continues to have an extensive capital investment programme. To meet the requirements of FRS 102.17 <i>Property Plant and Equipment</i> (“PP&E”), it is important that network costs are appropriately classified as either capital or operating expenditure in nature. In the year, the company capitalised £558.9 million (2024: £483.0 million) in relation to network assets, as disclosed in Note 10. The classification of activities between capital expenditure (additions or enhancements to network assets) and operating expenditure (maintenance or network repair) is impacted by judgements undertaken by management. Management uses cost drivers and an analysis of the activities directly attributable to capital work to apply these judgements to the total costs spent on the network to determine what is capitalised and what is expensed. Due to the judgements and complexity within the cost reflectivity model, we have identified the accuracy of cost classification to be a key audit matter, specifically in relation to the indirect costs of £210.8 million (2024: £187.8 million). We identified this key audit matter as a fraud risk given the potential to overstate capital expenditure and understate operating expenditure through the determination of the cost drivers that underpin the classification of expenditure. The classification of costs has been disclosed as a critical accounting judgement in note 3, and the tangible assets note is included in note 10 to the financial statements.
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How the scope of our audit responded to the key audit matter	We have responded to the key audit matter by performing the following procedures: • obtained an understanding of relevant controls over the application of the policy in relation to classification of expenditure; • assessed whether the company’s accounting policies in relation to capitalisation comply with FRS 102.17 <i>Property, Plant and Equipment</i>; • tested the implementation of these policies through assessing the capital nature of a sample of costs against the capitalisation policy; • agreed a sample of cost inputs used for capitalisation of network asset costs
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	to supporting documentation, including invoices; • assessed the proportion of capitalised overhead costs using historical comparisons and expected changes based on enquiry and our sector knowledge; • assessed the assumptions and judgements made by management in relation to cost drivers used for each cost category as well as consistency with the prior year and challenged any changes by assessing the historical trends and changes to capitalisation rates; • tested the integrity and mechanics of the cost allocation model to assess its mathematical accuracy; and • assessed the appropriateness of the company’s disclosures of its capitalisation policy.
Key observations	Based on the work performed we concluded that the accuracy of cost classification is appropriate.

6. Our application of materiality

6.1. Materiality

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

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

Materiality	£19.5 million (2024: £15.0 million)
Basis for determining materiality	We determined materiality on the basis of an average of the last three years’ profit before tax adjusted for movements related to derivative financial instruments. We have also considered a range of additional benchmarks including cash generated from operations and shareholders’ equity. Materiality of £19.5 million represents 7.5% (2024: 7.5%) of the average of the last three years’ profit before tax adjusted for movements related to derivative financial instruments, 4.8% (2024: 9.5%) of current year profit before tax adjusted for movements related to derivative financial instruments, 0.9% (2024: 0.8%) of shareholders’ equity and 2.7% (2024: 2.7%) of cash generated from operations. The prior year materiality of £15.0 million was determined on the same basis.
Rationale for the benchmark applied	As a profit-making entity, profit before tax, adjusted for movements related to derivative financial instruments, is a key metric used by users of the financial statements.

	These movements do not form part of the company's core business performance and have therefore been excluded from our benchmark. The average of the last three years' profit before tax is used to reduce volatility caused by under or over recoveries of electricity distribution revenue in a specific financial year.
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6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2025 audit (2024: 70%). In determining performance materiality, we considered the following factors:

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

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £1.0 million (2024: £0.7 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

Our controls approach is consistent with prior year. We have taken a controls reliance approach in performing our audit of the balances in operating expenses. We have taken a substantive audit approach on all other areas not mentioned above.

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

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

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

7.3. Our consideration of climate-related risks

Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the company, as explained in the strategic report on page 17. We have:

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

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

11.2. Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the group Audit Committee, we were appointed by the board in 2004 and were reappointed following an audit tender in 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ending 31 December 2004 to 31 March 2025.

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

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

15. Use of our report

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



Marianne Milnes FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

25 July 2025

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2025

	Note	2025 £ m	2024 £ m
Turnover	4	970.7	710.2
Operating costs		<u>(461.3)</u>	<u>(440.2)</u>
Operating profit	5	509.4	270.0
Net finance cost	7	<u>(34.7)</u>	<u>(86.1)</u>
Profit before tax		474.7	183.9
Taxation	8	<u>(119.4)</u>	<u>(56.1)</u>
Profit for the financial year		<u>355.3</u>	<u>127.8</u>

The above results were derived from continuing operations.

The notes on pages 53 to 93 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2025

	2025 £ m	2024 £ m
Profit for the year	355.3	127.8
Fair value gains deferred to hedging reserves	0.2	0.9
Remeasurement gains/(losses) on defined benefit pension schemes	13.2	(33.2)
Other comprehensive gain/(loss)	13.4	(32.3)
Total comprehensive income for the year	368.7	95.5

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

The notes on pages 53 to 93 form an integral part of these financial statements.

EASTERN POWER NETWORKS PLC

BALANCE SHEET AS AT 31 MARCH 2025

	Note	2025 £ m	2024 £ m
Fixed assets			
Intangible assets	9	34.7	25.8
Tangible assets	10	<u>6,499.1</u>	<u>6,096.5</u>
		<u>6,533.8</u>	<u>6,122.3</u>
Current assets			
Debtors falling due within one year	11	187.2	107.4
Debtors falling due after more than one year	11	268.5	237.7
Cash and cash equivalents		<u>3.7</u>	<u>4.6</u>
		459.4	349.7
Creditors: Amounts falling due within one year	12	<u>(534.1)</u>	<u>(760.2)</u>
Net current liabilities		<u>(74.7)</u>	<u>(410.5)</u>
Total assets less current liabilities		6,459.1	5,711.8
Creditors: Amounts falling due after more than one year	12	<u>(3,939.3)</u>	<u>(3,504.2)</u>
Provisions for liabilities	16	<u>(446.0)</u>	<u>(397.5)</u>
Net assets		<u>2,073.8</u>	<u>1,810.1</u>
Capital and reserves			
Called up share capital	17	125.8	125.8
Share premium reserve	17	5.6	5.6
Capital redemption reserve	17	10.6	10.6
Hedging reserves	17	4.5	4.3
Profit and loss account	17	<u>1,927.3</u>	<u>1,663.8</u>
Total shareholders' funds		<u>2,073.8</u>	<u>1,810.1</u>

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



.....
Basil Scarsella
Director
25 July 2025

The notes on pages 53 to 93 form an integral part of these financial statements.

EASTERN POWER NETWORKS PLC

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

	Share capital £ m	Share premium reserve £ m	Capital redemption reserve £ m	Profit and loss account £ m	Hedging reserves £ m ¹	Total £ m
At 1 April 2023	<u>125.8</u>	<u>5.6</u>	<u>10.6</u>	<u>1,693.2</u>	<u>3.4</u>	<u>1,838.6</u>
Profit for the year	-	-	-	127.8	-	127.8
Remeasurement losses on defined benefit schemes	-	-	-	(33.2)	-	(33.2)
Fair value gains deferred to hedging reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.9</u>	<u>0.9</u>
Total comprehensive income	-	-	-	94.6	0.9	95.5
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124.0)</u>	<u>-</u>	<u>(124.0)</u>
At 31 March 2024	<u>125.8</u>	<u>5.6</u>	<u>10.6</u>	<u>1,663.8</u>	<u>4.3</u>	<u>1,810.1</u>
	Share capital £ m	Share premium reserve £ m	Capital redemption reserve £ m	Profit and loss account £ m	Hedging reserves £ m ¹	Total £ m
At 1 April 2024	<u>125.8</u>	<u>5.6</u>	<u>10.6</u>	<u>1,663.8</u>	<u>4.3</u>	<u>1,810.1</u>
Profit for the year	-	-	-	355.3	-	355.3
Remeasurement gains on defined benefit schemes	-	-	-	13.2	-	13.2
Fair value gains deferred to hedging reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.2</u>	<u>0.2</u>
Total comprehensive income	-	-	-	368.5	0.2	368.7
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105.0)</u>	<u>-</u>	<u>(105.0)</u>
At 31 March 2025	<u>125.8</u>	<u>5.6</u>	<u>10.6</u>	<u>1,927.3</u>	<u>4.5</u>	<u>2,073.8</u>

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

The notes on pages 53 to 93 form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2025

		2025 £ m	2024 £ m
Cash generated from operations	20	775.4	557.7
Corporation tax paid		<u>(61.2)</u>	<u>(22.0)</u>
Net cash flows from operating activities		<u>714.2</u>	<u>535.7</u>
Cash flows from investing activities			
Proceeds from sale of tangible assets		-	0.1
Gross capital expenditure on tangible assets		(577.6)	(500.1)
Capital expenditure on intangible assets		(17.8)	(12.9)
Short-term loans to Group undertakings (advanced)/repaid		(57.0)	107.0
Interest received		<u>7.5</u>	<u>7.3</u>
Net cash flows used in investing activities		<u>(644.9)</u>	<u>(398.6)</u>
Cash flows from financing activities			
Equity dividends paid		(105.0)	(124.0)
Interest paid		(74.2)	(70.8)
Proceeds from long-term borrowings		446.4	343.7
Proceeds from short-term borrowings		-	68.5
Repayment of short-term borrowings		<u>(337.4)</u>	<u>(350.0)</u>
Net cash flows used in financing activities		<u>(70.2)</u>	<u>(132.6)</u>
Net (decrease)/increase in cash and cash equivalents		(0.9)	4.5
Cash and cash equivalents at beginning of year		<u>4.6</u>	<u>0.1</u>
Cash and cash equivalents at end of year		<u><u>3.7</u></u>	<u><u>4.6</u></u>
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		<u>3.7</u>	<u>4.6</u>
Cash and cash equivalents		<u><u>3.7</u></u>	<u><u>4.6</u></u>

The notes on pages 53 to 93 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

1 General information

Eastern Power Networks plc (the "Company") is incorporated in the United Kingdom under the Companies Act 2006.

The Company is a private company limited by shares and is registered in England and Wales.

The principal activities of the Company and the nature of the Company's operations are set out in the Strategic Report on pages 2 to 24.

The address of its registered office is:

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

2 Accounting policies

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)**Going concern**

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

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

- The Company continues to perform well, is profitable with strong underlying cashflows and with predictable revenues regulated by Ofgem under an established price control mechanism.
- £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 £74.7m, the scheduled debt repayments during the going concern period and the financial covenants applicable to the Company's financing facilities.
- The Company has a successful track record of raising finance, supported by investment grade credit ratings.

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

Given the significant amount of liquidity available to the Company at 31 March 2025, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)**Intangible assets - IT software and development costs**

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

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

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

Tangible assets

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

Depreciation

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

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

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

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

Borrowing costs capitalised

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)**Tax**

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

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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

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

Pillar Two

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)**Turnover**

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards relating to the transaction are considered to have been transferred to the buyer. Turnover from the supply of services represents the value of services provided under contracts, to the extent that there is a right to consideration, and is recorded at the value of the consideration due. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income.

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

The Company's second major revenue stream relates to connecting customers to the electricity network and an ongoing obligation to maintain those connections. Customer contributions received as payment for connections work are held as deferred income mainly within creditors falling due after more than one year and released to turnover over the expected useful lives of the related network assets.

Pension

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

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

Provisions

Provisions are recognised when the Company has an obligation at the reporting date as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of its amount. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)**Financial instruments**

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

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

Amortised cost is calculated as:

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

Less: The principal repayments;

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

Less: Any loss allowance in respect of financial assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The best evidence of fair value is a quoted price in an active market. When quoted prices are unavailable, the price of a recent transaction for a similar asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of a similar asset on their own are not a good estimate of fair value, the fair value is estimated using a discounted cash flow approach.

Financial assets

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

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

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)

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

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

Financial liabilities and equity*Equity instruments*

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

Financial liabilities

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

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

* Derivatives and hedging accounting are discussed in subsequent paragraphs.

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

Offsetting of financial instruments

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

Derecognition of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)**Derivative financial instruments**

The Company uses derivative financial instruments to reduce exposure to interest rate and inflation rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes. Interest rate and cross currency swaps are entered into for the purpose of managing the interest rate and currency risk associated with the borrowing requirements of the Company. Inflation linked swaps are used to economically hedge the exposure of the Company's regulated revenues to movements in inflation. Amounts payable or receivable in respect of the swap instruments are recognised within net finance costs in the profit and loss account.

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

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

Hedge accounting

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

2 Accounting policies (continued)*Cash flow hedges*

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

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognised in the line related to the hedged item in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item is then amortised to profit or loss over the remaining term of the hedged item.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Critical judgements in applying the Company's accounting policies*Carrying value of property, plant and equipment*

Tangible fixed assets as disclosed in note 10 represent over 90% of the Company's total asset base.

The carrying value of the Network asset of £6,421.6m (2024: £6,031.4m) is impacted by management's judgement in the following areas:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

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

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

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

Key sources of estimation uncertainty*Valuation of defined benefit obligation*

The defined benefit obligation is estimated by calculating the net present value of future cash flows from the pension schemes projected many years into the future.

Assumptions of future inflation rates, life expectancy, the rate of salary and pension increases are set with reference to market and economic conditions in consultation with an independent qualified actuary. The assumptions are reviewed on an ongoing basis to reflect market and demographic changes and the actual experience of the pension schemes.

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

Details of the defined benefit schemes and the assumptions used to estimate the defined benefit obligation are set out in note 19. The sensitivity analysis below indicates how changes in the significant assumptions might affect the amount of pension obligations recognised at 31 March 2025.

Change in assumption		Impact on scheme liabilities			
		UKPN Grp 2025	UKPNPS 2025	UKPN Grp 2025 £m	UKPNPS 2025 £m
Discount rate	+/- 0.50%	-5.2% to 5.7%	-10.5% to 12.1%	(22.7) - 25.0	(13.3) - 15.3
RPI inflation	+/- 0.50%	5.1% to -4.7%	9.7% to -8.6%	22.4 - (20.6)	12.3 - (10.9)
Life expectancy	+/- 3 years	11.1% to -12.0%	8.4% to -9.2%	48.4 - (52.4)	10.6 - (11.6)
Rate of salary increases	+/- 0.50%	0.4% to -0.4%	5.1% to -4.6%	1.5 - (1.5)	6.5 - (5.8)

At 31 March 2025 the Company's share of scheme liabilities was valued at £437.0m (2024: £504.3m) for the UKPN Group scheme and £126.3m (2024: £152.1m) for the UKPNPS Scheme (as disclosed in note 19).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

4 Turnover

Turnover for the year ended 31 March 2025 was £970.7m (2024: £710.2m), stated net of value added tax, arising entirely in the United Kingdom and attributable to the continuing activity of electricity distribution and the invoice value of other goods and services provided. This includes an estimate of the sales value of units distributed to customers between the date of the last meter reading and the year end.

Increases in wholesale energy prices and consequent supplier failures has led to an increase in SOLR claims received by the Group in recent years. It was agreed with Ofgem that the majority of these claims would be recovered by revenue tariff increases during the same period as the settlement of the claims. In the prior year the Group recognised additional DuOS revenues of £28.5m to offset the cost of material SOLR claims charged to cost of sales. There were no material SOLR revenues or costs in the current period.

Turnover includes the annual impact of contributions from customers towards the cost of connections to the network. This income is initially deferred to the balance sheet and then amortised to turnover over the expected useful lives of the related network assets. During the year the amount of customer contributions released to turnover was £55.0m (2024: £51.8m).

5 Operating profit

Arrived at after charging:

	2025	2024
	£ m	£ m
Depreciation of tangible fixed assets	177.5	165.1
Amortisation of intangible assets	8.9	9.8
Operating lease rentals - land and buildings	0.6	0.7
Loss on disposal of property, plant and equipment	0.2	0.1

SOLR impact on operating profit

In the prior year costs of approximately £28.5m relating to material SOLR claims are matched by higher revenues (refer to note 4), with no impact on operating profit. SOLR claims falling below a certain materiality threshold, as defined by Ofgem, are only recoverable through revenues in two years' time and had a cost impact in the prior year of £4.5m. There were no material SOLR revenues or costs in the current period.

Auditor's remuneration

The amount payable to Deloitte LLP was £101,300 (2024: £100,200) in respect of audit services and £66,010 (2024: £64,900) in respect of non-audit services. The non audit services are audit related assurance services which include agreed upon procedures performed on behalf of the Regulator and the review of the half year accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

5 Operating profit (continued)**Staff costs**

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

6 Directors' remuneration

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

Directors' remuneration

	2025 £	2024 £
Emoluments	<u>120,000</u>	<u>105,000</u>

Remuneration of highest paid director

	2025 £	2024 £
Emoluments	<u>60,000</u>	<u>52,500</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

7 Finance costs (net)

	2025 £ m	2024 £ m
Interest payable and similar expenses	(114.4)	(122.1)
Less: investment income	10.6	12.0
Other finance income	69.1	24.0
	<u>(34.7)</u>	<u>(86.1)</u>

	2025 £ m	2024 £ m
Investment income		
Income from other fixed asset investments	0.1	0.1
Interest receivable on Group loans	6.0	6.0
Other interest receivable and similar income	1.4	1.2
Net interest income on defined benefit pension surplus	3.1	4.7
	<u>10.6</u>	<u>12.0</u>

	2025 £ m	2024 £ m
Interest payable and similar expenses		
Interest on bank loans	(15.4)	(15.0)
Interest on bonds	(74.4)	(66.3)
Accretion on index linked debt	(5.8)	(9.0)
Interest payable on Group loans	(1.8)	(1.0)
Net interest on swap instruments	0.3	2.8
Accretion on swap instruments	(20.0)	(36.8)
	<u>(117.1)</u>	<u>(125.3)</u>
Finance costs capitalised	2.7	3.2
	<u>(114.4)</u>	<u>(122.1)</u>

Capitalised interest

Finance costs have been capitalised to tangible fixed assets on the basis of a capitalisation rate of 3.6% (2024: 5.7%), which is the weighted average rate of interest and accretion costs applicable to the Company's general borrowings during the year. The cumulative amount of finance costs capitalised within tangible fixed assets amounts to £60.9m (2024: £58.2m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

7 Finance costs (net) (continued)

	2025 £ m	2024 £ m
Other finance income		
Fair value gains on financial instruments		
Index linked swaps not in hedge relationships	67.3	20.9
Interest rate swaps in fair value hedge relationships	1.5	2.1
Hedged items in fair value hedge relationships	(4.2)	(4.7)
Exchange losses on cross currency swaps	(1.9)	(4.4)
Exchange gains on bonds hedged by cross currency swaps	1.9	4.4
Change in fair value of cost of hedging through profit or loss	-	0.1
	<u>64.6</u>	<u>18.4</u>
Amortisation of hedging adjustments		
Amortisation of fair value hedge adjustments	<u>5.0</u>	<u>6.6</u>
Net gain related to derivative financial instruments	69.6	25.0
Other costs		
Net interest cost on defined benefit pension deficit	(0.3)	(0.7)
Other charges	<u>(0.2)</u>	<u>(0.3)</u>
	<u>69.1</u>	<u>24.0</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

8 Taxation

Tax charged to the profit and loss account

	2025 £ m	2024 £ m
Current taxation		
UK corporation tax	70.3	16.2
Adjustments in respect of prior years	<u>(3.9)</u>	<u>(2.4)</u>
Total current taxation	<u>66.4</u>	<u>13.8</u>
Deferred taxation		
Origination and reversal of timing differences	49.4	30.5
Adjustments in respect of prior years	<u>3.6</u>	<u>11.8</u>
Total deferred taxation	<u>53.0</u>	<u>42.3</u>
Total tax charge	<u><u>119.4</u></u>	<u><u>56.1</u></u>

The total tax assessed for the year was higher than the standard rate of 25% (2024: 25%) applied to profit before tax. The differences are reconciled below:

	2025 £ m	2024 £ m
Profit before tax	<u>474.7</u>	<u>183.9</u>
Corporation tax at standard rate	118.7	46.0
Income not taxable in determining taxable profit	-	(0.1)
Expenses not deductible for tax purposes	1.0	0.8
Adjustments to current tax in respect of prior years	(3.9)	(2.4)
Adjustments to deferred tax in respect of prior years	<u>3.6</u>	<u>11.8</u>
Total tax charge	<u><u>119.4</u></u>	<u><u>56.1</u></u>

Tax rate changes

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

8 Taxation (continued)**Pillar Two**

Pillar Two legislation was enacted in the UK in July 2023, and the Company is within scope of these rules for periods beginning on or after 1 April 2024.

The UK Power Networks Group has performed an assessment of its exposure to Pillar Two income taxes including under the UK domestic top-up tax (DTT) rules. Based on the assessment, the Company is not subject to any additional tax liabilities under the new legislation and therefore has not recognised any related tax expense for the current year ended 31 March 2025. Further details regarding the assessment of the exposure are included in the Group consolidated financial statements of UK Power Networks Holdings Limited, which is the ultimate parent undertaking of the Company.

9 Intangible assets**IT software and development costs**

	£ m
Cost	
At 1 April 2024	136.9
Additions	17.8
At 31 March 2025	<u>154.7</u>
Amortisation	
At 1 April 2024	111.1
Charge for the year	8.9
At 31 March 2025	<u>120.0</u>
Net book value	
At 31 March 2025	<u><u>34.7</u></u>
At 31 March 2024	<u><u>25.8</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

10 Tangible assets

	Network £ m	Non-network land and buildings £ m	Motor vehicles £ m	Furniture, fixtures and equipment £ m	Total £ m
Cost					
At 1 April 2024	8,718.5	42.8	4.2	147.0	8,912.5
Additions	558.9	7.8	-	13.6	580.3
Disposals	(8.6)	-	(0.8)	-	(9.4)
At 31 March 2025	9,268.8	50.6	3.4	160.6	9,483.4
Depreciation					
At 1 April 2024	2,687.1	8.9	4.2	115.8	2,816.0
Charge for the year	168.5	0.8	-	8.2	177.5
Eliminated on disposal	(8.4)	-	(0.8)	-	(9.2)
At 31 March 2025	2,847.2	9.7	3.4	124.0	2,984.3
Net book value					
At 31 March 2025	6,421.6	40.9	-	36.6	6,499.1
At 31 March 2024	6,031.4	33.9	-	31.2	6,096.5

Network assets at 31 March 2025 include land with a book value of £25.2m (2024: £25.2m). The net book value of non-network land and buildings comprise freehold land at £4.5m (2024: £nil) and freehold buildings at £36.4m (2024: £33.9m).

Also within network assets are assets in the course of construction of £97.3m (2024: £53.7m). Approximately £20.3m of the prior year assets under construction were completed during the current year (2024: £50.2m).

The cost of connecting customers to the network is included within network assets above. Capital contributions received from customers as payment for connections work are credited to the balance sheet as deferred income and released to profit or loss over the expected useful life of the related network assets. During the year income of £55.0m (2024: £51.8m) was recognised within turnover in respect of customer contributions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

11 Debtors

	Note	2025 £ m	2024 £ m
Amounts falling due within one year:			
Trade debtors		119.8	84.8
Amounts owed by Group undertakings		58.0	1.0
Other debtors		0.1	0.1
Prepayments		3.6	3.4
Corporation tax		5.7	10.9
Derivative financial assets	15	-	7.2
		<u>187.2</u>	<u>107.4</u>
Amounts falling due after more than one year:			
Amounts owed by Group undertakings		144.5	144.5
Derivative financial assets	15	38.6	29.4
Surplus in the defined benefit pension schemes	19	85.4	63.8
		<u>268.5</u>	<u>237.7</u>
		<u>455.7</u>	<u>345.1</u>

Amounts owed by Group undertakings due within one year is comprised of a short term loan of £57.0m (2024: £nil) to UK Power Networks Holdings Limited bearing interest at 4.97% and interest free trade balances of £1.0m (2024: £1.0m) which are repayable on demand.

Amounts owed by Group undertakings due after more than one year comprise a loan of £144.5m (2024: £144.5m) to the parent company UK Power Networks Holdings Limited, bearing interest at 2.56% and maturing in June 2026.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

12 Creditors

	Note	2025 £ m	2024 £ m
Amounts falling due within one year:			
Borrowings	13	68.7	334.1
Amounts owed to Group undertakings		94.3	89.9
Other taxation and social security		49.1	32.4
Other creditors		10.3	10.4
Accruals		60.6	61.8
Deferred income		251.1	231.6
		<u>534.1</u>	<u>760.2</u>
Amounts falling due after one year:			
Borrowings	13	2,072.7	1,694.1
Deferred income		1,508.5	1,424.9
Derivative financial liabilities	15	358.1	385.2
		<u>3,939.3</u>	<u>3,504.2</u>

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

Deferred income falling due after one year comprises contributions received from customers as payment for connections work, the cost of which is capitalised to network assets. This income is released to turnover over the expected useful lives of the related network assets. Deferred income falling due within one year includes £58.6m (2024: £55.4m) relating to customer contributions, expected to be released to turnover within one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

13 Borrowings

	2025	2024
	£ m	£ m
Amounts falling due within one year		
Amounts due to Group undertakings	-	68.5
£15m 2.335% EIB loan due October 2025	15.0	-
£35m 0.032% Index Linked Bond due October 2025	53.7	-
£50m 0.01% Index linked EIB loan due November 2024	-	73.7
£40m 0.25% Index linked Bond due February 2025	-	58.9
£132.3m 8.5% Bond due March 2025	-	132.2
Adjustments for fair value hedge relationships	-	0.8
	68.7	334.1
Amounts falling due after more than one year		
£150m Bank loan due January 2030	149.7	149.7
£15m 2.335% EIB loan due October 2025	-	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
£350m 5.375% Bond due October 2039	347.4	-
HKD 980m 4.267% Bond due March 2035	99.0	-
£35m 0.032% Index Linked Bond due October 2025	-	51.8
£250m 2.125% Bond due November 2033	248.2	248.0
£300m 1.875% Bond due June 2035	298.4	298.2
£350m 6.25% Bond due November 2036	347.0	346.7
£350m 5.375% Bond due February 2042	343.8	343.7
JPY 5bn 1.035% Bond due July 2038	33.7	33.6
Exchange gain adjustment on JPY Bond	(8.0)	(7.6)
Exchange gain adjustment on HKD Bond	(1.5)	-
	2,072.7	1,694.1
	2,141.4	2,028.2

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

13 Borrowings (continued)

Borrowings are stated net of unamortised issue costs of £15.6m (2024: £13.9m) and include accretion of £18.7m (2024: £59.5m) on the index linked instruments. These balances together with the interest expense are allocated to the profit and loss account over the term of the debt.

New debt

To refinance debt which matured during the year, the Group raised additional finance of £449.0m in the form of fixed rate bonds. A £350m bond was issued on 2 October 2024 which bears interest at a fixed rate of 5.375% and matures in 2039. In March 2025, a bond of HKD 980m maturing in 2035 was issued with a fixed interest rate of 4.267% and simultaneously swapped to £99.0m with a fixed interest rate of 5.370%.

Adjustments for fair value hedge relationships

Fair value adjustments to the bonds, which have arisen from fair value hedge relationships with interest rate swaps, were £nil (2024: £0.8m) in current debt. The movement during the year comprises fair value losses of £4.2m (2024: losses of £4.7m) within existing hedge relationships and amortisation adjustments of £5.0m (2024: £6.6m) relating to discontinued hedge relationships.

Security

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

Borrowing facilities

The Company has access to a credit facility of £210.0m until March 2028 which was undrawn at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

14 Financial instruments

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

	Note	2025 £ m	2024 £ m
Financial assets			
Measured at fair value through profit or loss			
Derivative financial assets	15	35.4	27.4
Measured at fair value and designated in an effective hedge relationship			
Derivative financial assets	15	3.2	9.2
Measured at amortised cost			
Loans receivable from Group undertakings	11	201.5	144.5
Trade and other debtors, excluding corporation tax receivable, prepayments and accrued income	11	120.9	85.9
		361.0	267.0

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

14 Financial instruments (continued)

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

		2025 £m	2024 £m
Financial liabilities			
Measured at fair value through profit or loss			
Derivative financial liabilities	15	(351.6)	(381.5)
Measured at fair value and designated in an effective hedge relationship			
Derivative financial liabilities	15	(6.5)	(3.7)
Measured at amortised cost and designated in an effective hedge relationship			
* Bonds	13	(123.2)	(129.9)
Measured at amortised cost			
** Bonds and loans payable	13	(2,018.2)	(1,898.3)
Trade and other payables, excluding taxation and social security and accruals and deferred income	12	(104.6)	(100.3)
		<u>(2,604.1)</u>	<u>(2,513.7)</u>

* The carrying value of bonds measured at amortised cost and designated in an effective hedge relationship includes net cumulative fair value of £nil (2024: losses of £0.3m) relating to fair value hedges and fair value gains of £9.5m (2024: £7.6m) relating to cashflow hedges.

**The carrying value of bonds measured at amortised cost includes a fair value loss adjustment of £nil (2024: £0.5m) related to discontinued fair value hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

14 Financial instruments (continued)

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

	2025 £ m	2024 £ m
Derivative financial assets measured at fair value through profit or loss		
Index linked swaps not in hedge relationships		
- Net interest receivable	4.4	4.6
- Accretion payable	(0.1)	(0.2)
- Fair value gains	8.4	6.0
	<u>12.7</u>	<u>10.4</u>
Derivative financial assets measured at fair value and designated in effective hedge relationships		
Interest rate swaps designated as cash flow hedges		
- Net interest receivable	2.2	2.3
- Fair value gains deferred to hedging reserve	1.2	1.1
Interest rate swaps designated as fair value hedges		
- Net interest payable	(1.6)	(1.7)
- Fair value gains	1.5	0.3
Financial assets measured at amortised cost		
- Interest receivable on Group loans	6.0	6.0
	<u>22.0</u>	<u>18.4</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

14 Financial instruments (continued)

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

	2025 £ m	2024 £ m
Derivative financial liabilities measured at fair value through profit or loss		
Index linked swaps not in hedge relationships		
- Net interest (payable)/receivable	(3.9)	0.8
- Accretion payable	(19.9)	(36.6)
- Fair value gains	58.9	14.9
Derivative financial liabilities measured at fair value and designated in effective hedge relationships		
Cross currency swaps designated as cash flow hedges		
- Net interest payable	(0.8)	(0.7)
- Fair value losses deferred to hedge reserve	(0.9)	-
- Change in fair value of cost of hedging through profit or loss	-	0.1
- Exchange losses measured through profit or loss	(1.9)	(4.4)
Interest rate swaps designated as fair value hedges		
- Net interest payable	-	(2.5)
- Fair value gains	-	1.8
Financial liabilities which are hedged items in effective hedge relationships		
JPY and HKD bonds hedged by cross currency swaps		
- Net interest payable	(0.5)	(0.3)
- Exchange gains measured through profit or loss	1.9	4.4
Bonds in fair value hedge relationships		
- Fair value losses measured through profit or loss	(4.2)	(4.7)
Financial liabilities measured at amortised cost		
Interest payable on bonds and bank loans	(89.3)	(81.0)
Accretion payable on bonds and bank loans	(5.8)	(9.0)
Interest payable on Group loans	(1.8)	(1.0)
	<u>(68.2)</u>	<u>(118.2)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

15 Derivative financial instruments

	2025 £ m	2024 £ m
Derivative financial assets		
Amounts falling due within one year		
Interest rate swaps designated as effective fair value hedges	-	7.2
	<u>-</u>	<u>7.2</u>
Amounts falling due after more than one year		
Interest rate swaps designated as effective cash flow hedges	3.2	2.0
Index linked swaps not designated in hedge relationships	35.4	27.4
	<u>38.6</u>	<u>29.4</u>
	<u>38.6</u>	<u>36.6</u>
Derivative financial liabilities		
Amounts falling due after more than one year		
Cross currency swaps designated as effective cash flow hedges	(6.5)	(3.7)
Index linked swaps not designated in hedging relationships ¹	(351.6)	(381.5)
	<u>(358.1)</u>	<u>(385.2)</u>
Net derivatives	<u>(319.5)</u>	<u>(348.6)</u>

¹ The fair value of index linked swaps at 31 March 2025 includes cumulative RPI linked accretion of £187.8m (2024: £167.7m) which is analysed on page 83.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

15 Derivative financial instruments (continued)

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

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

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

Fair value hedge interest rate swaps

	Average contract fixed interest rate		Notional principal value		Fair value	
	2025	2024	2025	2024	2025	2024
	%	%	£ m	£ m	£ m	£ m
Maturity of outstanding contracts						
Receive fixed / pay floating						
Less than 1 year	-	8.5%	-	103.7	-	7.2

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

Fair value gains of £1.5m (2024: gains of £2.1m) on the swaps were recognised in profit or loss during the year and fair value losses of £4.2m (2024: losses of £4.7m) adjusted to the carrying amount of the bonds as part of the hedge relationships.

Fair value adjustments to the bonds relating to discontinued fair value hedge relationships, amortise to profit or loss over the remaining term of the bonds. The amortisation for the year resulted in a gain of £5.0m (2024: gain of £6.6m) to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

15 Derivative financial instruments (continued)

Cash flow hedge interest rate swaps

	Average contract fixed interest rate		Notional principal value		Fair value	
	2025 %	2024 %	2025 £ m	2024 £ m	2025 £ m	2024 £ m
Maturity of outstanding contracts						
Receive floating / pay fixed:						
Interest rate swap contract						
5 years plus	4.5%	4.5%	<u>150.0</u>	<u>150.0</u>	<u>3.2</u>	<u>2.0</u>
Receive fixed JPY rate / pay fixed sterling rate: Cross currency swap						
5 years plus	3.0%	3.0%	<u>33.8</u>	<u>33.8</u>	<u>(4.0)</u>	<u>(3.7)</u>
Receive fixed HKD rate / pay fixed sterling rate: Cross currency swap						
5 years plus	5.4%	-	<u>99.1</u>	<u>-</u>	<u>(2.5)</u>	<u>-</u>

Receive floating / pay fixed - Interest rate swap contracts

The Company has a floating to fixed rate contract to hedge the interest rate exposure on a £150m floating rate loan which carries interest at SONIA plus a margin of 1.05%. The swap exchanges this floating rate with a fixed rate of 4.5% and was effective as a cash flow hedge throughout the year. Fair value gains of £1.2m (2024: £1.1m) were deferred to the cash flow hedge reserve during the year. The maturation date of the swap is aligned to the maturity of the loan in 2030.

Receive fixed forex rate/ pay fixed sterling rate - Cross currency swap contracts

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

In relation to the cross currency hedges, net losses of £0.9m (2024: £nil) were recognised during the year through other comprehensive income in the cash flow hedge reserve and cost of hedging reserve.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

15 Derivative financial instruments (continued)

	Average contract fixed interest rate		Notional principal value		Fair value	
	2025 %	2024 %	2025 £ m	2024 £ m	2025 £ m	2024 £ m
Maturity of outstanding contracts						
Receive fixed / pay fixed + RPI						
2 to 5 years	6.0%	6.0%	320.0	320.0	(265.3)	(269.3)
Receive floating / pay fixed + RPI						
5 years plus	-	-	150.0	150.0	(48.0)	(79.1)
Receive RPI accretion / pay CPI accretion + fixed amount						
5 years plus	-	-	<u>772.1</u>	<u>772.1</u>	<u>(2.8)</u>	<u>(5.7)</u>
			<u>1,242.1</u>	<u>1,242.1</u>	<u>(316.1)</u>	<u>(354.1)</u>

The Company uses RPI and CPI linked swap contracts to convert a portion of fixed rate bond interest to an inflation linked rate. Although intended as an economic hedge against the new CPIH exposure of the Company's regulated income, which was previously linked to RPI, these instruments are not designated in formal hedge accounting relationships. The index linked swaps receive a combination of fixed and floating rate interest and pay inflation linked interest. Maturities range from 2030 to 2041.

The amounts recognised in profit or loss relating to index linked swaps, were fair value gains of £67.3m (2024: gains of £20.9m), a net accretion charge of £20.0m (2024: £36.8m) offset by net interest receivable of £0.5m (2024: £5.4m).

Fair values at 31 March 2025 include cumulative accretion net of pay downs of £187.7m (2024: £167.7m). The RPI or CPI linked accretion movement on each swap arrangement is summarised in the table below:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

15 Derivative financial instruments (continued)

	Accretion at 1 April 2024 £ m	Accretion charge to Profit or Loss £ m	Accretion at 31 March 2025 £ m
Index linked swap arrangement			
Receive 6.0% fixed / pay RPI+margin on £320m notional, maturing November 2036 ¹	(122.8)	(18.7)	(141.5)
Receive SONIA+margin / Pay RPI+margin on £150m notional, maturing December 2041 ²	(46.4)	(8.2)	(54.6)
Receive RPI accretion/Pay CPI accretion+fixed amount on £772m notional, maturing July and September 2030 ³	1.5	6.9	8.4
	<u>(167.7)</u>	<u>(20.0)</u>	<u>(187.7)</u>

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

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

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

16 Provisions for liabilities

	2025 £ m	2024 £ m
Provision for deferred tax	421.2	363.7
Other provisions	24.8	17.5
	<u>446.0</u>	<u>381.2</u>
Defined benefit retirement obligations		
Deficit in the UKPNPS defined benefit pension scheme 19	-	16.3
	<u>446.0</u>	<u>397.5</u>

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

	Deferred tax £ m	Other provisions £ m	Total £ m
At 1 April 2024	363.7	17.5	381.2
Charged to profit or loss	53.0	7.3	60.3
Charged to comprehensive income	4.5	-	4.5
At 31 March 2025	<u>421.2</u>	<u>24.8</u>	<u>446.0</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

16 Provisions for liabilities (continued)**Explanation of provisions**

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

Analysis of deferred tax

	2025 £ m	2024 £ m
Accelerated capital allowances	428.7	397.8
Deferred tax relating to defined benefit pension schemes	21.3	11.9
Timing differences relating to derivative financial instruments	(28.7)	(45.8)
Other timing differences	(0.1)	(0.2)
Net deferred tax liability	<u>421.2</u>	<u>363.7</u>

Pillar Two

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

17 Called up share capital and reserves**Share capital: Allotted, called up and fully paid**

	2025 £ m	2024 £ m
251,513,142 ordinary shares at £0.50 each	<u>125.8</u>	<u>125.8</u>

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

Reserves

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses. The capital redemption reserve represents the value of historical repurchases of the Company's own capital. The profit and loss account represents cumulative profits or losses, including actuarial gains and losses on remeasurement of the net defined benefit pension liability, net of dividends paid.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

17 Called up share capital and reserves (continued)

Hedging reserves*Cash flow hedge reserve*

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

Cost of hedging reserve

The Company uses cross currency swaps to hedge the foreign currency risk on HKD and JPY denominated bonds, within designated cash flow hedge relationships. In the valuation of cross currency interest rate swaps, spreads are applied to cash flows in currencies with perceived higher credit risk or lower liquidity. These are referred to as “currency basis spreads”. As they only exist in the hedging instrument (the cross currency swap), IFRS 9 (within FRS 102 11.2c) does not allow inclusion of the currency basis spreads in the valuation of the hedged item (the foreign currency risk of the bond), in the assessment of hedge effectiveness. Due to this mismatch between the hedging instrument and the hedged item, fair value changes in these currency basis spreads lead to hedge ineffectiveness.

IFRS 9 (within FRS 102 11.2c) allows for the fair value changes in the currency basis spreads to be recorded in a separate cost of hedging reserve, through other comprehensive income, to the extent those changes are aligned with the hedged item. Excluding these movements from the hedge relationship helps to increase hedge effectiveness and mitigate volatility in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

17 Called up share capital and reserves (continued)**Hedging reserves continued**

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

	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/(losses) net of deferred tax	<u>1.3</u>	<u>(0.4)</u>	<u>0.9</u>
At 31 March 2024	5.0	(0.7)	4.3
Fair value gains/(losses) net of deferred tax	<u>0.5</u>	<u>(0.3)</u>	<u>0.2</u>
At 31 March 2025	<u><u>5.5</u></u>	<u><u>(1.0)</u></u>	<u><u>4.5</u></u>

18 Commitments and contingencies

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

Capital commitments

The total amount contracted for but not provided in the financial statements was £117.0m (2024: £128.2m).

Lease commitments

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

	2025 £ m	2024 £ m
Land and buildings		
- within one year	0.7	0.6
- between one and five years	3.0	2.6
- after five years	<u>14.8</u>	<u>12.9</u>
	<u><u>18.5</u></u>	<u><u>16.1</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

19 Pension commitments**Defined benefit pension schemes**

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

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

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

The UK Power Networks Pension Scheme (UKPNPS)

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

Funding levels are monitored regularly and a funding schedule is formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The current funding schedules are based on the triennial valuation as at 31 March 2022. Deficit repair contributions to the UKPNPS scheme are set to eliminate the funding shortfall over the next three years. The Company's share of these contributions is £8.7m per annum until 29 February 2028, increasing annually by CPI inflation. In relation to the UKPN Group scheme, the funding deficit was cleared by 1 March 2023 removing the need for ongoing deficit repair.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

19 Pension commitments (continued)

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

	2025 %	2024 %
UKPN Group key financial assumptions		
Discount rate	5.8	4.8
Future salary increases	3.3	3.4
RPI inflation	2.8	2.9
CPI inflation	2.5	2.6
Pension increases in deferment	2.8	2.9
Pension increases in payment		
- pensions in excess of GMP	2.8	2.9
- post-88 GMP	2.1	2.1

	2025 %	2024 %
UKPNPS key financial assumptions		
Discount rate	5.8	4.8
Future salary increases	3.1	3.2
RPI inflation	2.6	2.7
CPI inflation	2.2	2.2
Pension increases in deferment		
- CPI up to 5% per annum	2.2	2.2
- CPI up to 2.5% per annum	2.2	2.2
Pension increases in payment		
- RPI up to 5% per annum	2.5	2.6
- RPI up to 2.5% per annum	1.8	1.9
- post-88 GMP	1.8	1.9

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

19 Pension commitments (continued)

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

	2025 Years	2024 Years
UKPN Group life expectancy assumptions		
Life expectancy for male currently aged 60	25	26
Life expectancy for female currently aged 60	29	29
Life expectancy at 60 for male currently aged 40	27	27
Life expectancy at 60 for female currently aged 40	30	30

	2025 Years	2024 Years
UKPNPS life expectancy assumptions		
Life expectancy for male currently aged 65	22	22
Life expectancy for female currently aged 65	25	25
Life expectancy at 65 for male currently aged 45	23	23
Life expectancy at 65 for female currently aged 45	26	26

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

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

	UKPN Grp 2025 £ m	UKPNPS 2025 £ m	Total 2025 £ m	Total 2024 £ m
Fair value of scheme assets	509.5	139.2	648.7	703.9
Present value of defined benefit obligation	(437.0)	(126.3)	(563.3)	(656.4)
Defined benefit pension scheme surplus	72.5	12.9	85.4	47.5

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

19 Pension commitments (continued)

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

	UKPN Grp 2025 £ m	UKPNPS 2025 £ m	Total 2025 £ m	Total 2024 £ m
Current service cost	(5.0)	(4.0)	(9.0)	(9.9)
Past service cost	(0.7)	-	(0.7)	(0.4)
Net interest income/(cost)	<u>3.1</u>	<u>(0.3)</u>	<u>2.8</u>	<u>4.0</u>
	(2.6)	(4.3)	(6.9)	(6.3)
Recognised in other comprehensive income	<u>2.2</u>	<u>15.4</u>	<u>17.6</u>	<u>(44.3)</u>
	<u>(0.4)</u>	<u>11.1</u>	<u>10.7</u>	<u>(50.6)</u>

Of the charge for the year a net expense of £9.7m (2024: £10.3m) has been included in operating costs and net income of £2.8m (2024: £4.0m) included within net finance costs.

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

	UKPN Grp 2025 £ m	UKPNPS 2025 £ m	Total 2025 £ m	Total 2024 £ m
At 1 April	(504.3)	(152.1)	(656.4)	(665.6)
Current service cost	(5.0)	(4.0)	(9.0)	(9.9)
Past service cost	(0.7)	-	(0.7)	(0.4)
Interest cost	(23.3)	(7.1)	(30.4)	(30.5)
Actuarial gains	59.9	36.9	96.8	17.5
Benefits paid	<u>36.4</u>	<u>-</u>	<u>36.4</u>	<u>32.5</u>
At 31 March	<u>(437.0)</u>	<u>(126.3)</u>	<u>(563.3)</u>	<u>(656.4)</u>

The actuarial gains include a net transfer out of scheme liabilities amounting to £3.7m (2024: £8.3m) to align the allocation of scheme liabilities across the Group to the attribution portions agreed with Ofgem.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

19 Pension commitments (continued)

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

	UKPN Grp 2025 £ m	UKPNPS 2025 £ m	Total 2025 £ m	Total 2024 £ m
At 1 April	568.1	135.8	703.9	736.8
Interest income	26.4	6.8	33.2	34.5
Return on plan assets (excluding amounts included in net interest cost)	(57.7)	(21.5)	(79.2)	(61.8)
Contributions by employer	9.1	9.5	18.6	18.7
Deficit payments	-	8.6	8.6	8.2
Benefits paid	(36.4)	-	(36.4)	(32.5)
At 31 March	509.5	139.2	648.7	703.9

The return on plan assets (excluding amounts included in net interest cost) includes a net transfer out of scheme assets amounting to £6.1m (2024: £10.9m) to align the allocation of scheme assets across the Group to the attribution portions agreed with Ofgem.

The fair value of scheme assets is analysed as follows:

	UKPN Grp 2025 £ m	UKPNPS 2025 £ m	Total 2025 £ m	Total 2024 £ m
Equities	9.3	32.7	42.0	55.4
Liability driven investments	364.0	59.2	423.2	451.8
Credit funds	20.0	23.5	43.5	45.0
Hedge funds	-	-	-	7.8
Alternatives ¹	108.3	20.4	128.7	136.7
Cash and net current assets	7.9	3.4	11.3	7.2
	509.5	139.2	648.7	703.9

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

20 Notes to the cash flow statement

Reconciliation of operating profit to cash flows

	2025 £ m	2024 £ m
Operating profit	509.4	270.0
<i>Adjustment for</i>		
Depreciation and amortisation of assets	186.4	174.9
Customer contributions recognised in turnover	(55.0)	(51.8)
Loss on disposal of tangible fixed assets	0.2	0.1
Operating cash flow before movement in working capital	641.0	393.2
(Increase)/decrease in debtors	(35.0)	13.1
Increase in creditors	37.9	22.0
Customer contributions received	141.8	143.4
Increase in provisions	7.3	2.5
Pension deficit repair payments	(8.6)	(8.2)
Employer pension contributions net of service costs	(9.0)	(8.3)
Cash generated from operations	775.4	557.7

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

20 Notes to the cash flow statement (continued)

Reconciliation of net debt

	At 1 April 2024 £ m	Cash flows £ m	Fair value and exchange rate changes £ m	Other non-cash changes £ m	At 31 March 2025 £ m
Cash at bank and in hand	4.6	(0.9)	-	-	3.7
Debt due within one year	(334.1)	337.4	0.8	(72.8)	(68.7)
Debt due after more than one year	<u>(1,694.1)</u>	<u>(446.4)</u>	<u>1.9</u>	<u>65.9</u>	<u>(2,072.7)</u>
	<u>(2,028.2)</u>	<u>(109.0)</u>	<u>2.7</u>	<u>(6.9)</u>	<u>(2,141.4)</u>
Net debt excluding derivatives	<u>(2,023.6)</u>	<u>(109.9)</u>	<u>2.7</u>	<u>(6.9)</u>	<u>(2,137.7)</u>
Net derivative liabilities	<u>(348.6)</u>	<u>(18.4)</u>	<u>67.2</u>	<u>(19.7)</u>	<u>(319.5)</u>
Net debt including derivatives	<u>(2,372.2)</u>	<u>(128.3)</u>	<u>69.9</u>	<u>(26.6)</u>	<u>(2,457.2)</u>

Other non-cash changes in net debt include accretion on index linked debt of £5.8m, accretion on index linked derivatives of £20.0m and amortisation of debt issue costs of £1.1m, partially offset by interest accrued on derivatives of £0.3m. In addition £66.8m relating to debt maturing within 12 months, was reclassified from "Debt due within more than one year", to "Debt due within one year".

21 Related party transactions

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2025

22 Parent and ultimate parent undertaking

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

Newington House
237 Southwark Bridge Road
London
SE1 6NP

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

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

- **CK Infrastructure Holdings Limited** (40% shareholding) incorporated in Bermuda;
- **Power Assets Holdings Limited** (40% shareholding) incorporated in Hong Kong; and
- **CK Asset Holdings Limited** (20% shareholding) incorporated in the Cayman Islands.

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

23 Subsequent events

Uncertain tax position

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

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