SOUTH EASTERN POWER NETWORKS PLC
(DISTRIBUTION BUSINESS)

Registration number: 3043097

Interim report and condensed financial statements

for the six months ended 30 September 2022

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COMPANY INFORMATION

Directors

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

Andrew Pace

Registered Office

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Auditor

Deloitte LLP
Statutory Auditor
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INTERIM MANAGEMENT REPORT

Business model

The Company distributes electricity to approximately 2.3 million homes and businesses in the South East of England via a network of underground cables and overhead lines, taking power from the National Grid at high voltage and transforming it down to lower voltage before delivery to customer premises.

The Company's objectives are to:

- maintain the safety and reliability of the electricity network;
- efficiently connect new customers to the electricity network, including power generators;
- restore supply as quickly as possible to customers who experience interruption;
- innovate to continually improve efficiency and the service provided to customers;
- facilitate the transition to a low-carbon economy by investing in assets, processes and initiatives that enable low carbon technology to be connected to the network;
- reduce the environmental impact of the Company's own operations;
- extend and upgrade the network to meet the future needs of customers;
- keep costs to customers as low as possible; and
- support customers in vulnerable circumstances and see they are not left behind during the complex energy transition.

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

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

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

The Company employs no staff (31 March 2022: nil). Staff are employed by UK Power Networks (Operations) Limited, which operates the electricity distribution network on the Company's behalf with the support of UK Power Networks (Transport) Limited and UK Power Networks (South East Services) Limited.

Review of the business

Operating performance
The Company has performed well during what has been a period of significant uncertainty for energy markets in the UK. Performance in respect of safety, network performance and customer service is discussed on pages 3 to 4.

Market update
The UK Energy sector experienced instability at the end of 2021 which has continued in 2022. There have been significant increases in wholesale energy prices which have also contributed to a higher inflationary environment.

Higher inflation has resulted in cost pressures on the Company which has negatively impacted financial performance. This is primarily due to an increase in interest costs associated with index linked debt, as well as some increased operating cost pressure. Within the regulatory framework the Company's revenue and the Regulatory Asset Value (RAV) are both linked to inflation indices. Therefore inflation growth has a positive overall impact on the Company in the form of increased income in future periods as well as growth in the RAV, which benefits Debt to RAV gearing levels.

The increase in wholesale energy prices at the end of 2021 resulted in a number of energy suppliers going out of business including some of the Company's debtors. The Company is able to recover the cost of bad debts from suppliers through the price control mechanism via higher tariffs.

INTERIM MANAGEMENT REPORT continued

Review of the business continued

A financial impact of energy supplier failures on the Company is that charges may be incurred under the supplier of last resort (SOLR) scheme managed by Ofgem. When customers of a failed energy supplier transfer to an appointed SOLR, the SOLR may submit a claim to Ofgem for losses incurred as a result of the SOLR arrangement, for example wholesale energy costs, additional administrative costs or inherited credit balances of affected customers. Once authorised by Ofgem the SOLR may then request payment of the claim from the relevant DNO.

The Company has received SOLR claims of approximately £77m relating to the recent supplier failures most of which occurred in the second half of 2021. It was agreed with Ofgem that the majority of the SOLR claims would be payable over twelve months from 1 April 2022 by the DNOs and recovered via tariff increases during the same period. These claims therefore do not have an impact on profit with payment of the related claims offset by higher in-year revenues. In the period to 30 September 2022 the Company recognised SOLR related revenues of approximately £38m, with an equivalent cost of material SOLR claims paid. These revenues and costs are presented in turnover and cost of sales. In addition, cost of sales includes approximately £1m of SOLR claims that fall below a certain materiality threshold defined by Ofgem and therefore are only recoverable through revenues in two years' time. At the balance sheet date the Company had SOLR claims of approximately £39m yet to be accrued and paid. Continued instability in the energy markets could result in further bad debt and SOLR claims.

Financial performance for the six months ended 30 September 2022

The financial performance of the Company in the six months ended 30 September 2022 is compared to the six months ended 30 September 2021 (the prior period), in the discussion below.

Turnover has increased from £229.4m to £276.1m primarily due to the additional SOLR revenue and also due to tariff increases under the regulatory price control. Earnings before interest, taxation, depreciation and amortisation (EBITDA) has increased from £165.8m to £172.2m due to the increase in turnover not attributable to SOLR claims. As explained above, although SOLR claims have resulted in higher costs these are offset by higher revenues so the net impact on EBITDA is immaterial.

The £49.0m increase in profit after tax from £24.8m to £73.8m primarily reflects a one off deferred tax charge of £49.8m which lowered profit in the prior period. This was the result of the corporation tax rate change from 19% to 25% enacted in May 2021 and effective from 1 April 2023. Higher EBITDA has contributed to increased profit after tax in the current period but this is offset by higher finance costs relating mainly to accretion charges on index linked debt.

Gross capital expenditure increased by £12.0m from £105.5m to £117.5m due to higher work volumes. This expenditure relates primarily to improvements to the electricity network. Capital expenditure net of customer contributions increased by £15.9m.

Key performance indicators (KPI's)

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

Safety

The Group's highest priority is the safety of employees, contractors and the general public. Working with electricity is potentially a dangerous activity with electrocution and falling from height presenting the most serious risks. In order to reinforce the importance which the Group places on safety, a comprehensive safety awareness campaign is ongoing for all staff and contractors. The safety performance of the Group as a whole is reviewed in the Group's annual report and financial statements for the year ended 31 March 2022.

Lost time incidents (LTIs), defined as the number of injuries to employees or contractors which result in lost time of one day or more, is a key safety measure. The circumstances of each LTI are reported and investigated in detail with the aim of preventing the recurrence of such incidents. Findings from these investigations, as well as reviews of "near misses" of very serious incidents that did not result in an LTI, are used to improve training and safety procedures and raise awareness across the organisation. 1 LTI has occurred within the Group in the six months ended 30 September 2022 which is an improvement on the 2 LTIs recorded in the prior period.

INTERIM MANAGEMENT REPORT continued

Key performance indicators (KPI's) continued

Network performance

The principal measures used to assess network performance are customer minutes lost (CMLs) and customer interruptions (CIs). CMLs are the average length of time customers are without power for three minutes or longer and represent availability of supply. CIs, the number of interruptions per 100 customers, are an indicator of network reliability. CMLs and CIs are officially measured and agreed with Ofgem on an annual basis to 31 March and presented in the Company's annual report and financial statements. Performance year to date to 30 September 2022 is broadly in line with the prior period.

Customer satisfaction

Ofgem measures customer satisfaction through surveys which record the experience of customers receiving services from distribution network operators for interruptions, minor connections and general enquiries. This is one of the most important measures of performance for the business. The Company recorded an average of 94% customer satisfaction in the six months ended 30 September 2022 compared to 91% in the prior period.

Financial key performance indicators

The Company's key financial performance indicators are set out in the table below:

	Six months ended 30 September 2022	Six months ended 30 September 2021
Turnover (£m)	**276.1**	229.4
EBITDA (£m) [1]	**172.2**	165.8
Profit after tax (£m)	**73.8**	24.8
Gross capital expenditure on tangible assets (£m)	**117.5**	105.5
Capital expenditure on tangible assets net of customer contributions received (£m)	**91.2**	75.3

	As at 30 September 2022	As at 31 March 2022
Regulatory asset value (RAV) (£m) [2]	**2,205.9**	2,061.4
RAV gearing [3]	**58%**	60%

1 EBITDA is a non-statutory measure, and is calculated by adding back amortisation and depreciation to operating profit (also discussed in subsequent paragraphs). The impact of SOLR claims explained on page 3 is to increase turnover and costs with minimal impact on EBITDA.

2 "RAV" is the Regulatory Asset Value of the business. The values presented are based on the information available at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The 31 March 2022 RAV has been restated from that previously published in the 31 March 2022 statutory accounts, to reflect the latest position agreed with Ofgem.

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

INTERIM MANAGEMENT REPORT continued

Financial key performance indicators continued

EBITDA

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

	Six months ended 30 September 2022	Six months ended 30 September 2021
Operating profit (£m)	**122.7**	117.5
Depreciation of tangible assets (£m)	**46.0**	43.9
Amortisation of intangible assets (£m)	**3.5**	4.4
EBITDA (£m)	**172.2**	165.8

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

Capital expenditure

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

	Six months ended 30 September 2022	Six months ended 30 September 2021
Gross capital expenditure on tangible assets (£m)	**117.5**	105.5
Less: Customer contributions received in the period (£m)	**(26.3)**	(30.2)
Capital expenditure net of customer contributions (£m)	**91.2**	75.3

RAV gearing

The proportion of debt measured against the Regulatory Asset Value (RAV) of the business indicates the capacity of the business to source additional finance. This is a key metric for the Company's covenant arrangements with pension trustees and providers of finance and is monitored on a regular basis. The RAV gearing ratio remains within pension and bank covenant targets improving from 60% at 31 March 2022 to 58% at 30 September 2022. The improvement reflects the growth in the RAV due to continued investment in the network and recent rises in the Retail Price Index.

Dividends

Dividends of £31.0m were paid during the period (six months ended 30 September 2021: £22.0m).

INTERIM MANAGEMENT REPORT continued

Principal risks and uncertainties

In the view of the Board, the principal risks to the Company remain consistent with those that were contained in the Company's 2022 annual report. These risks are summarised below and presented in more detail together with the mitigating actions being taken by management, in the 2022 Annual Report and Accounts available at www.ukpowernetworks.co.uk/about-us/investor-relations.

Risk
Inadequate response to major adverse events An inadequate response to a major adverse event could result in a failure in the Company's performance (e.g. power outages at key facilities, safety incidents, poor customer service and/or breach of licence conditions) resulting in significant financial and reputational damage.
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.
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 or fatality. Customer service, continuity and quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company.
Regulatory risks The Company is subject to extensive regulatory obligations which may be impacted by the prevailing political and economic climate. The following risks could result in lower financial returns, reputational damage, breach of licence conditions or fines: • Risk of non-compliance with regulatory requirements. • Risk of not achieving the output and cost efficiency targets agreed with the Regulator within the price control framework. An increase in costs due to higher levels of inflation and supply chain disruption. • Risk of more challenging targets being set under the new price control RIIO-ED2 from 1 April 2023. • Risk of not meeting the accelerated demand on the network resulting from the uptake of low carbon technologies under the challenging timelines set by the Government.
Major failure or cyber security breach of IT systems A failure or cyber security breach of core IT systems could have a considerable impact on business operations. If the breach or failure is related to control systems, the Company's ability to operate the network could be impacted. Data breaches could result in legal or regulatory non-compliance with resulting financial penalties and reputational damage.

INTERIM MANAGEMENT REPORT continued

Going concern

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

- The Company continues to perform well, is profitable with strong underlying cashflows and predictable revenues regulated by Ofgem under an established price control mechanism. The Company has not been and does not expect to be significantly impacted by Covid-19.
- £145.0m 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 financial covenants applicable to the Company's financing facilities.
- The impact of a higher inflationary environment, which negatively impacts costs but increases future revenues via higher tariffs.
- The impact of higher market energy prices which has resulted in an increase in bad debts and supplier of last resort claims is not expected to materially impact the financial position of the Company as these costs once agreed by Ofgem are recovered via an increase in tariffs.
- The Company has a successful track record of raising finance supported by an investment grade credit rating.

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Company. These include an increase in costs resulting from storm events, higher than expected inflation, higher levels of bad debt and lower than expected revenues.

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

Approved by the Board and signed on its behalf by:

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Basil Scarsella
Director

6 December 2022
Newington House
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- The condensed interim financial statements for the six months ended 30 September 2022 have been prepared in accordance with FRS 104 Interim Financial Reporting; and
- The interim management report includes a fair review of the information required by DTR 4.2.7R (an indication of important events and their impact during the first six months of the financial year, and a description of principal risks and uncertainties for the remaining six months of the financial year).

Signed on behalf of the Board of Directors of South Eastern Power Networks plc on 6 December 2022.

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Basil Scarsella
Director

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

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 which comprises the condensed profit and loss statement, condensed statement of comprehensive income, condensed balance sheet, condensed statement of changes in equity, condensed cash flow statement and related notes 1 to 15.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".

Conclusion Relating to Going Concern

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

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

Responsibilities of the directors

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

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

Auditor's Responsibilities for the review of the financial information

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

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

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

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Deloitte LLP
Statutory Auditor
London, United Kingdom
6 December 2022

CONDENSED PROFIT AND LOSS STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

	Note	**Six months ended 30 September 2022 £m**	Six months ended 30 September 2021 £m
Turnover	2	**276.1**	229.4
Cost of sales		**(47.0)**	(6.6)
Gross profit		**229.1**	222.8
Distribution costs		**(104.0)**	(102.0)
Administrative expenses		**(2.4)**	(3.3)
Operating profit	3	**122.7**	117.5
Finance costs (net)	4	**(30.0)**	(23.0)
Profit before taxation		**92.7**	94.5
Taxation	5	**(18.9)**	(69.7)
Profit for the period		**73.8**	24.8

All results are derived from continuing operations.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

	Note	**Six months ended 30 September 2022 £m**	Six months ended 30 September 2021 £m
Profit for the period		**73.8**	24.8
Reclassified to profit or loss from hedge reserve		**0.6**	1.3
Remeasurement gains on net defined benefit pension schemes	14	**6.4**	63.5
Other comprehensive income		**7.0**	64.8
Total comprehensive income		**80.8**	89.6

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

CONDENSED BALANCE SHEET
AS AT 30 SEPTEMBER 2022

	Note	30 September 2022 £m	31 March 2022 £m
Fixed assets			
Intangible assets	6	**14.8**	16.7
Tangible assets	7	**3,432.3**	3,360.8
		3,447.1	3,377.5
Current assets			
Debtors			
- amounts falling due within one year	8	**125.6**	92.3
- amounts falling due after more than one year	8	**478.9**	455.9
Cash and cash equivalents		**114.1**	165.9
		718.6	714.1
Creditors: amounts falling due within one year	9	**(322.5)**	(235.1)
Net current assets		**396.1**	479.0
Total assets less current liabilities		**3,843.2**	3,856.5
Creditors: amounts falling due after more than one year	9	**(2,195.6)**	(2,241.6)
Provisions for liabilities	12	**(278.0)**	(295.1)
Net assets		**1,369.6**	1,319.8
Capital and reserves			
Called up share capital		**145.1**	145.1
Hedging reserve		**(7.1)**	(7.7)
Profit and loss account		**1,231.6**	1,182.4
Shareholder's funds		**1,369.6**	1,319.8

The condensed financial statements of South Eastern Power Networks plc, registered number 3043097, were approved and authorised for issue on 6 December 2022 by the Board of Directors. They were signed on its behalf by:

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Basil Scarsella
Director

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

	Called-up share capital £m	Profit and loss account £m	Hedging reserve £m	Total £m
At 1 April 2022	145.1	1,182.4	(7.7)	**1,319.8**
Profit for the period	-	73.8	-	**73.8**
Remeasurement gains on defined benefit pension schemes	-	6.4	-	**6.4**
Reclassified to profit or loss	-	-	0.6	**0.6**
Total comprehensive income	-	80.2	0.6	**80.8**
Dividends	-	(31.0)	-	**(31.0)**
At 30 September 2022	**145.1**	**1,231.6**	**(7.1)**	**1,369.6**

	Called-up share capital £m	Profit and loss account £m	Hedging reserve £m	Total £m
At 1 April 2021	145.1	1,042.0	(9.6)	**1,177.5**
Profit for the period	-	24.8	-	**24.8**
Remeasurement gains on defined benefit pension schemes	-	63.5	-	**63.5**
Reclassified to profit or loss	-	-	1.3	**1.3**
Total comprehensive income	-	88.3	1.3	**89.6**
Dividends	-	(22.0)	-	**(22.0)**
At 30 September 2021	**145.1**	**1,108.3**	**(8.3)**	**1,245.1**

CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

	Note	**Six months ended 30 September 2022 £m**	Six months ended 30 September 2021 £m
Cash generated from operations	15	**142.5**	116.1
Corporation tax paid		**(15.3)**	(11.3)
Net cash flows from operating activities		**127.2**	104.8
Cash flows from investing activities			
Proceeds from sale of tangible assets		**-**	0.2
Gross capital expenditure on tangible assets		**(116.5)**	(104.5)
Capital expenditure on intangible assets		**(1.6)**	(1.2)
Interest received		**3.1**	1.8
Net cash flows used in investing activities		**(115.0)**	(103.7)
Cash flows from financing activities			
Equity dividends paid		**(31.0)**	(22.0)
Interest paid		**(33.0)**	(27.7)
Repayment of short-term borrowings		**-**	(79.0)
Proceeds from long-term borrowings		**-**	296.6
Net cash flows (used in)/from financing activities		**(64.0)**	167.9
Net (decrease)/increase in cash and cash equivalents		**(51.8)**	169.0
Cash and cash equivalents at beginning of period		**165.9**	1.4
Cash and cash equivalents at end of period		**114.1**	170.4
Cash and cash equivalents comprise:			
Cash at bank		**4.1**	30.4
Cash equivalents [1]		**110.0**	140.0
Cash and cash equivalents		**114.1**	170.4

[1] Cash equivalents are short-term money market investments with a maturity of less than 3 months.

NOTES TO THE FINANCIAL STATEMENTS

1. General information and basis of accounting

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

The condensed financial statements for the six months ended 30 September 2022 have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with FRS 104 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority. The interim financial information is unaudited but has been reviewed by the Company's Auditor. The Auditor's review opinion is presented on page 9.

The interim financial information does not constitute the Company's statutory accounts which have been prepared under the Financial Reporting Standard 102 (FRS 102) for the year ended 31 March 2022 and filed with the registrar of companies. The Auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

The interim financial information should be read in conjunction with the annual report and financial statements for the year ended 31 March 2022 comprising the statutory accounts. The accounting policies applied in the preparation of the condensed interim financial statements and the significant accounting judgements and key sources of estimation uncertainty therein, are consistent with those of the financial statements for the year ended 31 March 2022.

The financial information for the year ended 31 March 2022 presented as comparatives in the balance sheet and notes to the balance sheet is derived from the statutory accounts for that year but should not be regarded as statutory accounts within the meaning of s434 of the Companies Act 2006.

Going concern

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

- The Company continues to perform well, is profitable with strong underlying cashflows and predictable revenues regulated by Ofgem under an established price control mechanism. The Company has not been and does not expect to be significantly impacted by Covid-19.

- £145.0m 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 financial covenants applicable to the Company's financing facilities.

- The impact of a higher inflationary environment, which negatively impacts costs but increases future revenues via higher tariffs.

- The impact of higher market energy prices which has resulted in an increase in bad debts and supplier of last resort claims is not expected to materially impact the financial position of the Company as these costs once agreed by Ofgem are recovered via an increase in tariffs.

- The Company has a successful track record of raising finance supported by an investment grade credit rating.

In assessing going concern the Directors have considered reasonably possible downside scenarios which could negatively impact the Company. These include an increase in costs resulting from storm events, higher than expected inflation, higher levels of bad debt and lower than expected revenues.

NOTES TO THE FINANCIAL STATEMENTS continued

1. General information and basis of accounting

Going concern continued

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

2. Turnover

Turnover for the six months ended 30 September 2022 was £276.1m (six months ended 30 September 2021: £229.4m), stated net of value added tax, arising entirely in the United Kingdom and attributable to the continuing activity of electricity distribution and the invoice value of other goods and services provided. This includes an estimate of the sales value of electricity units distributed to customers between the date of the last meter reading and the year end.

As set out in the review of the business on page 3, the Company has received SOLR claims of approximately £77m. These claims are accrued and paid over a 12 month period from 1 April 2022 and included in cost of sales, with a corresponding increase to tariffs and reported revenues. At the balance sheet date the Company had SOLR claims of approximately £39m yet to be accrued and paid. In the current period additional revenue of approximately £38m has been collected due to these SOLR claims.

Turnover also includes the annual impact of contributions from customers towards the cost of connections to the network. This income is initially deferred to the balance sheet and then amortised to turnover over the expected useful lives of the related network assets. During the period this amounted to £13.7m (six months ended 30 September 2021: £13.1m).

3. Operating profit

Operating profit is stated after charging/(crediting):

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m
Depreciation of tangible assets	**46.0**	43.9
Amortisation of intangible assets	**3.5**	4.4
Profit on disposal of tangible fixed assets	**(0.1)**	(0.2)

SOLR impact on operating profit

Costs of approximately £38m relating to material SOLR claims are matched by higher revenues (refer to note 2), with no impact on operating profit. SOLR claims falling below a certain materiality threshold, as defined by Ofgem, are only recoverable through revenues in two years' time and have a cost impact of approximately £1m.

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

4. Finance costs (net)

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m
Interest payable and similar expenses	**(33.3)**	(25.9)
Less: Investment income	**6.7**	2.5
Other finance (costs)/income	**(3.4)**	0.4
Finance costs (net)	**(30.0)**	(23.0)

Investment income		
Interest receivable on Group loans	**2.8**	1.8
Net interest income on defined benefit pension scheme	**3.6**	0.7
Other interest receivable	**0.3**	-
	6.7	2.5

Interest payable and similar expenses		
Interest on bank loans	**(1.6)**	(1.6)
Interest on group loans	**(0.1)**	(0.2)
Interest on bonds	**(28.7)**	(26.0)
Accretion on index linked debt	**(5.6)**	(0.9)
Net interest receivable on swap instruments	**1.8**	1.8
	(34.2)	(26.9)
Finance costs capitalised	**0.9**	1.0
	(33.3)	(25.9)

4. Finance costs (net) continued

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m
Other finance (costs)/income		
Fair value losses on financial instruments		
Interest rate swaps not in hedge relationships	**(6.5)**	(2.4)
	(6.5)	(2.4)
Amortisation of fair value hedge adjustments	**4.2**	4.2
Reclassified to profit or loss from hedge reserve	**(0.8)**	(0.8)
Net (loss)/gain related to derivative instruments	**(3.1)**	1.0
Net interest cost on defined benefit pension scheme	**(0.3)**	(0.6)
	(3.4)	0.4

NOTES TO THE FINANCIAL STATEMENTS continued

5. Taxation

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m
UK current tax		
UK corporation tax charge on profit for the period	**13.7**	14.4
Adjustments in respect of prior periods	**-**	0.9
	13.7	15.3
UK deferred tax		
Origination and reversal of timing differences	**5.2**	4.6
Effect of increase in tax rate on opening liability	**-**	49.8
	5.2	54.4
Total tax charge for the period	**18.9**	69.7

Tax rate changes
A corporation tax rate increase from 19% to 25%, effective from 1 April 2023, was enacted on 24 May 2021 within the Finance Bill 2021.

The current tax rate applied during the six months ended 30 September 2022 was 19% (six months ended 30 September 2021: 19%) and deferred tax was calculated at 25% (six months ended 30 September 2021: 25%) based on the standard rate of corporation tax substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS continued

6. Intangible assets

IT software and development costs	Total £m
Cost	
At 1 April 2022	78.2
Additions	1.6
At 30 September 2022	**79.8**
Amortisation	
At 1 April 2022	61.5
Charge for the period	3.5
At 30 September 2022	**65.0**
Net book value	
At 30 September 2022	**14.8**
At 31 March 2022	16.7

7. Tangible fixed assets

	Total £m
Cost	
At 1 April 2022	4,978.8
Additions	117.5
Disposals	(0.1)
At 30 September 2022	**5,096.2**
Depreciation	
At 1 April 2022	1,618.0
Charge for the period	46.0
Eliminated on disposal	(0.1)
At 30 September 2022	**1,663.9**
Net book value	
At 30 September 2022	**3,432.3**
At 31 March 2022	3,360.8

NOTES TO THE FINANCIAL STATEMENTS continued

8. Debtors

	30 September 2022 £m	31 March 2022 £m
Amounts falling due within one year		
Trade debtors	**52.7**	43.7
Amounts owed by Group undertakings	**67.9**	45.9
Other debtors	**0.1**	0.2
Prepayments and accrued income	**2.9**	2.2
Corporation tax receivable	**2.0**	0.3
	125.6	92.3
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**134.4**	134.4
Derivative financial assets (note 11)	**101.0**	81.7
Defined benefit pension surplus(note 14)		
UK Power Networks Pension Scheme (UKPNPS)	**5.9**	-
UK Power Networks Group of the ESPS (UKPN Group Scheme)	**237.6**	239.8
	478.9	455.9
	604.5	548.2

Amounts owed by Group undertakings due within one year comprise interest free trade balances repayable on demand and a loan of £67.0m to Eastern Power Networks plc at an interest rate of 2.5%.

Amounts owed by Group undertakings due after more than one year comprise a loan of £134.4m to UK Power Networks Holdings Limited bearing interest at 2.56% and maturing in 2026.

9. Creditors

	30 September 2022 £m	31 March 2022 £m
Amounts falling due within one year		
Borrowings (note 10)	**89.3**	-
Trade creditors	**-**	0.1
Amounts owed to Group undertakings	**32.6**	36.4
Other taxation and social security	**23.6**	26.6
Other creditors	**4.0**	3.8
Accruals	**54.5**	59.8
Deferred income	**118.5**	108.4
	322.5	235.1
Amounts falling due after more than one year		
Borrowings (note 10)	**1,410.9**	1,499.6
Deferred income	**707.3**	694.9
Derivative financial liabilities (note 11)	**77.4**	47.1
	2,195.6	2,241.6
	2,518.1	2,476.7

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

Deferred income due after more than one year comprises contributions received from customers as payment for connections work, the cost of which is capitalised to network assets. This income is released to turnover over the expected useful lives of the related network assets. Deferred income due within one year includes customer contributions of £28.1m (31 March 2022: £27.9m) expected to be released to profit or loss within one year.

10. Borrowings

	30 September 2022 £m	31 March 2022 £m
Amounts falling due after more than one year		
£50m 3.053% Index Linked Bond due June 2023	**89.3**	-
	89.3	-
Amounts falling due after more than one year		
£10m 2.335% EIB loan due October 2025	**10.0**	10.0
£105m 1.614% EIB loan due October 2028	**105.0**	105.0
£30m 2.155% EIB loan due May 2029	**30.0**	30.0
£20m 2.224% EIB loan due February 2030	**20.0**	20.0
£50m 3.053% Index Linked Bond due June 2023	**-**	85.8
£25m 0.25% Index Linked Bond due February 2025	**32.9**	30.9
£270m 5.5% Bond due June 2026	**269.5**	269.4
£300m 5.625% Bond due September 2030	**316.2**	317.2
£300m 6.375% Bond due November 2031	**298.6**	298.5
£300m 1.75% Bond September 2034	**296.8**	296.7
Adjustments for fair value hedge relationships	**31.9**	36.1
	1,410.9	1,499.6
	1,500.2	1,499.6

Bonds are stated net of unamortised issue costs of £5.1m (31 March 2022: £5.4m) and include an unamortised net premium on the 5.625% bond of £16.2m (31 March 2022: £17.2m) and accretion on the index linked bonds of £47.3m (31 March 2022: £41.7m). These balances together with the interest expense are allocated to profit or loss over the term of the debt.

The fair value adjustments of £31.9m (31 March 2022: £36.1m) relate to discontinued fair value hedge relationships and are amortising to profit or loss over the remaining term of the previously hedged debt. The amortisation for the period resulted in a gain of £4.2m (six months ended 30 September 2021: £4.2m) to profit or loss.

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

Borrowing facilities
The Company has access to a revolving credit facility of £145.0m until 2025 which was undrawn at the balance sheet date.

11. Derivative instruments

	Due after more than one year	
	30 September 2022 £m	31 March 2022 £m
Derivative financial assets		
Interest rate swaps not designated in hedge accounting relationships	**101.0**	81.7
Derivative financial liabilities		
Interest rate swaps not designated in hedge accounting relationships	**(77.4)**	(47.1)
	23.6	34.6

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest calculated on agreed notional principal amounts.

The fair value of the swap instruments at the reporting date is determined by discounting the future cash flows implicit in the swaps. The discount rate is derived from forward interest rate curves adjusted for the Company's own credit risk in respect of swap liabilities and counterparty credit risk in respect of swap assets.

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

NOTES TO THE FINANCIAL STATEMENTS continued

12. Provisions for liabilities

	30 September 2022 £m	31 March 2022 £m
Deferred tax liability	**269.5**	261.9
Defined benefit pension obligations (note 14)		
UK Power Networks Pension Scheme (UKPNPS)	**-**	25.0
Other provisions	**8.5**	8.2
Total provisions for liabilities	**278.0**	295.1

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

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

13. Capital commitments

Amounts contracted for but not provided in the condensed financial statements amounted to £33.1m (31 March 2022: £22.3m).

14. Pension commitments

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

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

The UK Power Networks Pension Scheme (UKPNPS)
The UKPNPS was formed from a number of legacy arrangements with membership dating back to 1994. It has been closed to new members since 2011.

Funding levels are monitored annually and a funding schedule is formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The latest funding schedule, based on the triennial valuation as at 31 March 2019, became effective from 25 June 2020. This set revised employer contribution rates with effect from 1 January 2021 and these contribution rates are considered sufficient to eliminate funding deficits over the next four years.

A valuation under FRS 102 at the balance sheet date was provided by actuaries using rolled forward member data from the 31 March 2019 triennial actuarial valuation and reflecting updated financial and demographic assumptions. The defined benefit scheme assets and liabilities are assigned to participating entities using an allocation methodology based on employment records and attribution portions agreed with the industry regulator Ofgem.

The next triennial valuation as at 31 March 2022 was still in progress at the time of approval of these financial statements.

14. Pension commitments continued

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

	30 September 2022 %	31 March 2022 %
Discount rate		
- UKPN Group	**5.3**	2.8
- UKPNPS	**4.7**	2.7
Rate of increase in RPI		
- UKPN Group	**3.4**	3.4
- UKPNPS	**3.2**	3.0
Rate of increase in CPI		
- UKPN Group	**3.1**	3.0
- UKPNPS	**2.6**	2.4
Rate of increase in salaries		
- UKPN Group	**3.9**	3.9
- UKPNPS	**3.7**	3.5
Rate of pension increases in payment		
- Pensions in excess of GMP (UKPN Group)	**3.4**	3.4
- Post 88 GMP (UKPN Group)	**2.3**	2.4
- RPI up to 5% per annum (UKPNPS)	**2.9**	2.9
- RPI up to 2.5% per annum (UKPNPS)	**2.0**	2.1
- Post 88 GMP (UKPNPS)	**2.0**	2.0
Rate of pension increases in deferment		
- UKPN Group	**3.4**	3.4
- CPI up to 5% per annum (UKPNPS)	**2.6**	2.4
- CPI up to 2.5% per annum (UKPNPS)	**2.5**	2.4

The demographic assumptions used in the calculation of the pension liability on the 30 September 2022 balance sheet are consistent with those reported in the statutory accounts for the year ended 31 March 2022.

NOTES TO THE FINANCIAL STATEMENTS continued

14. Pension commitments continued

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

	UKPN Grp 30 Sep 2022 £m	UKPNPS 30 Sep 2022 £m	Total 30 Sep 2022 £m	Total 31 Mar 2022 £m
Fair value of scheme assets	1,126.4	108.8	1,235.2	1,620.5
Present value of defined benefit pension obligations	(888.8)	(102.9)	(991.7)	(1,405.7)
Surplus in schemes	237.6	5.9	243.5	214.8

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

	UKPN Grp 2022 £m	UKPNPS 2022 £m	Total 2022 £m
Opening surplus/(deficit) at 1 April	239.8	(25.0)	214.8
Current service cost	(2.1)	(3.1)	(5.2)
Past service cost	(0.3)	-	(0.3)
Net interest credit/(cost)	3.6	(0.3)	3.3
Contributions by employer	2.3	3.2	5.5
Deficit repair payments	13.9	3.0	16.9
Actuarial (losses)/gains	(19.6)	28.1	8.5
Closing surplus at 30 September	237.6	5.9	243.5

15. Notes to the cash flow statement

Reconciliation of operating profit to operating cash flows

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m
Operating profit	**122.7**	117.5
Adjustment for		
Depreciation and amortisation	**49.5**	48.3
Customer contributions recognised in turnover	**(13.7)**	(13.1)
Profit on disposal of tangible fixed assets	**(0.1)**	(0.2)
Operating cash flow before movement in working capital	**158.4**	152.5
Increase in debtors	**(31.7)**	(60.3)
Increase in creditors	**6.0**	8.6
Increase in provisions	**0.3**	-
Customer contributions received	**26.3**	30.2
Pension deficit repair payment	**(16.9)**	(16.2)
Pension adjustments	**0.1**	1.3
Cash generated from operations	**142.5**	116.1

Reconciliation of net debt

	At 1 Apr 2022 £m	**Cash flows £m**	**Fair value and exchange rate changes £m**	**Other non-cash changes £m**	**At 30 Sep 2022 £m**
Cash and cash equivalents					
Cash at bank	**77.9**	**(73.8)**	**-**	**-**	**4.1**
Cash equivalents	**88.0**	**22.0**	**-**	**-**	**110.0**
	165.9	**(51.8)**	**-**	**-**	**114.1**
Borrowings					
Debt due within one year	**-**	**-**	**-**	**(89.3)**	**(89.3)**
Debt due after more than one year	**(1,499.6)**	**-**	**4.2**	**84.5**	**(1,410.9)**
	(1,499.6)	**-**	**4.2**	**(4.8)**	**(1,500.2)**
Net debt	**(1,333.7)**	**(51.8)**	**4.2**	**(4.8)**	**(1,386.1)**

Other non-cash changes in borrowings comprise accretion on index linked debt of £5.6m and amortisation of debt issue costs of £0.2m, partially offset by amortisation of bond premiums of £1.0m.