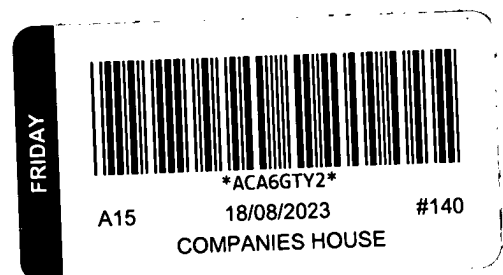


Registration number: 3870728

UK Power Networks (Operations) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2023



UK POWER NETWORKS (OPERATIONS) LIMITED

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UK POWER NETWORKS (OPERATIONS) LIMITED

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UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

The Directors present their Strategic Report for the year ended 31 March 2023.

Principal activity

The principal activity of UK Power Networks (Operations) Limited (the "Company") is utility infrastructure management for the UK Power Networks group ("the Group") which owns and operates electricity distribution networks in London, the South East and the East of England serving over eight million homes and businesses.

The Company provides a network maintenance, inspection and renewal programme for the Group's three licensed distribution network operators ("DNOs"): Eastern Power Networks plc ("EPN"); London Power Networks plc ("LPN"); and South Eastern Power Networks plc ("SPN"). The costs of the Company's activities are recharged to the DNOs on a proportionate basis. The DNOs are regulated under their respective distribution licences by the Office of Gas and Electricity Markets ("Ofgem" or the "Regulator"). The allowed revenues of the DNOs are set by Ofgem through price control reviews, the RIIO-ED1 framework ran from 1 April 2015 until 31 March 2023. From 1 April 2023 a new regulatory price control, RIIO-ED2 commenced.

Review of the business

The results for the year amounted to a profit before taxation of £5.1m (2022: £5.1m) and a profit after taxation of £4.9m (2022: £5.3m). No dividends were paid during the year (2022: £nil). The Company performed well in terms of safety, network performance and customer service which is discussed in the Key Performance Indicators review below. At 31 March 2023 the net asset position of the Company was £55.8m (2022: £50.9m) which included net current assets of £76.2m (2022: £72.1m).

Key performance indicators (KPIs)

Non-financial performance

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

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 regularly undertaken for all operational staff.

Lost time incidents ("LTIs"), defined as the number of injuries to employees or contractors which result in lost time of one day or more, is a key safety measure. The circumstances of each LTI are reported and investigated in detail with the aim of preventing the recurrence of such incidents. Findings from the investigations are used to improve training and safety procedures as well as raise awareness across the organisation. As presented in the table below, the Company recorded zero LTIs in the year ended 31 March 2023 which is an improvement on the 2 LTIs recorded in the prior year and is an industry leading safety performance.

	2023	2022
Lost time incidents (LTIs)		
LTIs - Injuries at work resulting in lost time of one day or more	<u>-</u>	<u>2</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Key performance indicators (KPIs) 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 electricity supply. CIs, the number of interruptions per 100 customers, are an indicator of network reliability. Whilst there has been a slight deterioration from the prior year due to prolonged periods of adverse weather, each DNO remains ahead of targets set by Ofgem. The performance of each DNO during the year is shown in the table below.

	2023	2022
Network performance		
Customer minutes lost (CMLs) *		
CMLs per customer - EPN	33.1	29.7
CMLs per customer - LPN	12.2	13.9
CMLs per customer - SPN	38.9	31.7
Customer interruptions (CIs) *		
CIs per 100 customers - EPN	42.8	38.9
CIs per 100 customers - LPN	11.7	15.0
CIs per 100 customers - SPN	<u>54.6</u>	<u>39.1</u>

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

Customer satisfaction

The Regulator regards customer satisfaction as one of the most important measures of performance. The customer satisfaction survey across all of the DNOs captures customers' experiences of the services provided for interruptions, minor connections and general enquiries. This rating is referred to as the Broad Measure of Customer Satisfaction or "BMCS".

EPN, LPN and SPN continue to achieve excellent scores and remain well above the industry wide target of 82%, as set out in the table below.

	2023	2022
Customer satisfaction		
Customer satisfaction score - EPN	94%	93%
Customer satisfaction score - LPN	94%	93%
Customer satisfaction score - SPN	<u>94%</u>	<u>92%</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Financial review and key performance indicators ("KPIs")

Financial performance

The principal key financial performance indicators of the Company are set out below.

	2023	2022
Financial performance		
Turnover (£m)	1,131.5	1,087.2
Operating profit (£m)	<u>1.5</u>	<u>3.9</u>

Financial performance indicators represent the key financial metrics that reflect the financial health of the business.

Turnover increased by £44.3m to £1,131.5m in the year ended 31 March 2023 due to higher volumes of work on the electricity networks. The higher work volumes and inflationary cost pressures resulted in higher operating costs and a marginal reduction in operating profit.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The Group observes formal risk management policies and procedures and promotes a robust control environment at all levels of the organisation, to manage financial risk.

The key financial risk is that the proceeds from financial assets are not sufficient to fund financial obligations as they fall due. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet, the most relevant financial risks are credit and liquidity risk.

The Company's exposure to credit and liquidity risk is reduced as it is a wholly owned subsidiary of the UK Power Networks Holdings Group of companies. Credit risk is mitigated by the nature of the debtor balances owed with these being due from other Group companies of strong financial standing. In addition, the liquidity risk is mitigated by the strong financial standing of the Group which operates pooled treasury arrangements that the Company can access via intercompany loans.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Risk identification and management

There are a variety of mechanisms in place to manage the Company's risks, which are part of the wider risk management strategy of the Group.

The Group Board has overall responsibility for risk management and 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.

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.

Control procedures have been implemented by the Company to mitigate the risks identified by the risk management process. Compliance with internal controls is monitored through three lines of defence being:

- management control;
- oversight and challenge; and
- assurance provided by the Internal Audit function and third party assurance providers.

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 good 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 those related to climate change, are identified and assessed. A summary of key Group risks is reviewed several times a year by Executive Management and reported to the Risk Management and Compliance Committee and Board.

The system of risk management and internal control is described in more detail on pages 27 to 29.

Principal risks and uncertainties

The Company's principal risks and uncertainties are managed at a Group level, and a summary of actions by the Group to mitigate them, are set out below. These risks are broadly in line with the prior year, other than the introduction of a new risk relating to supply chain capacity and long-lead times. These risks represent those considered material to the Group, there may be other risks, unknown or currently considered immaterial which could become material.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Risk	Mitigation
Health and safety incidents	
<p>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.</p>	<p>The Group aims to create and foster a culture in which safety is the highest priority in the minds of everyone who works for and on behalf of UK Power Networks. Safety measures include:</p>
<p>Any such incident could lead to a prosecution or a fine and have an adverse impact on the reputation of the Company.</p>	<ul style="list-style-type: none"> • A health and safety strategy and action plan which sets out the policies and procedures of the Group. • Task risk assessments and on-site inspections to ensure that safety procedures are followed. <p>A range of "Stay Safe" training programmes aimed at staff, contractors and members of the public, to promote safety and increase awareness of the dangers of working with electricity.</p> <ul style="list-style-type: none"> • Active monitoring, investigation and reporting of safety incidents, including near misses, to the Safety, Health and Environmental Committee which reviews the completion of follow up actions to improve safety procedures. • Communication of incidents and lessons learnt through monthly safety messages to staff. • Innovative renewal of health and safety messaging to keep safety fresh and front of mind across the organisation. • Control and monitoring of the health and safety practices of contractors to see that the Group's safety procedures are understood and followed. • The Group maintains accreditation to 45001 (Health & Safety Management).
Inadequate response to major adverse events	
<p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> • Business Continuity Plans and policies and procedures giving clear guidance of actions to be taken, roles and responsibilities (Organisational resilience is rated 4/5 by the Emergency Planning College).

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Risk	Mitigation
	<ul style="list-style-type: none"> 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.
Failure of network assets	
<p>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.</p>	<ul style="list-style-type: none"> The reliability of the Company'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 Company strives to continually innovate to improve the ways in which it identifies and manages the risk of outages. The results of Inspection and Maintenance programmes, Compliance Monitoring, Asset Health index monitoring and other asset risk assessments are reported to senior management on a monthly basis and feed into long term asset management plans. The Group maintains accreditations in 55001 (Asset Management), 9001 (Quality) and 14001 (Environment).

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Risk	Mitigation
Network unable to meet accelerated demand	<ul style="list-style-type: none"> An ongoing research and engagement programme to understand the needs, expectations and low carbon ambitions of customers and other stakeholders. The objective is to improve services and solutions for customers and deliver 9/10 customer satisfaction.
<p>The Company has a key role in facilitating the transition to net zero.</p>	<p>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.</p>
<p>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.</p>	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> The Group's Governance and control framework sets out responsibilities and accountabilities. The 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Risk	Mitigation
<p>Non-compliance with regulatory and legislative obligations could result in lower financial returns reputational damage, breach of licence conditions or fines.</p>	<p>The Group has extensive engagement and consultation with Ofgem, the Government and HMRC. Relevant external advice is sought to ensure compliance.</p>
<p>Achieving output and cost efficiency targets</p>	
<p>Output and cost efficiency targets are agreed with the Regulator within the price control framework.</p>	<p>Clearly defined targets are set in the Strategic Plan and aligned with business performance targets.</p>
<p>The RIIO-ED2 price control has established more challenging performance and incentive targets and a lower allowable rate of return. Supply chain disruption, higher levels of inflation and the availability of employee and contractor resourcing can impact delivery of targets.</p>	<p>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.</p> <p>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.</p>
<p>If the business does not meet the output and cost efficiency targets this could negatively impact financial performance.</p>	<p>The Asset Portfolio Planning (APP) tool tracks long term projects allowing monthly review of actual versus planned expenditure and monitoring progress at a project level.</p> <p>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.</p>

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Risk	Mitigation
Supply Chain Capacity and Extended Lead Times	<ul style="list-style-type: none"> • The Company has well established processes for governing contract management and supplier relationships, as well as for continual monitoring key contractors' financial and stability indicators. Management reviews these processes to ensure 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 • The Company 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 Company continually assesses the supply chain for limited suppliers of critical materials, mitigation plans are established where dual sourcing cannot be ascertained.
Major Failure or Cyber security breach of IT Systems:	<ul style="list-style-type: none"> • In response to the conflict between Russia and Ukraine, the UK Government warned of heightened cyber threats. The UK National Cyber Security Centre (NCSC) published cyber guidance and advised UK organisations to take action. The Group meets these requirements and has put in place additional measures to manage the risk. <p>A Cyber Security Improvement Programme operates</p> <ul style="list-style-type: none"> • to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation. <p>The Group focuses its activities across three domains:</p> <ul style="list-style-type: none"> • operating a cyber security management system; maintaining cyber hygiene; and proactively testing resilience.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Risk	Mitigation
	<ul style="list-style-type: none">• 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 staff 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 <p>Political and global events can affect aspects of the Group's business. This includes events such as the conflict in the Ukraine and disruption to global supply chains.</p> <p>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.</p>	<ul style="list-style-type: none">• 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 at acceptable rates when required. Debt covenant and credit metrics are monitored monthly and debt maturities are spread.• A proportion of the Group's debt is inflation linked to provide an economic hedge.• Close collaboration and mitigation planning with suppliers has maintained supply chain resilience.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Corporate social responsibility

As the operator of the Group's three DNO networks the Company has a major role to play in building a business that is economically, environmentally, and socially sustainable. The Group's strategy to achieve this vision which includes the activities of the Company is discussed below.

Managing our Environmental Impact

The Group plays an important role in safeguarding the environment in which we operate. There are robust policies and procedures in place to ensure compliance with all relevant environmental legislation and industry codes of practice. The Electricity Act specifically requires the Group to consider natural beauty, flora, fauna and geological or physiographical features of special interest, and sites, buildings and objects of architectural, historic or archaeological interest, and do what we reasonably can to mitigate any effects. Relevant activities include environmental permitting, pollution prevention, waste management and the preservation of historic and natural habitats.

Where practicable and achievable, the Group seeks to surpass the basic level of environmental compliance and work to enhance our positive impacts on the environment, whether that be improving biodiversity opportunities at suitable locations, minimising waste and maximising recycling, or working with our supply chain to improve our environmental performance.

The Group consults with relevant stakeholders, including statutory authorities and other appropriate bodies, to help mitigate the impact of our operations on the environment. At a local level, good relationships are maintained with local authorities to work collaboratively on initiatives to help reduce the impact of issues such as noise pollution and litter, to the benefit of local communities. Members of our Environment team represent the Group on the Electricity Networks Association (ENA) Environment Committee, helping to ensure that best practice is implemented from knowledge shared across the electricity and gas sectors.

The challenge of climate change

Climate change is one of the key challenges of our time and is of key importance to our customers, stakeholders and Ofgem. Facilitating the UK's net zero carbon emissions target is central to our business plan. As more and more major industries are switching from fossil fuels to electricity, the Group is at the heart of the change by providing the electricity network infrastructure to help these industries facilitate change and in connecting renewable energy and facilitating the uptake of low carbon technologies. The uncertainty around future climate change requires a flexible and collaborative approach to accommodate changing risks and customer and stakeholder priorities.

The Group operates in an industry characterised by long term investment to ensure a stable energy supply for customers. This creates both risks and opportunities in relation to future performance. Set out below is a summary of the Group Board's strategy for responding to climate change, its risk management activities, and the use of metrics and targets to measure progress against the Group's strategy.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

The challenge of climate change continued

Governance

The Group Board of Directors provides strategic direction with respect to the Group's environmental performance. In Environmental, Social and Governance ("ESG") Subcommittee of the Group Board has been established. The ESG Committee's primary function is to assist the Group Board in ensuring that the Group has a suitable and sufficient strategy in place to deliver the key ESG based commitments in the Group's RIIO-ED2 final business plan submission. The Committee also provides oversight of the future development of strategy and policy as the external ESG environment evolves, and reports Performance against ESG targets. This governance is cascaded through the organisation via local and business Health, Safety and Environment Committees.

Our Environmental Management System meets the ISO 14001:2015 standard requirements and is subject to external verification and audit. This system is implemented by relevant business leads and appropriate managers within our organisation who are responsible for identifying and mitigating their respective environmental risks, with guidance and assurance from our Environment team.

Strategy

The Group actively engages with a wide range of stakeholders, including customers, its supply chain, community bodies, local government, industry experts and the Regulator, regarding its strategy and long-term objectives. The Group's business plan includes strategies to address climate change and sets out how the Group will contribute to the UK's ambition to reduce carbon emissions.

The Group has set an ambition to be the leading socially and economically responsible organisation in its sector and is committed to playing a leading role in addressing climate change. The Group's strategy is focused on:

- 1) Decarbonisation in line with our verified Science Based Target ("SBT")*
- 2) Reducing our impact on the world's limited resources*
- 3) Increasing natural diversity*
- 4) Reducing pollution produced by our business operations and network activity*

In addition to decarbonising its own activities the Group has a crucial role to play in allowing the timely and easy connection of low carbon technologies to its networks. The Group needs to be demand-driven and be able to adapt quickly to the needs of customers to avoid blocking the path to decarbonisation.

To fast track this process the Group has established an independent Distribution Service Operator ("DSO") to maximise customer participation and efficiency in the network. The DSO will play a key role in balancing an increasingly complex, interconnected, and low carbon electricity network. This is to ensure the answer is not always to build a bigger network but to support the need to create a smarter network and support the transition to net zero while keeping customer bills as low as possible.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

The challenge of climate change continued

Strategy continued

The Group's strategy is to build its data resources and have early visibility of emerging customer and system needs by drawing on different types of market data, for example from Low Carbon technology suppliers, surveys of customer attitudes and engagement with local authorities. This will be combined with an in depth understanding of the Group's low voltage networks gained from smart metering data, advanced analytics and sensor technologies. In this way the Group aims to anticipate demand and invest in the right capacity at the right time to accommodate the roll out of low carbon technologies at an efficient cost.

Innovation is central to achieving the Group's strategy for responding to climate change. The Group seeks new ways to improve what it does for customers by identifying, developing and applying smart solutions to make the network more efficient, greener, safer and more reliable. Through its innovation team and smart grid team the Group is working towards 'a smart grid for all' that enables customers and communities to benefit from a decentralised, decarbonised and digitised electricity system.

Risk Management

Climate related risks are considered as part of the Group's risk management framework and process, which is discussed on pages 27 to 29. Governance procedures have been implemented to identify risks and opportunities faced by the Group, supported by the Risk, Control and Compliance Policy.

The Group actively monitors and manages risks, including risks relating to climate change. Its key activities to manage climate risk are as follows:

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

Climate change and the transition to net zero present opportunities for the Group in terms of new markets. As the transition to electric vehicles, renewable energy and heat decarbonisation accelerates this is likely to result in an increase in electricity demand and related infrastructure. This could benefit the Group in terms of higher future revenues.

This increase in potential network demand also represents a key climate related risk to the Group. The Group must respond to this challenge and ensure it supports and is not a blocker to decarbonisation and the transition to net zero. Failure to respond appropriately to this challenge could result in reputational and financial damage. The Group is also exposed to physical climate change risks relating to adverse changes or variability in 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.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

The challenge of climate change continued

Climate resilience

The Group has developed a Climate Resilience Strategy as part of the RIIO-ED2 Business Plan. This strategy was developed following engagement with the Energy Networks Association and includes best practice from the National Infrastructure Commission's approach to resilience and the UK Cabinet Office's 4Rs of resilience (Robustness, Redundancy, Rapidity, Resourcefulness).

Operational resilience is assessed against the climate change hazards determined by the latest UK Climate Projections ("UKCP18") using the highest emissions scenario, Representative Concentration Pathway ("RCP") 8.5 which equates to a global mean surface temperature increase of 4.3°C by 2081-2100. 12 climate change hazards have been identified, of which eight have been prioritised as particularly applicable to the electricity sector:

- Extreme high temperatures
- Drought cycles
- Prolonged/heavy rainfall
- Intense short-duration rainfall
- Sea level rise
- Wetter conditions coincident with warmer temperatures and/or strong winds
- Wildfire
- Lightning

These climate related hazards have been reviewed against our physical network systems to identify 15 priority-asset related risks. These risks have been assessed using the ENA scoring framework taking into consideration the ability of the network to prevent or mitigate the risk, to provide continued service, or to enable a fast and effective response.

Through resilience improvements that have been in place or are planned, the main areas of residual risk related to vegetation growth impacted overhead lines and the risk of flood damage to assets. The results of this risk assessment were used to define the Group's adaptation pathway to continue to provide future resilience climate change hazards.

Full details of the Group's Climate Resilience Strategy are available at:

(<https://ed2.ukpowernetworks.co.uk/additional-information/ Appendix 14>)

Metrics and targets

The Group's Green Action Plan (GAP) sets out targets for reducing the Group's impact on the environment in relation to carbon emissions, waste, water usage, air and noise pollution, visual amenity and biodiversity. The GAP was launched in 2019 in response to the Group outperforming the environmental commitments made under the Business Plan for RIIO-ED1 (April 2015 to Mar 2023).

Progress against these targets is reported annually in a detailed Environment Report, as required by Ofgem. This covers performance across all environmental fronts including business carbon footprint. These can be found at www.ukpowernetworks.co.uk/about-us/environment-and-sustainability.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

The challenge of climate change continued

Metrics and targets continued

The Group's RIIO-ED1 Business Plan includes social and environmental commitments. Progress in meeting these commitments is reported to Ofgem annually and published on the Group's website at www.ukpowernetworks.co.uk/about-us/business-plan-2015-2023.

Environmental targets included in the RIIO-ED1 Business plan are:

- Reduce our Business Carbon Footprint by 2% per annum.
- Divert 70% of office and depot waste from landfill and recycle 98% of streetworks spoil.
- Maintain sulphur hexafluoride (SF6) leakage at less than 0.2% as a proportion of SF6 in service.
- Reduce cable fluid leakage of 207,000 litres by 2% per annum.
- Innovation expenditure of 0.5% of allowed revenues and win largest market share of the Network Innovation Competition funding.
- Investigate all noise issues and address all non-compliant sites.

The Company has achieved or exceeded these targets at the end of the RIIO-ED1 time frame, with the exception of fluid filled cable leakage.

RIIO-ED2 and future targets

Looking ahead to RIIO-ED2 the Group has developed a new Environmental Action Plan ("EAP") and has published the following commitments in its business plan. Performance and progress against these targets will be published annually in the Annual Environmental Report.

1) Decarbonisation in line with our verified Science Based Target ("SBT")

- For our full carbon footprint, including losses and indirect scope 3 emissions, we will exceed our reduction target approved by the Science Based Targets initiative ("SBTi") at Well Below 2 °C. We have committed to the Business Ambition for 1.5°C SBTi campaign.
- We will reduce our directly controllable emissions (scope 1 & 2, excluding losses) exceeding a 1.5°C reduction trajectory and offset any remaining residual emissions to achieve net zero by 2028 using high quality verified offsets.
- As part of our verified Science Based Target, we will work with our suppliers to reduce our supply chain carbon emissions (scope 3) by 25% by 2028, compared to a 2018/19 baseline.

2) Reducing our impact on the world's limited resources

- We will develop and implement a circular economy tool to address our high impact materials by the start of RIIO-ED2.
- We will recycle 80% of office, depot and network waste and 99.5% of street works material by the end of RIIO-ED2, with no recoverable waste to landfill by 2025.

3) Increasing natural diversity

- We will increase the biodiversity of new major substation developments by a net-gain of 10-20% and at 100 existing substation sites by a net-gain of 30% overall over the RIIO-ED2 period, compared to the beginning of the period, as measured by the DEFRA biodiversity tool.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

The challenge of climate change continued

RIO-ED2 and future targets

4) Reducing pollution produced by our business operations and network activity

- We will reduce NOx emissions by 33% over the RIO-ED2 period compared to the beginning of the period.
- We will reduce annual leakage from Fluid Filled Cables by 15% by the end of the RIO-ED2 period compared to the beginning of the period.
- We will continue to facilitate the undergrounding of nominated schemes to remove overhead lines within Areas of Outstanding Natural Beauty and National Parks, working closely with all relevant stakeholders to ensure that the regulated allowance is efficiently spent to maximise the benefits of works within our protected landscapes.

Future developments

The Directors aim to improve on network performance and customer service, whilst maintaining cost efficiencies. The long term objectives of the Company include:

- Continued high performance in safety, network reliability, customer satisfaction and stakeholder engagement.
- Facilitating the transition to Net Zero by enabling low carbon technologies like electric vehicles, renewable energy and energy storage to be connected to the DNO networks. Projects are focused on improving network access through reducing time and cost to connect low carbon load, generation, and storage technologies.
- Seeing that customers in vulnerable circumstances are not left behind in the energy transition.
- Developing the Company's digital and data analytics capability to improve network efficiency and customer service.
- Embedding organisational resilience to strengthen the Company's response to major events such as storms or pandemics.
- Delivering sustained growth in the Connections business.

From 1 April 2023 the Group will enter the new RIO-ED2 price control. The Group's business plan for RIO-ED2 from 1 April 2023 to 31 March 2028 is available on the Group's website at ed2.ukpowernetworks.co.uk and sets out the Group's vision and proposed strategy for delivering benefits to customers and supporting the U.K's transition toward Net Zero carbon emissions. The new price control will determine the level of investment in the networks, the allowed revenue, output and cost efficiency targets for the DNOs and therefore will impact how the Company manages the networks on behalf of the DNOs, during the five year period. The RIO-ED2 price control represents an increase of expenditure of approximately 25% compared to the previous price control RIO-ED1. Delivering on this commitment to invest in the electricity networks and support the transition to net zero will be a key challenge for the Company and the Group going forward.

Going concern

The Company's ability to continue as a going concern is assessed in conjunction with that of the Group as it is dependent upon the ability of other companies within the Group to settle their trading debts with the Company. The Company's forecasts and projections, taking into account the strong financial standing of Group debtors and their reliable track record of settling debts within 30 days, demonstrate that the Company has adequate resources to continue operating for the foreseeable future. Therefore the Directors continue to adopt the going concern basis in preparing the financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

Section 172 (1) statement

The Directors are aware of their duties under Section 172(1) of the Companies Act 2006, which requires them to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term.
- b) the interests of the Company's employees.
- c) the need to foster the Company's business relationships with suppliers, customers and others.
- d) the impact of the Company's operations on the community and the environment.
- e) the desirability of the Company maintaining a reputation for high standards of business conduct.
- f) the need to act fairly as between members of the Company.

The Company operates in an industry characterised by long term investment to ensure a sustainable energy supply for customers. The consequences of the Company's strategy over the long term are considered in its long term business plans and projections, detailed business plans agreed with the industry regulator at the start of each price control period, and the Company's own five year projections which are updated annually.

The Company actively engages with its stakeholders on a regular basis. The Company has identified its key stakeholders as: employees, 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 30 to 33.

As described on pages 21 to 22, the Company's vision is to be a respected and trusted corporate citizen, operating within a set of values which are designed to promote high standards and fair and ethical behaviour.

Approved by the Board on 14 August 2023 and signed on its behalf by:



Basil Scarsella
Director

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

UK POWER NETWORKS (OPERATIONS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

The Directors present their Annual Report including the Audited Financial Statements of the Company for the year ended 31 March 2023. Details of the Company's risk management objectives and policies, future developments, the going concern assessment and the Section 172(1) statement on the duties of the Directors are included in the Strategic Report and form part of this report by cross reference.

Political contributions

The Company made no political donations in the current or prior year.

Directors of the Company

The directors who held office during the year were as follows:

Andrew John Hunter

Neil Douglas McGee

Basil Scarsella

Loi Shun Chan

Kee Ham Chan

Only Basil Scarsella had a service contract with the Company in the current and prior year.

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

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The Group places considerable value on the engagement and involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, various media channels and publications. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees.

Business relationships

The Company has identified its key stakeholders as: employees, 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 30 to 33.

UK POWER NETWORKS (OPERATIONS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

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

The Auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 14 August 2023 and signed on its behalf by:



.....
Basil Scarsella
Director

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

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.

The purpose of this report is to set out how the Company applies the Wates principles through the corporate governance framework of the Group. Any references to the Group's corporate governance activities below are applicable to the Company as a member of the Group and a participant in these activities. Relevant disclosures are contained within this Report on Corporate Governance, in the Statement of Directors' Responsibilities, in the Directors' Report and in the Strategic Report.

Principle 1 - Purpose and Leadership

Purpose, vision and values

The Company has a clear public purpose to operate, maintain and renew the Group's electricity distribution networks in London, the South East and East of England. The Group has articulated the vision and values to which the Company aspires in fulfilling its purpose, and these are set out below. The vision of the Group is to be consistently the best-performing Distribution Network Operator through being:

an employer of choice:

- the safest, with an exemplary safety record
- an organisation that employees are proud to work for
- creating the most diverse and inclusive DNO and DSO
- having a highly skilled 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
- delivering 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, combining data, technology and new ideas
- ensuring our supply chain is efficient, sustainable and ethical

sustainably cost efficient:

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

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 1 - Purpose and Leadership continued

enabling the Net Zero transition for all:

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

The values of the Group underpin what the Company does. They define how the Company expects its representatives to behave and how the Company wants to be perceived by its stakeholders and those who come into contact with the business. The Company has adopted these values as follows:

Integrity: The Company will do what it says it will do and build trust and confidence by being honest to colleagues, partners and customers.

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

Continuous improvement: The Company is committed to learning, development, innovation and achievement.

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

Diversity and inclusiveness: The Company recognises and encourages the value which difference and constructive challenge can bring.

Unity: The Group is stronger together and this comes from a shared vision, a common purpose and a supportive and collaborative working environment.

The Group Board are committed to seeing that the 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 has evolved for RIIO-ED2, following such stakeholder engagement and feedback, to include a fourth pillar "enabling the net zero transition for all".

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 2 - Board composition

The Board of the Company ("the Board") comprises the Chief Executive Office ("CEO") of the Group and four Directors appointed to represent the shareholders of the Group. The Directors of the Company are all members of the board of the parent UK Power Networks Holdings Ltd ("the Group Board") which oversees the management of the entire UK Power Networks group ("the Group"). 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 decision making forum.

The Group Board has overall responsibility for leading and controlling the Group and therefore the financial and operational performance 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.

The CEO of the Group is the only Executive Board member of the Company. The other directors do not hold executive roles and therefore maintain an acceptable level of independence from the executive management of the Company. As such, the appointment of an independent Chairman is not deemed necessary.

The Group Board and its subcommittees meet on a regular 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.

A total of seven meetings of the Group Board were held during the year with eight to twelve directors present at each meeting, including the members of the Company's Board.

Principle 3 - Directors' responsibilities

The 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 objective of enhancing shareholder value.

The powers of the Directors have been set out in the Company's Articles of Association. To ensure good corporate governance the Group Board has adopted a formal corporate governance statement and has clearly defined terms of reference setting out matters reserved for the Board.

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.

Below the Group Board, executive responsibility rests with the 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, which outlines the governance structure within the Group.

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 3 - Directors' responsibilities continued

Governance and control environment

The Group Board is collectively responsible for the oversight of the management of the Group and the Company. The Group Board has determined those decisions that require approval by the Board and the delegation of authority for those decisions that do not.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and for ensuring that the Board is briefed on relevant legislative, regulatory and corporate governance developments and that the Board has regard to them when making decisions.

In order to assist the Group Board in fulfilling its oversight responsibilities, six Board subcommittees have been created with the following terms of reference:

- 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 seeks to ensure 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 Environmental, Social and Governance (ESG) Committee assists the 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 RII0-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.

The Remuneration Committee meets at least once annually and the other committees at least three times annually. A chairman is elected at each meeting by the relevant committee.

During the year the Remuneration Committee held one meeting and the Risk Management and Compliance, Audit and Treasury Committees each held three meetings. A quorum was present at each meeting.

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 3 - Directors' responsibilities continued

A further Board subcommittee was established in relation to the preparation of and Board assurance over the RIIO-ED2 business plan. This committee met three times during the year and concluded its responsibilities in February 2023 after review of Ofgem's Final Determination.

Each committee's performance, constitution and terms of reference are reviewed annually to ensure that they are operating effectively. The Company Secretary acts as a secretary for each committee.

The EMT comprises the CEO of the Group and Directors for each of the distinct business areas, or Directorates. In order to assist the EMT in fulfilling their responsibilities, management committees with delegated authority for defined matters have been established. The Senior Management Team within each Directorate has defined responsibilities which allow for effective operations to achieve the Group's objectives. Lines of responsibility and levels of authority are formally defined.

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 ensure that these are communicated effectively to the Directorates. There is regular dialogue between the central financial reporting team and the finance teams supporting the Directorates to ensure there is appropriate understanding of these requirements.

The 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 Group are presented to the Audit Committee, or a subcommittee thereof, prior to approval by the Board.

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 3 - Directors' responsibilities continued

External audit

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

Independence and objectivity of external auditor

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

For each audit period a formal written statement is provided by the external auditor setting out all relationships between the external auditor and the Group. Any proposed appointment of ex-employees of the external audit firm to senior management positions with the Company is subject to consent by the Audit Committee.

The lead external audit partner changed during the year in accordance with a five year rotation schedule.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 4 - Opportunity and Risk

The Group's Corporate Governance Framework Policy, which outlines the governance structure within the Group and its subsidiaries including the Company, 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 Company:

- 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.

Risk identification and internal control

The Board (through the Audit Committee) is responsible for the Company's system of internal control and for reviewing its effectiveness. The Company's system of internal control and the risk management process help to safeguard the Company's assets. However, the Board recognises that such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company operates a structured risk and control assessment process which is overseen by the EMT, supported by risk review meetings conducted by the Senior Management Team within each business Directorate.

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.

Internal control framework

Control procedures have been implemented throughout the Company and are designed to achieve complete and accurate accounting for financial transactions, to safeguard the Company'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 the scope of the internal audit function which is responsible for reviewing the effectiveness of the Company's systems of internal control and reports to the Audit Committee.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 4 - Opportunity and Risk continued

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 direct reporting line to the Audit Committee.

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

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

Monitoring and corrective action

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

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 4 - Opportunity and Risk continued

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 the 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.

Principle 5 - Remuneration

The Group has formed a Remuneration Committee, whose principal responsibilities include making recommendations to the 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 Board from time to time. The Remuneration Committee is formed by members of the Group Board and meets on at least an annual basis.

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 Company Incentive Plan (employee bonus scheme), which is applicable to all of the Group's employees. Sixty per cent of the Company Incentive Plan is based on the Group's achievement of key aspects of its vision, including safety, reliability, customer service and cost efficiency. The management population 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.

The Group targets are shared by all employees, including the Executive and Senior management teams, in order to reinforce a common sense 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 8 of the financial statements.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 6 - Stakeholder Relationships and Engagement

The stakeholders of the Company are consistent with the stakeholders from across the rest of the Group. The Group actively engages with its stakeholders on a regular basis in order to identify trends and developments, inform policies and procedures, and re-align its strategy. The Group has identified the following as its key stakeholders, and has described below how it seeks to engage with them: employees, customers, suppliers, the community and its environment, the regulator and shareholders.

Employees

The Company employs over 80% of the Group's employees.

The Group recognises that its 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. Accordingly the Group places considerable value on the engagement and involvement of its workforce, through a variety of activities and initiatives including:

- 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. The Group has featured on the Best Companies "Top 25 Best Big Companies to Work For" list for nine consecutive years, achieving its highest ever position of second place in the last two years
- The Group issues communications to employees through a range of channels, including a monthly 'team brief' in which employees hear about the Group's achievement against its objectives, and view a video address from the CEO. Other communications include monthly visits by the EMT to sites across the Group, Group-wide magazine publications, intranet sites, emails and social media forums. Questions and feedback from employees are actively encouraged by management.
- Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees through dedicated employee engagement forums.
- The values of Equality, Diversity and Inclusion (EDI) 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. For example a dedicated EmPower Community acts as a platform for employees to discuss EDI issues and raise suggestions. A Steering Committee made up of senior managers meets quarterly to support and monitor the Group's Diversity and Inclusion strategy and initiatives.
- The Group is National Equality Standard (NES) accredited and in the top 10 of Inclusive Top 50 Employers in the UK, reflecting its intent and commitment toward becoming a truly diverse and inclusive workplace. The Group's plans for RIIO-ED2 include a focus on improving equality of employment access, reducing the gender pay gap, increasing BAME applications for early career roles working closely with local schools and developing a work experience programme aimed at disadvantaged or under privileged groups.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 6 - Stakeholder Relationships and Engagement continued

Employees continued

- Each employee undertakes performance reviews with their managers, in which their performance against specific objectives is reviewed and discussed, and personal development opportunities and training identified.
- The Group holds an “Investors in People” platinum accreditation which recognises its commitment to excellence in people management, an achievement obtained by only 2% of companies of similar size globally.
- New skills will be required in a range of areas such as DSO, cyber-security and UK Power Networks’ role as an important data provider for network users looking to make the Net Zero transition. The Group has established a Digital Skills Academy to provide DSO and digital future skills, deliver 510 accredited apprenticeship NVQs (National Vocational Qualifications) in Leadership and Management and 200 IET (Institute of Engineering and Technology) accredited technical or digital apprenticeships. The Group will target the achievement of an “Outstanding” OFSTED rating for training programmes in the period.

Customers

Customer engagement helps build a sustainable business, as it anchors the Group to the needs and expectations of its customers and shapes its long-term vision and objectives. The Group engages with its customers through a programme of focus groups, forums and surveys along with other communications such as newsletters and media campaigns.

An important source of customer feedback is an industry survey of 300 customers a week, which feeds into Ofgem’s Broad Measure of Customer Satisfaction. This is supplemented by an additional feedback mechanism in which customers give almost instant feedback on the service they have received.

Based on the feedback from extensive engagement and research the Group is enhancing its service to customers in the following ways:

- Detailed analysis of data from various perspectives such as network performance, geography, and the particular customer experience to provide greater insight into customer needs and preferences.
- Giving customers the option to receive digital payments for unexpected expenses during longer power cuts (e.g. food costs) as a faster alternative to cash or cheque payments. This followed feedback from call agents’ conversations with customers, which highlighted that customers were struggling to afford these unexpected costs in the context of the cost of living crisis.
- Working with partners to promote the benefits of smart meter technology particularly for customers who are medically dependant on equipment powered by electricity. The integration of smart meters with our communication channels allows us to proactively confirm if a power cut is network related and alert and support the customer, without them having to contact us.
- Better planning and coordination of work streams ensuring customers receive a joined up level of service at all points of contact from call centre staff to engineers in the field.
- In response to the high uptake of low carbon technologies (“LCTs”) the Group has developed a smart connect portal which has significantly reduced the application and approval time for LCT connections from days to potentially minutes.

UK POWER NETWORKS (OPERATIONS) LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 6 - Stakeholder Relationships and Engagement continued

Customers continued

The strong customer service culture is reflected in external assessments of the Group's performance. In Ofgem's Broad Measure of Customer Satisfaction the Group achieved an industry leading score of 94% for the year ended 31 March 2023 (see page 3). The Institute of Customer Services ("ICS") ranked us third best customer service provider across all companies in the UK in its most recent rating published in January 2023. The ICS measures five dimensions of customer service: Customer Experience, Complaint Handling, Customer Ethos, Emotional Connection, and Ethics. The Group featured in the top 10 of all five dimensions.

Suppliers

Good relationships with suppliers are key to delivering value efficiently and effectively. The resilience of the Group's supply chain will be critical to meeting the demands of the low carbon transition.

The Group operates an established procurement function which seeks to ensure fair and ethical dealings with its suppliers, and has put in place policies and practices, such as:

- The Group has published guidance to suppliers, both current and prospective, on how to operate in accordance with the 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.
- UK Power Networks 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 formed an alliance model with key strategic partners to promote closer working relationships and common practices on shared projects.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

Principle 6 - Stakeholder Relationships and Engagement continued

The Community and Environment

As a network operator the Group 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 it works closely with communities and their representatives to identify areas where it can play an active, beneficial role.

The Group regularly engages with local community groups, councils, businesses and customers through a programme of events and forums to obtain feedback. The Group also undertakes an intensive programme of engagement with such groups when it is forming its business plan for a new price control period. The feedback from these interactions results in initiatives and commitments which the Group delivers as part of its business plan.

The Group maintains a Priority Services Register ("PSR") which, in the event of a power cut, allows it to deliver specific support to customers living in vulnerable circumstances. Many different services can be made available to over 2.3 million customers on the PSR ranging from personal calls with information updates, to hot meals, and even alternative accommodation or a mobile generator.

As communities face increasing cost of living pressures, the Group has significantly expanded its fuel poverty programme by taking a threefold approach. First, general fuel poverty advice is provided to a wide range of customers, reaching over 1.4m customers in 2022/23 (a 63% increase compared to 2021/22). Second, individual customers are provided with in-depth, personalised, practical support through our community partners. In 2022/23 over 31,600 customers were supported, more than double the number supported in 2021/22. Third, partners were supported to train energy champions and advisers to provide ongoing advice and support in their communities. All of this is underpinned by strong partnerships with local trusted organisations, and guided by data, feedback and learnings to prioritise and tailor Group actions.

The environment is of key importance to the Group's stakeholders. As set out on pages 12 to 17, the Group has set ambitious targets to be the most socially and economically responsible in our sector and is committed to playing a leading role in limiting irreversible change to our climate.

The Regulator, Ofgem

The Group is regulated by Ofgem which determines its strategy on a range of matters.

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.

During the past two years, the Group has been actively engaged with Ofgem in its preparations for the next price control, RIIO-ED2, culminating in the Final Determination released by Ofgem in November 2022. The Group was awarded the largest business plan reward of any DNO reflecting Ofgem's view of the Group's position as the frontier company in the sector and having the most ambitious and focused business plan.

Shareholders

The Group is wholly owned by a consortium of three parties. The support and engagement of the Group's shareholders is vital to the success of the business in reaching its long term objectives. The Group's shareholders are represented on the Group Board of Directors, and as such receive regular reporting on financial and operational matters, and are directly involved in strategic decision making.

UK POWER NETWORKS (OPERATIONS) LIMITED

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 United Kingdom 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 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of UK Power Networks (Operations) Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 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; and
- the related notes 1 to 19.

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).

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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:

UK POWER NETWORKS (OPERATIONS) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) LIMITED

Conclusions relating to going concern continued

- 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;
- Challenging 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 increased 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 reverse stress testing performed by management;
- 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.

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.

UK POWER NETWORKS (OPERATIONS) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) LIMITED

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 32, 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.

Auditor 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 is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, and tax legislation; and
- 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) LIMITED

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

We discussed among the audit engagement team including relevant internal specialists such as IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and 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 material misstatements in the Strategic Report or the Directors' Report.

UK POWER NETWORKS (OPERATIONS) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK POWER NETWORKS (OPERATIONS) LIMITED

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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

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Marianne Milnes (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

London
United Kingdom

14 August 2023

UK POWER NETWORKS (OPERATIONS) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £ m	2022 £ m
Turnover	4	1,131.5	1,087.2
Cost of sales		<u>(813.6)</u>	<u>(774.5)</u>
Gross profit		317.9	312.7
Other operating expenses		<u>(316.4)</u>	<u>(308.8)</u>
Operating profit	5	1.5	3.9
Finance income (net)		<u>3.6</u>	<u>1.2</u>
Profit before tax		5.1	5.1
Taxation	9	<u>(0.2)</u>	<u>0.2</u>
Profit for the year		<u>4.9</u>	<u>5.3</u>

The above results were derived from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

	2023 £ m	2022 £ m
Profit for the year	<u>4.9</u>	<u>5.3</u>
Total comprehensive income for the year	<u>4.9</u>	<u>5.3</u>


The notes on pages 43 to 57 form an integral part of these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

BALANCE SHEET AS AT 31 MARCH 2023

	Note	2023 £ m	2022 £ m
Fixed assets			
Tangible assets	10	-	-
Current assets			
Stocks	11	61.6	54.1
Debtors falling due within one year	12	333.3	356.5
Cash at bank and in hand		17.7	-
		<u>412.6</u>	<u>410.6</u>
Creditors: Amounts falling due within one year	13	<u>(336.4)</u>	<u>(338.5)</u>
Net current assets		<u>76.2</u>	<u>72.1</u>
Total assets less current liabilities		76.2	72.1
Provisions for liabilities	15	<u>(20.4)</u>	<u>(21.2)</u>
Net assets		<u>55.8</u>	<u>50.9</u>
Capital and reserves			
Called up share capital	16	2.0	2.0
Profit and loss account	16	<u>53.8</u>	<u>48.9</u>
Total shareholders' funds		<u>55.8</u>	<u>50.9</u>

The financial statements of UK Power Networks (Operations) Limited, registered number 3870728, were approved by the Board of Directors and authorised for issue on 14 August 2023. They were signed on its behalf by:



Basil Scarsella
Director

The notes on pages 43 to 57 form an integral part of these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2023

	Share capital £ m	Profit and loss account £ m	Total £ m
At 1 April 2021	2.0	43.6	45.6
Profit for the year	-	5.3	5.3
Total comprehensive income	-	5.3	5.3
At 31 March 2022	2.0	48.9	50.9

	Share capital £ m	Profit and loss account £ m	Total £ m
At 1 April 2022	2.0	48.9	50.9
Profit for the year	-	4.9	4.9
Total comprehensive income	-	4.9	4.9
At 31 March 2023	2.0	53.8	55.8

The notes on pages 43 to 57 form an integral part of these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

1 General information

UK Power Networks (Operations) Limited (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 18.

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.

Basis of accounting

The financial statements have been prepared under the historical cost convention 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.

The Company has taken advantage of certain exemptions in its financial statements on the basis that it 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 therefore taken the exemption not to present a cash flow statement and not to disclose related party transactions with other wholly owned members of the Group.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2 Accounting policies (continued)

Going concern

The Company's ability to continue as a going concern is assessed in conjunction with that of the Group as it is dependent upon the ability of other companies within the Group to settle their trading debts with the Company. The Company's forecasts and projections, taking into account the strong financial standing of Group debtors and their reliable track record of settling debts within 30 days, demonstrate that the Company has adequate resources to continue operating for the foreseeable future. Therefore the Directors continue to adopt the going concern basis in preparing the financial statements.

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 rate
Furniture, fixtures and equipment	5 years

Research and development

Expenditure on research is written off to the profit and loss account in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less any further costs expected to be incurred to completion and disposal. Provisions are made for obsolete, slow moving or defective items where appropriate.

- Raw materials and consumables: purchase cost on average cost basis.
- Work in progress: cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Revenue recognition

Turnover is recognised when the amount of revenue can be measured reliably measured and it is probable that future economic benefits will flow to the entity. 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 a contract has only been partially completed at the balance sheet date turnover represents the value of the service provided to date based on a proportion of the total contract value. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred Income and included as part of creditors due within one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2 Accounting policies (continued)

Contract revenue recognition

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term even if payments are not made on such a basis.

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).

Employee benefits

The Company contributes to a defined contribution pension scheme on behalf of employees. The amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Contributions are also made to two defined benefit pension schemes, the obligation for which is accounted for under FRS 102 within the Group's distribution companies. The contributions payable are charged to the profit and loss account of the Company and then recharged to the distribution companies. Full disclosures relating to the defined benefit pension obligation are made within the financial statements of the distribution companies.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 in 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.

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.

In the Directors' opinion there are no critical judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in these financial statements.

4 Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activities of network maintenance, inspection, and renewal for the electricity distribution networks of the Group.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

5 Operating profit

Operating profit is arrived at after charging:

	2023 £ m	2022 £ m
Research and development costs	16.2	17.5
Operating lease expense - property	3.2	3.8
Operating lease expense - vehicles	17.2	14.6

2023 £ 000	2022 £ 000
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Analysis of Auditor's remuneration

Audit fees

Audit of financial statements	67.0	54.9
Total audit fees	67.0	54.9

Non-audit fees

Other assurance services	135.0	163.2
Total non-audit fees	135.0	163.2
	202.0	218.1

Non-audit fees relate to work done for the benefit of other Group companies and form part of the recharges to those Group companies.

6 Finance costs (net)

	2023 £ m	2022 £ m
Interest payable and similar expenses	(0.4)	(0.3)
Less: investment income	3.8	0.5
Other finance income	0.2	1.0
	3.6	1.2

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

6 Finance costs (net) (continued)

	2023 £ m	2022 £ m
Investment income		
Interest receivable from Group undertakings	2.5	0.4
Other interest receivable and similar income	1.3	0.1
	<u>3.8</u>	<u>0.5</u>

	2023 £ m	2022 £ m
Interest payable and similar expenses		
Interest on loans from Group undertakings	(0.4)	(0.3)
	<u>(0.4)</u>	<u>(0.3)</u>

	2023 £ m	2022 £ m
Other finance income		
Fair value losses on financial instruments		
Forward foreign currency contracts	0.2	1.0
	<u>0.2</u>	<u>1.0</u>

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2023 £ m	2022 £ m
Wages and salaries	347.2	329.9
Social security costs	44.7	40.6
Pension costs	54.6	54.7
Redundancy costs	-	0.9
	<u>446.5</u>	<u>426.1</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

7 Staff costs (continued)

The average number of persons employed by the Company during the year was as follows:

	2023	2022
	Number	Number
Direct ¹	2,249	2,270
Indirect ²	2,676	2,838
	<u>4,925</u>	<u>5,108</u>

¹ Direct staff are those generally employed in activities which involve physical contact with system assets.

² Indirect staff support the activities of the Direct staff. This generally does not involve physical contact with system assets.

The disclosure above excludes costs of £6.6m (2022: £5.8m) relating to a monthly average of 145 (2022: 116) agency staff who do not hold service contracts with the Company. The staff costs of the Company are recharged to the electricity distribution companies on a proportionate basis.

The Company's employees may participate in a defined contribution retirement benefit scheme introduced by the Group in 2011. Employees can opt for a contribution rate of between 3% and 10% of their salary. As the employer, UK Power Networks pays twice the contribution up to a maximum of 10% of the salary. This accounts for £12.0m (2022: £10.8m) of the pension costs presented in the table above.

The remaining pension cost represents the Company's contributions, on behalf of its employees, to the Group's two defined benefit schemes: the UK Power Networks Group of the Electricity Supply Scheme (UKPN Group Scheme) and the UK Power Networks Pension Scheme (UKPNPS). Both defined benefit schemes are closed to new members. The defined benefit obligation, in respect of the Company's employees, is accounted for under FRS 102 within the Group's three distribution companies Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc. Therefore no further disclosures are required in these financial statements.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2023 £ m	2022 £ m
Emoluments	2.1	1.9
Amounts receivable under long-term incentive plans	0.4	0.4
Company contributions to money purchase pension schemes	-	-
	<u>2.5</u>	<u>2.3</u>

During the year the number of directors who were members of a money purchase scheme were as follows:

	2023 Number	2022 Number
Accruing benefits under money purchase pension scheme	<u>1</u>	<u>1</u>

In respect of the highest paid director:

	2023 £ m	2022 £ m
Emoluments	2.1	1.9
Amounts receivable under long-term incentive plans	0.4	0.4
Company contributions to money purchase pension schemes	<u>-</u>	<u>-</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

9 Taxation

Tax charged/(credited) to the profit and loss account

	2023 £ m	2022 £ m
Current taxation		
UK corporation tax	2.3	1.0
Adjustments in respect of prior years	<u>(0.5)</u>	<u>(0.8)</u>
Total current taxation	<u>1.8</u>	<u>0.2</u>
Deferred taxation		
Origination and reversal of timing differences	(1.5)	0.1
Effect of increase in tax rate on opening asset ¹	-	(0.5)
Adjustments in respect of prior years	<u>(0.1)</u>	<u>-</u>
Total deferred taxation	<u>(1.6)</u>	<u>(0.4)</u>
Total tax charge/(credit)	<u>0.2</u>	<u>(0.2)</u>

¹ Impact of increase in deferred tax rate from 19% to 25% discussed further below.

The total tax assessed for the year was lower (2022: lower) than the standard rate of 19% (2022: 19%) applied to profit before tax, as follows:

	2023 £ m	2022 £ m
Profit before tax	<u>5.1</u>	<u>5.1</u>
Corporation tax at standard rate	1.0	1.0
Expenses not deductible for tax purposes	0.2	0.1
Deferred tax credit relating to changes in tax rates or laws	(0.4)	(0.5)
Adjustments to deferred tax in respect of prior years	(0.1)	-
Adjustments to current tax in respect of prior years	<u>(0.5)</u>	<u>(0.8)</u>
Total tax charge/(credit)	<u>0.2</u>	<u>(0.2)</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

9 Taxation (continued)

Tax rate changes

The current tax rate applied during the year was 19% (2022: 19%) based on the standard rate of corporation tax substantively enacted at the reporting date.

The standard rate of corporation tax increased from 19% to 25% with effect from 1 April 2023, as substantively enacted in the Finance Bill 2021 on 24 May 2021. Revaluing the Company's long term deferred tax asset at 25% reduced the deferred tax charge by £0.5m in the prior year. This rate increase had no effect on the tax charge for the year ended 31 March 2023.

10 Tangible assets

	Furniture, fixtures and equipment £ m	Total £ m
Cost		
At 1 April 2022	81.0	81.0
At 31 March 2023	81.0	81.0
Depreciation		
At 1 April 2022	81.0	81.0
At 31 March 2023	81.0	81.0
Net book value		
At 31 March 2023	-	-
At 31 March 2022	-	-

11 Stocks

	2023 £ m	2022 £ m
Raw materials and consumables	48.3	42.6
Work in progress	13.3	11.5
	61.6	54.1

There is no material difference between the balance sheet value of stocks and their replacement cost.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

12 Debtors

	2023 £ m	2022 £ m
Amounts falling due within one year:		
Trade debtors	35.1	31.8
Amounts recoverable on long term contracts	0.4	0.1
Amounts owed by Group undertakings	217.2	249.3
Other debtors	40.0	35.4
Deferred tax asset	3.6	2.0
Accrued income	2.9	8.7
Prepayments	34.0	29.2
Fair value of forward foreign currency contracts (note 15)	0.1	-
	<u>333.3</u>	<u>356.5</u>

Amounts owed by Group undertakings are interest free trade balances repayable on demand of £117.2m and a loan of £100.0m to UK Power Networks Holdings Ltd bearing interest at 4.53%.

Deferred tax

The movement in the deferred tax asset in the year is as follows:

	Deferred tax £ m
At 1 April 2022	2.0
Credited to profit and loss account	<u>1.6</u>
At 31 March 2023	<u>3.6</u>

Analysis of deferred tax

	2023 £ m	2022 £ m
Differences between accumulated depreciation and amortisation and capital allowances	0.2	0.2
Other timing differences	<u>3.4</u>	<u>1.8</u>
Deferred tax asset	<u>3.6</u>	<u>2.0</u>

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

13 Creditors

	2023 £ m	2022 £ m
Amounts falling due within one year:		
Bank overdraft	-	3.7
Payments received on account	80.5	71.1
Trade creditors	23.3	23.2
Amounts owed to Group undertakings	15.9	17.3
Social security and other taxes	14.5	17.1
Other creditors	50.3	63.1
Corporation tax	1.3	-
Accruals	139.0	134.5
Deferred income	11.6	8.4
Fair value of forward foreign currency contracts (note 15)	-	0.1
	<u>336.4</u>	<u>338.5</u>

Amounts owed to Group undertakings comprise interest free trade balances repayable on demand of £4.5m and £11.2m borrowed from UK Power Networks Holdings Ltd at an interest rate of 2.45%. The prior year balance comprised interest free trade balances repayable on demand of £6.1m and £11.2m borrowed from UK Power Networks Holdings Ltd at an interest rate of 2.0%.

14 Derivative instruments

Forward foreign currency contracts

	Average contract exchange rate		Notional principal value		Fair value	
	2023 Rate	2022 Rate	2023 £ m	2022 £ m	2023 £ m	2022 £ m
Maturity of outstanding contracts						
Buy Euros						
Less than 1 year	1.137	1.171	<u>29.9</u>	<u>23.9</u>	<u>0.1</u>	<u>(0.1)</u>

At the balance sheet date the Company held forward foreign currency contracts worth €34.0m (2022: €28.0m) to hedge the exchange rate exposure on Euro denominated equipment purchases. Hedge accounting was not adopted for these transactions. During the year fair value gains of £0.2m (2022: £1.0m) were recognised in profit and loss.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

15 Provisions for liabilities

	Other provisions £ m
At 1 April 2022	21.2
Credited to profit and loss account	<u>(0.8)</u>
At 31 March 2023	<u><u>20.4</u></u>

Provisions for public liability and employer liability claims against the Company amount to £16.1m (2022: £20.2m). The timing of the payments is uncertain but it is expected that the majority of this expenditure will be incurred within three years of the balance sheet date.

Other legal and constructive obligations of £4.3m (2022: £1.0m) are expected to become payable within the next two years.

16 Called up share capital and reserves

Share capital: Allotted, called up and fully paid

	2023 £ m	2022 £ m
2,000,002 ordinary shares at £1 each	<u>2.0</u>	<u>2.0</u>

Reserves comprise the profit and loss account which represents cumulative profits or losses net of dividends paid.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

17 Obligations under lease contracts

Operating leases

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

	2023 £ m	2022 £ m
Land and buildings		
- within one year	3.6	3.2
- between one and five years	8.6	5.9
- after five years	13.2	9.7
	<u>25.4</u>	<u>18.8</u>
Vehicles		
- within one year	17.8	17.2
- between one and five years	30.6	34.1
- after five years	3.4	4.0
	<u>51.8</u>	<u>55.3</u>

18 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. No other related party transactions were entered into during the current or prior year.

19 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.

UK POWER NETWORKS (OPERATIONS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

19 Parent and ultimate parent undertaking (continued)

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.