

Finance Committee report



Ian Livingston
Chair of the Finance Committee

Key activities during the year

- Considered the Group's financing strategy in light of the new five-year framework, including c.£60 billion of capital investment over 2024/25 to 2028/29. Approved the comprehensive financing plan announced alongside the five-year framework in May 2024, including the £7 billion Rights Issue
- Reviewed the five-point risk appetite framework for the Treasury risks under the Committee's remit and considered the quantitative measures for these risks
- Reviewed the processes and controls operated by the Treasury team as it expands its capability and capacity to support delivery of the Company's new five-year financial framework
- Considered the Group's Tax position, in light of the changing political landscapes in the UK and US
- Reviewed the rates and inflation hedging strategies for the Group's debt portfolio

Composition

The Committee comprises three independent Non-executive Directors and two Executive Directors. During the year, the Committee held three scheduled meetings and one ad hoc meeting.

The Committee welcomed Jonathan Silver as a member in July 2024.

Committee members

Ian Livingston (Chair)
Andy Agg
Iain Mackay
John Pettigrew
Jonathan Silver¹

1. Jonathan Silver joined the Committee on 5 July 2024

Review of the year

This year the Finance Committee continued to support the Group's strategy by monitoring the financing policy and financial risk appetite, taking into account the changing external macro environment. The Committee gave particular focus to the Group's financing strategy, as well as considering the wider engagement with investors and credit rating agencies, both in advance of and following completion of the £7 billion Rights Issue in May 2024.

Treasury

During the year, the Committee reviewed and updated the Finance Committee Treasury Policy Framework and Delegations of Authority, ensuring that these governance documents continue to align with the Group's financing objectives and increasing capital expenditure.

The Treasury function updates the Committee on its activities at each meeting, providing updates on debt issuances at both holding company and operating subsidiary level.

At the time of the Rights Issue, the Committee approved appropriate short-term increases to the Company's counterparty risk policy limits to enable the investment of the Rights Issue proceeds, and also recommended the allocation of around £700 million of Rights Issue proceeds to refinance two of the Company's outstanding hybrid bonds at their first call dates.

The Treasury function updated the Committee on the issuance of new debt by the US holding company and two of the US operating subsidiaries. This debt was issued as part of the Company's strategy to smooth its debt issuance during 2025 and 2026 following the Rights Issue, and remain active in the debt capital markets.

As mentioned in my report last year, we had discussed with management its plans to increase the capability and capacity of the Treasury function given our higher capital requirements. PwC has supported this, undertaking a review into Treasury's processes and controls, to ensure that the function is equipped to support the Company's five-year framework. The review found there to be a strong culture of proactive risk management, and made recommendations to improve the efficiency and effectiveness of the Treasury function, which the Committee will monitor.

Insurance

The objective of the Group's insurance strategy is to facilitate broad protection of our businesses across the UK and US in an efficient manner. The Committee reviews and assesses this strategy, to ensure that it allows the Company to operate within the Group's approved risk tolerance and appetite. While we approach a softening of insurance markets in 2025, the Committee will continue to consider the Group's reinsurance purchasing strategy with the aim of achieving longer-term stability of both capacity and pricing.

Tax

During the year, the Committee considered the Group's Tax Strategy, ensuring this aligns with the Group's risk profile and commitment to our strong reputation. Following the outcomes of the UK and US elections, we considered the evolving tax policy in the UK and US and the potential impact of incoming tax legislation from the new governments. The Committee also received updates on the ongoing audits in the UK and US.

Pensions

During the year, the Committee noted the funding positions for all six of the Company's UK Defined Benefit Pension plans. The Company reached agreement with Ofgem regarding funding support, via Ofgem's Pension Deficit Allocation Methodology process, for three subsidiary pension arrangements in 2025. The Committee spent time discussing the pension implications arising out of the creation of the National Energy System Operator (NESO). The Committee also discussed the US Defined Benefit Pension Plans and other post-employment benefits (OPEB) and received updates on their funding positions and on the investment returns for the Pension Plans. The Committee received updates on the work of the Retirement Plans Committee to monitor and mitigate the investment, liability and governance risks associated with Pension and OPEB risks.

Looking forward

In the coming year, the Committee will continue to oversee the Group's robust tax governance standards and monitor legislative changes. It will also maintain oversight of the ongoing delivery of the financing strategy and management of risk for each area within its remit, in particular noting the impact of external markets and events on these.

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Chair of the Finance Committee

14 May 2025