

Annual Report

2025



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Highlights



Operational performance

Customer Trust
Customer and stakeholder satisfaction scores

76%

2024: 79%

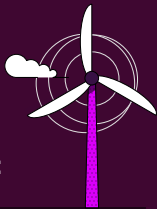
Operational Continuity
Statutory reportable events

0

2024: 0

NESO
National Energy System Operator
Launch of NESO
1 October 2024

Delivery of Clean Power 2030 advice to government



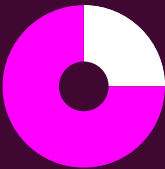
People

Engagement
Colleague engagement scores

84%

2024: 79%

Diversity of Executive Leadership
Gender



2025
Male: 25%
Female: 75%
2024
Male: 37.5%
Female: 62.5%

Ethnicity

12.5%

2024: 12.5%



Financial

Consumer
NESO cost contribution to average consumer energy bills per annum

£6.46

2024: £4.88

Investment
Capital expenditure

£206m

2024: £168 m

Delivering value for money in RIIO-2

£3.4bn

NESO remains on course to deliver the gross consumer benefits outlined in RIIO-2 business plan by March 2026.

Chair's Statement

Dr. Paul Golby
Chair



It is a privilege to have been appointed the inaugural Chair of NESO.

Although NESO is a little under twelve months old, the external context in which it operates has changed significantly in that time.

Globally, there is a greater focus on energy security, driven by wider geopolitical tensions. Closer to home, the public debate about when and how Great Britain decarbonises has strengthened.

This demonstrates the need for an independent, data-driven energy advisor to the UK government and Ofgem is greater than ever. I was pleased to see that role in action this year, with NESO's independent advice playing a major part in the UK government's *Clean Power Action Plan*.

Although climate change, energy and the environment are important issues, the wider benefits of the energy transition must be communicated in a way that resonates with the economic challenges many people face in their daily lives.

Much of NESO's delivery is invisible, but the work this organisation does touches every home, business, hospital and school. At a time when Great Britain is seeking economic growth, the Board and I are determined to demonstrate how NESO's work can act as a catalyst for investment in the energy transition. We will focus on showing how we improve the lives of those touched by the power we balance, the strategic plans we design and the advice we deliver. How NESO tells that story externally is critical.



The prospect of clean power by 2030 is a challenging goal that can bring significant benefits to Great Britain, but I recognise that NESO must not lose sight of the journey beyond the end of the decade. To fulfil this broader whole system remit, the organisation must also look beyond electricity.

To that end, I am pleased to see NESO's development of the first Strategic Spatial Energy Plan now under way. This national plan will help shape the energy transition, providing greater clarity to industry, investors, consumers and the public on the shape of our energy system over a 25-year time horizon.

The benefits of this transition must be felt across Great Britain. NESO's delivery of Regional Energy Strategic Plans across areas of England, Scotland and Wales will provide a platform for a truly joined-up approach. It means stepping out of our comfort zone— building our engagement across the regions and nations to understand which energy issues matter to local stakeholders and how they see their energy future unfolding in a way that benefits them and Great Britain.

NESO will proactively seek lessons from other sectors, continuing to look for new ways to innovate. The use of artificial intelligence (AI) is already bringing major changes to the energy sector, as organisations find new ways to improve efficiency and deliver value for consumers. But AI is also likely to become a major consumer of energy. How data centres can be integrated into a clean power system must be considered now to avoid inadvertently standing in the way of a technology sector that could prove transformational.

This year has seen changes to our Board, reflecting NESO's evolving role and responsibilities – and our move to becoming an independent organisation. The newly appointed Non-Executive Directors bring a wealth of experience and expertise to the Board, ahead of this next phase for NESO.

This has been a year of change for NESO – the beginning of a journey which will undoubtedly bring further significant challenges. I would like to thank all my colleagues across NESO for their commitment, energy and dedication over this period. I would also like to thank our many stakeholders for their continued support and encouragement during the creation of NESO and in the challenges to come. I look forward to the year ahead.



CEO's Statement

Fintan Slye
Chief Executive Officer



NESO's Annual Report and Accounts provides an important opportunity to reflect on a transformational year. When I joined the then System Operator seven years ago, it was already clear that as Great Britain's electricity system and economy decarbonised at pace, the institutions at the heart of that change needed to also evolve. That said, the pace and scale of change that our organisation has undergone since then has been remarkable.

Leading the establishment of the National Energy System Operator was a privilege for me and the whole Executive Leadership Team. NESO's establishment as a not for profit, public corporation operationally independent of the UK government, marks a new chapter in Great Britain's energy transformation. This transformation – which will reach far beyond the energy sector – was the culmination of more than three years of work and successful collaboration with industry, Ofgem and the UK government.

In our early days as NESO, we delivered our first piece of strategic advice for the UK government, providing independent analysis on how Great Britain could achieve a clean power system by 2030. This work placed NESO under new levels of public scrutiny, while also testing our capability as a convener of the energy sector. I am proud of how our organisation rose to that challenge.



Our continued evolution and growth as an organisation will depend on our ability to think broadly about the impacts of our advice – demonstrating to our stakeholders that we understand the challenges they face, whether political, regulatory or commercial.

Operational delivery for customers remains central to NESO's mission. The organisation has made substantial progress in reforming the grid connections process – laying the foundations for accelerating the move to a more sustainable energy system and enabling economic growth across Great Britain. This complex process, undertaken within a limited timeframe, has inevitably presented challenges. I would like to express my thanks to all participants for their engagement and support.

NESO is revolutionising the way a rapidly decarbonising electricity system is operated and balanced – for example, we have procured innovative stability services, enabling our control engineers to reduce dependency on fossil fuels which historically provided these services. Innovations in our digital systems are ongoing, giving our control room the tools needed to reliably operate the electricity system while engaging with more market participants than ever before.

As a Great Britain-wide organisation, NESO staff across the nations and regions, working with local stakeholders, are now developing Regional Energy Strategic Plans. These plans will help ensure community buy-in and align local sustainability ambitions with national planning, centred on a whole energy approach for the future.

NESO prioritises consumer value, and we have taken further steps to keep the costs of balancing the electricity system lower than they otherwise would have been. As we look to the end of the decade, balancing costs are forecast to rise. These costs are not fixed – factors such as timely delivery of new electricity transmission infrastructure, and the design of Great Britain's electricity market, will significantly impact balancing costs in the future. We will continue to seek operational efficiencies wherever possible, while working alongside industry to identify and accelerate activities that will enable savings.

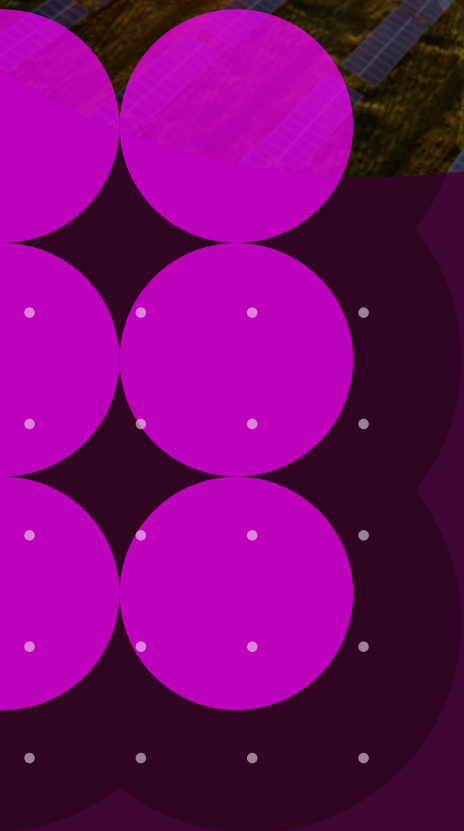
Underpinning NESO's delivery are our people, who will always be our most valuable asset. We have undergone significant growth to meet the exciting challenge of delivering against our new and evolving responsibilities. How we continue to develop our people – their whole energy capabilities, resilience, management of change, and effectiveness – will be crucial to accelerating progress for Great Britain's energy system.

I recognise there is much more for NESO to do as we continue to build trust and credibility. I have no doubt that significant challenges lie ahead, but what gives me confidence is the energy and determination I see among our people to deliver for our customers, for society and for the wider economy.

I would like to thank everyone at NESO for their hard work, and I look forward to the year ahead.

Finton Oly

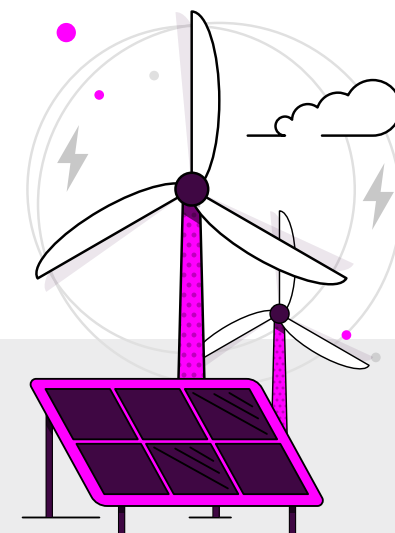




Strategic Report

Who we are

We are energising progress.
We are NESO.



- NESO is Great Britain's energy system operator.
- We are responsible for the day-to-day balancing and operation of networks across Great Britain's electricity system.
- We are also responsible for the strategic planning of the nation's electricity, gas and hydrogen systems, and markets.
- We take a whole system view so that everyone in Great Britain has access to secure, clean and affordable energy.
- NESO is an independent public corporation, wholly owned by the Secretary of State for Energy Security and Net Zero.
- The Energy Act 2023 gave NESO a range of statutory duties to drive the mindset of the organisation and frame our decision making.
- We also have a duty to respond to requests for advice and information from the UK government and Ofgem, our regulator, and to keep energy sector developments under review.

Who we are continued

Energy Act 2023 – statutory duties

Our primary duties

NESO will promote the following three objectives:



Net Zero

Enabling the UK government to meet its climate change targets.



Efficiency & Economy

Promoting efficient, coordinated and economic systems for electricity and gas.



Security of Supply

Ensuring security of supply for current and future electricity and gas customers.

Our secondary duties

NESO will also have regard to:



Facilitating Competition

Creating and maintaining competitive energy markets and networks.



Consumer Impacts

Understanding what changes mean for consumers.



Whole System Impacts

Understanding the whole system impact of relevant activities.



Facilitating Innovation

Creating an environment that enables others to help solve energy challenges.

What we stand for

Our purpose, vision and values

Our purpose, vision and values underpin everything we do, defining why we exist and how we deliver as NESO.



Our purpose

Our purpose is to forge the path to a sustainable future for everyone.



Our vision

Our vision is a future where everyone has access to reliable, clean and affordable energy; our work will be a catalyst for change across the global community.

Our values are what define us, setting the foundation for our purpose and guiding us as we move towards achieving our vision.



Accelerate Progress

We deliver better outcomes at pace when we take accountability, are courageous and progress the bigger picture.



Be Curious

We achieve more when we demonstrate a growth mindset, being curious, asking questions beyond and within our organisation to develop, learn and innovate.



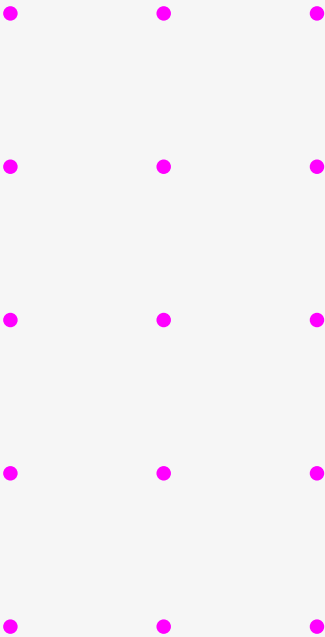
Build Trust

We build trust when we listen to and understand the needs of our colleagues and customers, are transparent with our actions and deliver on our commitments.



Create Belonging

We perform at our best when we can be our true selves, embrace diversity and are truly inclusive.



What we do and why it matters

NESO sits at the centre of our energy system. More than just a central body, we are an independent, expert public corporation entrusted with operating Great Britain's energy networks and planning their future, while maintaining system security today.

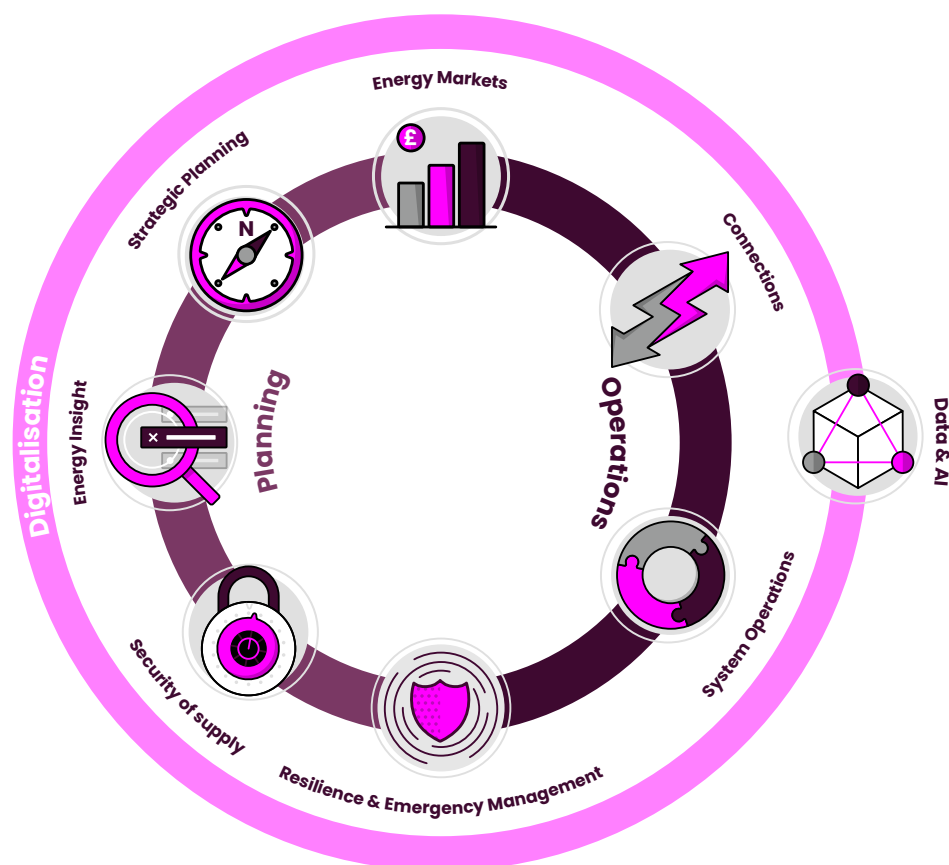
Our work may seem invisible to most, but its impact reaches every home, school, hospital and business – ensuring they receive the secure energy they need, around the clock.

Created in October 2024, we serve the interests of society by helping meet future energy needs, developing a secure and sustainable future, whilst ensuring our energy system remains affordable – benefiting everyone.

We do this by building market confidence and creating long-term energy plans that provide the platform for investment in Great Britain's future.

Energy is a driving force for growth, productivity and innovation across the economy. The transition to a cleaner energy system creates a major opportunity to shape this in a way that supports economic growth – creating jobs, developing green skills and improving energy security. To learn more about this see our ESG Report on page 38.

We bring together eight core activities (shown below) that are essential to planning and delivering the networks, markets and operation of today's and tomorrow's energy system – ensuring it is secure, resilient and affordable. This supports the needs of our customers, stakeholders, communities and consumers.



For more information about who we are and what we do, visit [About NESO](#) on our website and read our [Introducing NESO](#) document.

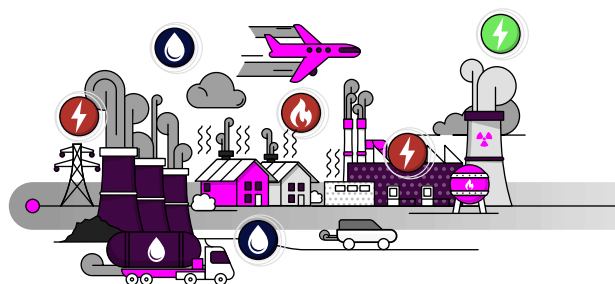
A changing energy landscape

The way we use, store and source energy is evolving. The energy system is increasingly critical to almost every aspect of daily life and is fundamental to decarbonising the economy. Capturing this opportunity will help protect the environment for current and future generations, while ensuring energy remains affordable for everyone.



Yesterday

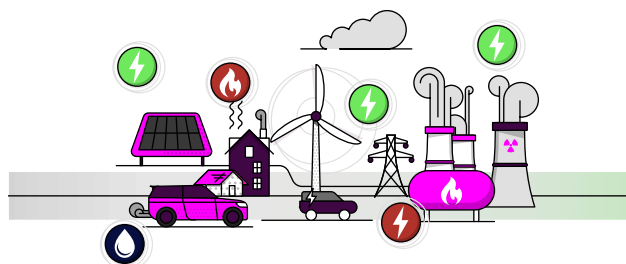
Most of our electricity was previously generated from fossil fuels at a small number of large power stations. Heat for homes and businesses came from coal, oil and natural gas, and transport relied primarily on oil. Nationally and internationally, we are now moving away from this historic reliance on fossil fuels.



Today

The rate of change in our energy landscape is unprecedented. However, we still rely on fossil fuels, such as natural gas, to provide flexibility and maintain energy security.

This continued reliance affects energy independence and exposes consumers to higher energy bills when international fuel prices rise.

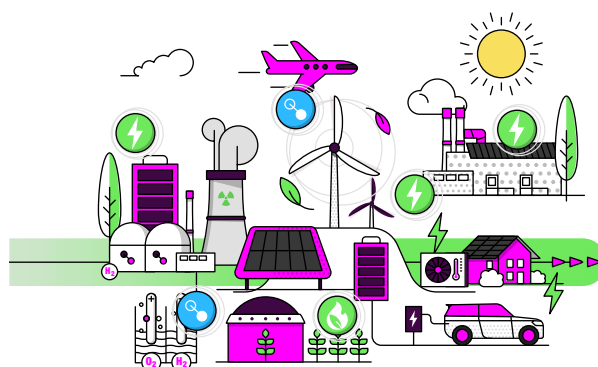


Tomorrow

Our energy landscape is changing as we shift towards domestic energy sources and reduce dependence on imported natural gas.

Future energy will come from a broad range of low-carbon sources –including wind, solar, biogas, hydrogen, abated natural gas, nuclear and hydropower. As a result, the energy system will need to become smarter and more flexible.

A rapidly decarbonising system brings significant opportunities: it enhances energy security, reduces exposure to volatile global markets, and enables growth. The transition will drive job creation, attract investment in green skills, and open new markets – placing domestic and industrial consumers at the centre of the energy system.

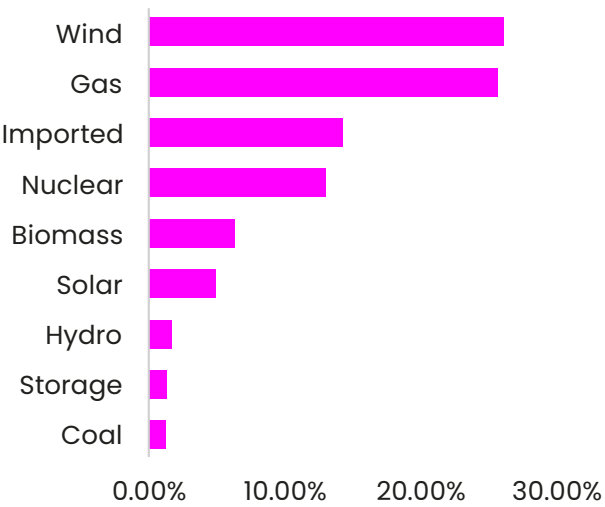


A changing energy landscape continued

At the heart of NESO's mission are our Primary Duties enabling the UK government to deliver on its climate commitments, ensuring security of energy supply for consumers, and promoting the efficient and economical transmission and distribution of electricity and gas. Together with the UK government and Great Britain's energy regulator, Ofgem, NESO plays an active role in transforming the country's energy system so it supports economic growth and prosperity – creating jobs and building skills. Our work uses innovation to keep the system stable and reduce Great Britain's reliance on fossil fuels.

In 2019 we set out our Zero Carbon Operation ambition to be capable of operating the Great Britain's electricity transmission system using 100% zero carbon power generation for short periods of time, when the market delivers a secure and operable mix of generation sources. In 2024, NESO successfully ran the electricity system at 95% zero carbon for a short period of time – a significant milestone in NESO's ambition of achieving a period of 100%. We expect the likely periods for zero carbon operation of the electricity system are in the final quarter of 2025. This will occur when electricity demand conditions are right, network service contracts are operational and if our operational readiness projects continue to deliver.

How electricity in Great Britain was generated and used in the year 1 April 2024 to 31 March 2025



Zero carbon generation and carbon intensity

63%
of electricity came from zero carbon sources

95%
was the peak zero carbon share

127 gCO₂/kWh
was the average carbon intensity

14 gCO₂/kWh
was the lowest carbon intensity

Electricity flows and usage

43,336 GWh
was imported

10,799 GWh
was exported

282 TWh
of energy was transmitted through the network – equivalent to 282 billion washing machine cycles

A changing organisation

Our journey to becoming the National Energy System Operator (NESO)

The past year has been an exciting time for our organisation. The UK's Energy Act 2023 set the legislative framework for an independent system operator and planner to help accelerate Great Britain's energy transition, leading to the establishment of NESO on 1 October 2024.

This marked a milestone moment in Great Britain's energy evolution.

NESO builds on our previous experience as the Electricity System Operator (ESO). We bring extensive expertise – from balancing electricity supply and demand 24/7, to facilitating connections, supporting market design and contributing to long-term network planning.

We are now evolving to take a broader whole system view of how Great Britain can deliver its net zero ambitions while maintaining a secure and affordable energy supply.

The transition to NESO requires a significant expansion of our capabilities, and we are transforming our organisation to meet this challenge. This includes establishing a new governance framework and organisational structures, separating our people, systems and processes from those of our previous owner, National Grid, and preparing to take on new whole system roles and responsibilities.

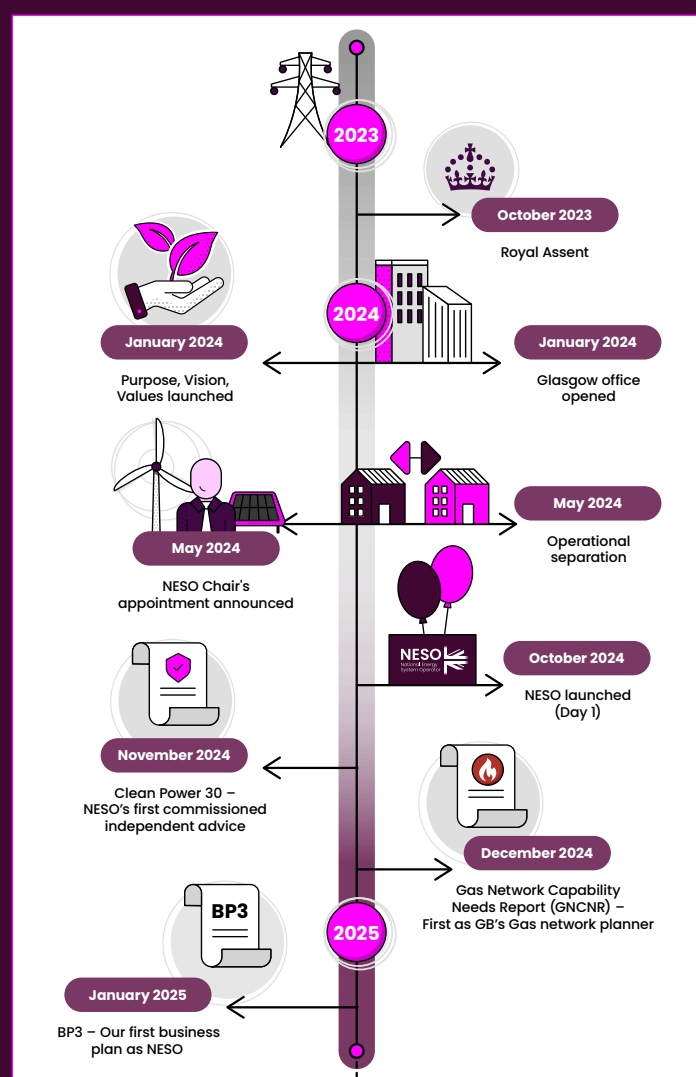
To ensure a successful transformation, we identified three key outcomes:

- Establishing NESO as an independent system operator and planner by designing and implementing new roles, processes and systems, while building the necessary capabilities
- Creating a strong organisational governance framework under new licences, codes and regulatory structures to support NESO's long-term success
- Developing NESO as a fully independent entity – complete with its own support services, the smooth transfer of support function colleagues from National Grid, Transitional Service Agreements (TSAs) in place, and safe and secure system cutover

We worked closely with Ofgem, Department for Energy Security and Net Zero, National Grid and National Gas to achieve independent and efficient operation from Day 1 of NESO on 1 October 2024 – carefully managing costs and timelines.

We are proud to have delivered this transformation while maintaining strong performance against our regulatory *RIO-2 Business Plan 2* commitments.

We continue to develop new capabilities, innovative ways of working, fresh partnerships and new perspectives to support NESO's wider remit.



How we delivered for customers and consumers

Due to our unique role within the energy sector, we are regulated by Ofgem and operate under a bespoke regulatory framework.

The five-year RIIO-2 period is split into shorter business plan periods. At the end of March 2025, we completed the second *RIIO-2 Business Plan* period (BP2). We delivered the majority of our milestones against the backdrop of a changing external environment, while also completing our transformation to NESO.

Performance highlights from the past year include:

- **Leading the transformation of the energy system to deliver clean, secure power while reducing system costs wherever possible.** This included delivering independent advice to the UK government on achieving clean power by 2030 and publishing our first independent assessment of Great Britain's gas transmission system and its capability to meet current and future network needs. We also grew our future gas planning capabilities. At the same time, we continued to operate a secure electricity system and reduced the cost of balancing the system over the past two years.
- **Demonstrating leadership in operating a rapidly decarbonising electricity system.** We managed multiple periods where more than 90% of electricity generation came from zero carbon sources. NESO has addressed key engineering

challenges to achieve these periods of operation, and the measures we have implemented so far provide the foundation for operating the electricity system at 100% zero carbon when the market presents the right mix of technologies. Periods of zero carbon operation are expected in 2025.

- **Control Centre operations** – We delivered digital, data and technology improvements to enhance our situational awareness – how we understand and predict the current and future system status – and how we maintain a steady supply of energy across Great Britain.

As part of this role, we procure a range of balancing services. These have evolved significantly, with new technologies increasingly playing a role – including battery storage, interconnectors, and demand-side flexibility from businesses and households.

During BP2, we supported the integration and commissioning of a new interconnector to Ireland and further developed our Demand Flexibility Service, helping households and businesses participate in the electricity market.

- **Market development and transactions** – We continue to reform the markets needed to balance electricity supply and demand, helping ensure low-cost operation of a low carbon system. As part of this reform, we supported the government's Review of Electricity

Market Arrangements (REMA) and observed high levels of competition in the provision of balancing service products – such as our balancing response and reserve services. This has enabled more providers to enter the market and helped lower overall costs.

We also worked with customers to identify potential measures to reduce constraint costs – that is, costs that arise when electricity cannot flow freely across the transmission network due to physical limitations. In such cases, we may need to ask generators to reduce output or stop generating to prevent overloading the grid.

- **System insight, planning and network development** – We progressed reforms to the process for connecting to the electricity network. This included implementing short-term measures to address the surge in connection applications and developing a wide-ranging and ambitious package of proposals to support a reformed connections process.

We also advanced our electricity network planning activities and achieved key milestones across our new planning roles as NESO. This included progress on the *Strategic Spatial Energy Plan* (SSEP) and the development of *Regional Energy Strategic Plans* (RESP).

- **Strengthening our digital, data and security capabilities**, and accelerating the use of key platforms – such as the Capacity Market Portal and Connections 360. Digital, data and technology continues to be a critical enabler for all our activity, and we remain committed to embracing digital innovation to support delivery across our roles.
- **Building trust with a wide range of customers and stakeholders**, improving our response to customer questions and feedback, and taking a more proactive approach to engagement. Over the past year, we prioritised key customer concerns – including challenges with the connections process – and developed a set of customer-informed actions to help unlock electricity system flexibility. We have also worked to improve transparency around how decisions are made in the Balancing Mechanism, including which generation units are dispatched and why, and to reduce skip rates (where units are available and willing to participate but not used for various reasons).
- **Delivering value for money across all our activities**, with total spend for BP2 lower than forecast. We remain on track to deliver the £3.4 billion in gross consumer benefits over the RIIO-2 period as outlined in our business plan.

We recognise there is room for improvement in what we have delivered during BP2. We have used the lessons from this period to shape our first *NESO Business Plan* (BP3), covering 2025–26 (see the ‘Our focus for 2025–26’ section on page 18).

Ofgem’s BP2 end-scheme assessment report on NESO’s holistic performance was published on 5 September 2025. The assessment scored NESO as having met or exceeded expectations in the performance areas measured and included qualitative feedback on the establishment and delivery of new roles. There was recognition that NESO had delivered a significant amount over the BP2 period, despite challenging energy system conditions and whilst undergoing major organisational change. Ofgem noted major successes in some high-profile areas and strong delivery of major Digital Data & Technology (DD&T) upgrades. Ofgem also highlighted some areas for improvement:

- Effectively balance resourcing and delivery to ensure Value for Money is optimised across key activities
- Improve the quality of how Value for Money is demonstrated to support external perceptions of our effectiveness and legitimacy
- Ensure important core activities are consistently delivered to the quality expected by NESO’s customers

The energy sector is undergoing a fundamental transformation, and the pace of change continues to accelerate. We recognise the scale of the work ahead – including reducing the connections queue, reforming energy markets and embracing a digital future. We do not underestimate the challenges that lie ahead in BP3 and beyond. But we will draw on the lessons from our journey through the RIIO-2 period to help accelerate the energy transition and meet net zero targets.



Visit our [RIIO-2 Business Plan](#)^[LH1] [\[c/2\]](#) webpage to read more about the RIIO-2 framework and our business plan.

For more detailed information on what we’ve delivered in 2024–2025 see our end scheme incentives report on our [website](#)

Our focus for 2025–2026

Our first Business Plan as NESO (BP3) outlines our strategic priorities and a set of eight supporting Performance Objectives for delivery from April 2025 to March 2026. This activity reflects NESO's expanded and wide-ranging whole system remit.

BP3 also responds to the unprecedented pace of change in the energy system, focusing on the most critical and high-impact activities we need to undertake.

Each Performance Objective has a set of Success Measures representing the key milestones we will deliver in this period. Some of our Success Measures will evolve through the year as we have more clarity, for example clean power delivery.

Our Organisational Priorities



Clean Power

We will enable a zero-carbon electricity system by adopting a whole system approach, encouraging innovation and collaboration.



Decarbonised Energy

We will develop integrated plans for a decarbonised, efficient and flexible energy system fit for the future.



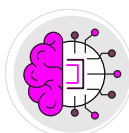
Consumer Value

We will have unlocked around £3.4 billion of consumer benefits by 2026 through delivery of our commitments.



Customer Centricity

We will understand and balance the different needs of groups we work with to form meaningful partnerships.



Digital Mindset

We will unlock the potential of technology and teamwork through a digital-first approach, enabling a future of seamless connectivity and innovation at pace.



People Value

We will invest in our people to ensure we're prepared and empowered to embrace the opportunities of the future.

Performance Objectives

We have identified eight Performance Objectives that support the delivery of our Strategic Priorities between April 2025 and March 2026. These objectives recognise the transformational changes currently taking place within the energy system, sharpening our focus on advancing clean power, decarbonising energy and maximising consumer value.



Whole Energy

Strategic Whole Energy Plans

NESO will establish the capabilities, foundations and methodologies needed to deliver national and regional strategic whole energy plans.

Enhanced Sector Digitalisation and Data Sharing

NESO will work with the sector to develop an aligned and interoperable digital ecosystem that enables industry digitalisation collaboration utilising innovation, underpinned by transparent data sharing and access.

Fit-for-Purpose Markets

NESO will support the government in making informed decisions on policy and market reform across the whole system. We will also continue to reform our own markets to level the playing field and deliver value to consumers.

Secure and Resilient Energy Systems

NESO will improve whole energy system emergency preparedness and resilience. We will ensure the necessary capabilities and requirements are in place and facilitate industry readiness to meet the Electricity System Restoration Standard.

Separated NESO Systems, Processes and Services

NESO will transition remaining systems, processes and services from National Grid to NESO ownership to enhance our capabilities and establish our autonomy and full independence.

Clean Power 2030 Implementation

NESO will play a pivotal role in securing clean power for Great Britain by 2030 on the path to net zero by 2050. Building on our 2024 advice to government on pathways to a clean, secure, operable and deliverable electricity system, we will move to action and implementation in line with the government's CP30 action plan.



Electricity

Operating the Electricity System

NESO will transparently operate a safe, reliable and efficient system throughout BP3, while continuing to transform the capabilities of our people, systems and processes to enable secure zero-carbon operation of the system by the end of 2025.

Connections Reform

NESO will drive delivery and implementation of a reformed connections process that enables projects needed for 2030 and beyond to connect in a timely and coordinated manner.

Many of the activities planned for this period relate to roles we have not previously undertaken – and, in some cases, to work that has never been done before. For the first time, we will produce strategic national energy plans with accompanying strategic environmental assessments for Great Britain. We will also take on a digital leadership role for the energy sector, improving sector-wide data practices and supporting the collaborative digitalisation of the whole energy system.

We will build on the strong foundations of the ESO – delivering on our ambition for zero-carbon operability in 2025 and continuing to transform markets to unlock the full potential of flexibility.

We will achieve our BP3 objectives by:

- working in close collaboration with the broader energy sector
- developing the right digital skills, using modern technologies and innovation, and embracing open data sharing
- ensuring our people have the skills and capabilities they need

Download our [*RIIO-2 Business Plan 3*](#) to learn more about what we will deliver during the BP3 period (April 2025 to March 2026).

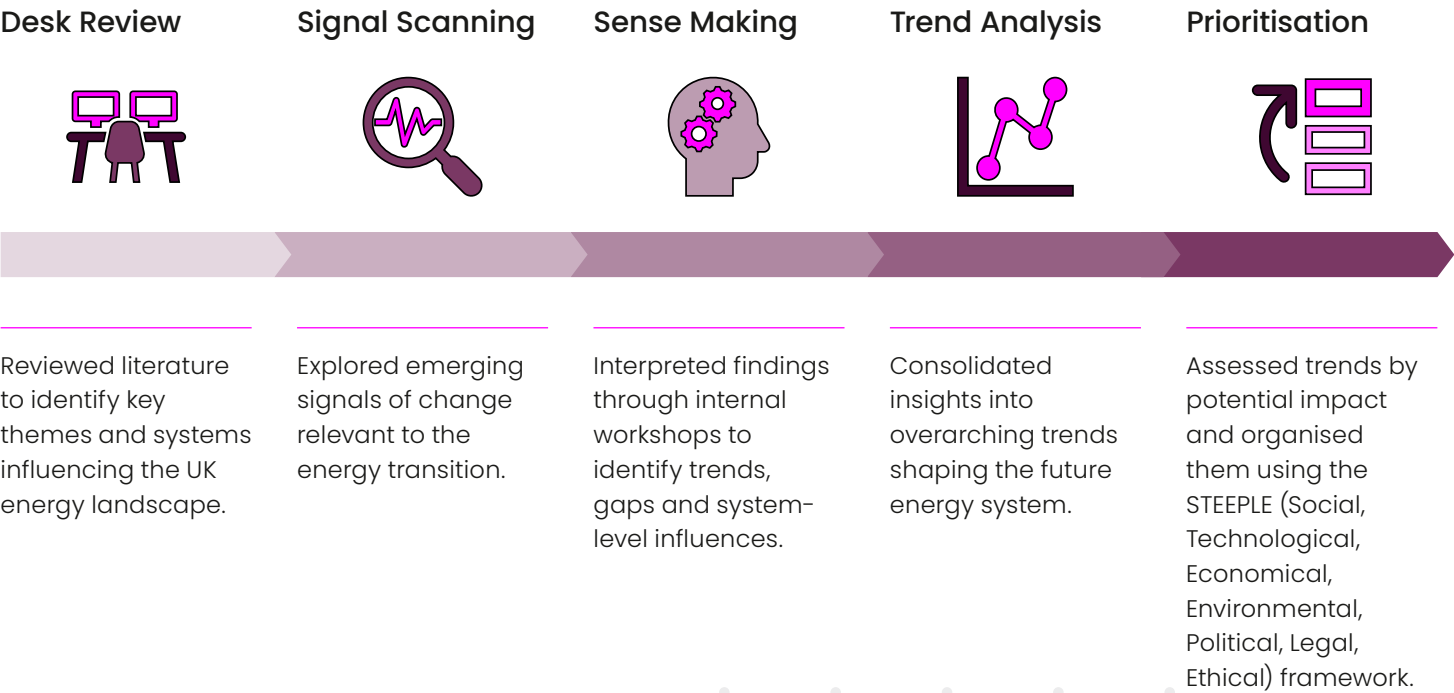
Future Outlook

To fulfil NESO’s statutory duty to support the delivery of secure, economical and sustainable energy systems, we continuously monitor external developments that could influence our ability to meet these objectives. Our horizon scanning process helps us anticipate risks, identify opportunities and ensure our strategies and plans remain resilient in a rapidly changing world.

This work informs and supports:

- corporate strategy development – shaping NESO’s long-term direction
- our enterprise risk framework – identifying principal and emerging risks
- business planning – providing external context to guide priority setting

Horizon scanning process:



Key trend themes identified

We identified sixteen major trends shaping the energy transition. These trends can be grouped into three overarching themes, each with varying degrees of influence on the future direction of the transition:

International volatility is reshaping the external landscape

- Climate change and geopolitical dynamics are contributing to a more uncertain global environment. Protectionist trade policies, land-use pressures and competition for key resources are among the factors that may disrupt international coordination on energy and climate objectives.

Progress on the transition is happening, with continued focus on delivery

- Momentum behind decarbonisation remains strong, supported by high levels of investment and innovation across energy and digital technologies. The system is evolving rapidly to enable large-scale change, while also addressing cross-cutting enablers such as skills and infrastructure.

Consumer engagement is influenced by wider economic and social factors

- Household engagement with the transition is shaped by concerns around affordability, access and the clarity of available choices. Broader economic pressures and social conditions continue to affect people's capacity to prioritise or act on energy and climate issues.

How we are responding

These trends shape how NESO delivers its functions today and where we focus our efforts for the future.

We continue to deliver on our resilience and emergency management duties, monitoring and responding to risks in an increasingly volatile external environment. Our connections, markets and planning functions guide investment to support an orderly and efficient transition, while our strategic and regional planning activities help assess and manage how the transition impacts different communities.

Our innovation strategy prioritises technologies that support both decarbonisation and system stability. We are also enabling greater consumer participation through initiatives such as demand flexibility services – helping ensure that

engagement with the energy system is secure, accessible and inclusive.

Meanwhile, through our Future Energy Scenarios, Clean Power 2030 programme, and the application of economic analysis, we are building a clearer picture of how long-term transition goals can align with affordability and cost of living considerations.

Our horizon scanning work is being integrated into NESO's corporate risk framework, helping inform the identification and assessment of emerging risks in line with our enterprise approach. In the shorter term, horizon scanning also supports the strategic context for business planning – enabling an adaptive approach across corporate strategy and planning cycles.

Financial Review

The Chief Financial Officer (CFO) function was established during FY2023–24 to support the transition to NESO. Between May and September 2024, we successfully assumed operational responsibility for finance, procurement, property and portfolio enabling services previously undertaken within the National Grid group. We are grateful to our customers and suppliers for their valued engagement in this process, which supported the divestment of NESO from National Grid on 1 October 2024, and enabled continued business operations without significant disruption.

Since assuming operational responsibility, we have been supported by transitional service agreements (TSAs) – contractual arrangements through which National Grid continues to provide essential information technology and back-office services for a defined transition period. The next phase of separation is to establish NESO's own enterprise resource platforms (ERPs) to enable the full close-out of TSAs within two years of NESO's establishment. A project has been established to develop and implement the new systems by early 2026.

We aim to safeguard consumer funds at all times through our policies, business processes and risk management framework. Although not a mandatory requirement under NESO's framework agreement, we operate in accordance with the [Managing Public Money](#) (MPM) principles of regularity, propriety, value for money and feasibility. We follow the principles of MPM unless a significant inconsistency arises with our ability to discharge statutory duties or operate commercially and effectively.

We deliver value for money through a delivery cycle that incorporates strategic review, corporate business planning, delivery within agreed budgets, investment appraisal, procurement and performance management. Our approach focuses on three principal mechanisms: operational efficiency, outcome delivery and strategic alignment. We report on these as a key element of our regulatory reporting obligations.

Regulation and drivers of reported financial results and financial position

Due to the critical role NESO plays in the national energy system, our business is regulated by Ofgem. We continue to operate under Ofgem's RII0-2 framework (revenue = incentives + innovation + outputs). However, on becoming NESO on 1 October 2024, the regulatory mechanisms were amended to reflect our new position and the expectations of operating on a not-for-profit basis. The key changes from this date are:

- all efficiently incurred expenditure is recoverable on a passthrough basis and included in revenues in the year of expenditure as 'fast money'
- NESO's regulatory asset value (RAV) as at 1 October 2024 will be recovered over seven years; because all future efficiently incurred expenditure will be recovered as fast money, there will be no further additions to the RAV beyond inflation adjustments

In 2023, Ofgem instructed NESO to set fixed Balancing Services Use of System Costs (BSUoS) tariffs in advance every six months to provide greater certainty for suppliers, reduce their cash flow risk and the risk premia added to bills – ultimately reducing costs for consumers. The fixed tariff regime came into effect on 1 April 2023.

Fixed tariffs significantly increase NESO's cash flow risk and can result in year-on-year fluctuations in reported operating profit. We set two tariffs per year, each nine months ahead of the start of the tariff period. Tariffs take effect on 1 April and 1 October. From now on, both tariffs will be set in December, ahead of the following financial year.

As NESO operates on a not-for-profit basis, any over-collection of BSUoS revenue is reported as profit but returned to customers. Conversely, under-collection is reported as a loss and recovered through future tariffs. BSUoS tariffs for FY2023–24 were set at a time of historically high energy prices. However, actual BSUoS costs incurred during the period were significantly lower due to the subsequent fall in energy prices. This led to an over-recovery of revenues in FY2023–24, resulting in a reported operating profit of £849 million.

NESO responded by lowering its BSUoS tariffs for FY2024–25, returning these revenues to customers by collecting less than it spent during the financial year. This resulted in an operating loss of £409 million. With realised BSUoS costs continuing to fluctuate during FY2024–25, the loss was lower than the FY2023–24 profit, and we will therefore continue to return revenues to customers in future financial years. Tariffs for FY2025–26 have been reduced to reflect this. Any interest earned on surplus revenues held is also returned to customers in future tariff periods.

Our funding position remains strong, with the balance sheet at 31 March 2025 showing cash, cash equivalents and financial investments of £686 million, down from £1,224 million at 31 March 2024. We have undrawn working capital facilities with our parent department, DESNZ, amounting to £700 million. We continue to carefully monitor our liquidity and working capital position, given the uncertainties in balancing costs and ongoing industry reforms.

What are Balancing Services Use of System (BSUoS) charges

BSUoS charges allow NESO to recover the cost of day-to-day operations, including the cost of balancing the electricity transmission system. Final demand customers, typically energy suppliers, pay the BSUoS charge, which forms part of a typical electricity bill.

Since 1 April 2023, BSUoS charges have been recovered through fixed tariffs, set in advance of the actual balancing costs being incurred. As daily system balancing costs are not fixed and can be highly volatile, recovering them against a fixed tariff means there is always likely to be an over- or under-recovery.

Tariffs are fixed for 6-month periods, and any over- or under-recovery (the difference between tariff income and incurred costs) is accounted for in the following period's tariffs.

You can read more about our BSUoS charges and tariffs for FY2024–25 in the following documents:

[Introduction to BSUoS Charges](#)

[BSUoS Fixed Tariff 3 \(Apr 24 – Sep 24\)](#)

[BSUoS Fixed Tariff 4 \(Oct 24 – Mar 25\)](#)

Financial Review continued



Balancing Costs

One of our core roles at NESO is to 'balance' the grid, ensuring electricity supply meets demand, as well as taking action to manage the system's physical constraints. We need a wide range of tools to be able to do this effectively and economically, while keeping the electricity system stable, secure and reliable. This process involves NESO energy trading, balancing services, and the Balancing Mechanism. The balancing actions taken by NESO incur balancing costs, which pay for the wide range of tools that help us.

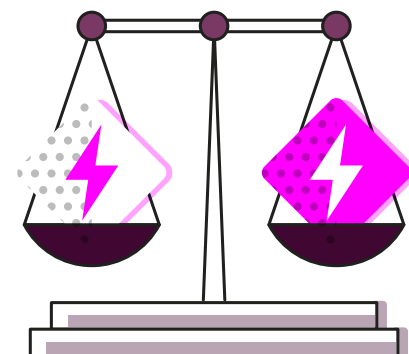
- The costs of balancing the electricity system increased by 8.3% to £2,713 million in FY2024-25 (2024: £2,506 million), largely driven by thermal constraints, relating to:
 - New assets (generators, interconnectors) connecting to the electricity system
 - Planned network outages in Scotland (to allow improvement works to take place)
 - Higher volumes than usual of wind generation

- Balancing costs are not fixed. Current forecasts, in NESO's 2025 Balancing Costs Report, suggest these costs will rise in the short term, with a potential peak of £8 billion by 2030, before falling as new electricity network capacity becomes available, allowing an optimised flow of electricity and fewer constraints.
- NESO is undertaking a wide range of initiatives that are aimed at minimising balancing costs. These have saved consumers at least £1.2 billion of balancing mechanism costs over the BP2 period.
- The costs of balancing the electricity system are recovered from consumer bills. In FY2024-25 balancing costs contributed to approximately 3.4% of electricity bills for an average domestic consumer.

More information about Balancing Costs can be found on our website [Balancing costs | National Energy System Operator](#)

Thermal constraints

There is a physical limit to the amount of electricity which can be transmitted through the electricity network. That limit is set to ensure that equipment does not overload/overheat. If the pattern of electricity generation and demand in a certain area mean that this limit could be exceeded, NESO will pay generators to vary their output and optimize the flow of electricity. This can mean asking one generator (e.g. wind) to turn down and asking another generator (e.g. gas) to turn up.



Income statement commentary

	Years ended 31 March	
	2025	2024
	£m	£m
Revenue	2,904	3,809
Provision for bad and doubtful debt	1	—
Operating costs	(3,314)	(2,960)
Total operating (loss) / profit	(409)	849
Finance income	42	42
Finance costs	(5)	(14)
(loss) / profit before tax	(372)	877
Taxation	81	(219)
(loss) / profit after tax	(291)	658

Revenue

Revenue for the year ended 31 March 2025 was £2,904 million (2024: £3,809 million). NESO is the system operator for Great Britain, which involves procuring services to balance the electricity transmission network. To recover the cost of this activity, NESO applies BSUoS charges to electricity suppliers. NESO also acts as the revenue collection agent for Transmission Network Use of System (TNUoS) charges, which are collected on behalf of the transmission network owners. These TNUoS revenues are accounted for under IFRS 15 and reported on a net basis. Further details can be found in note 2 to the financial statements.

Most revenues – £2,820 million (2024: £3,763 million) – were generated through the operation and balancing of the electricity system. This includes recovering costs directly incurred in system balancing and amounts allowed under our regulatory framework to cover internal operating costs.

The reduction in revenue during the year reflected:

- an expected £428 million reduction in balancing costs compared with the assumptions used to set FY2023–24 tariffs
- the surplus revenue of £686 million from the prior year
- a £163 million increase in the recovery of internal costs, due to treatment of NESO separation costs as 100% fast money.

TNUoS revenues were £82 million (2024: £46 million), reflecting cost recovery under the regulatory framework, including Ofgem licence fees. See note 2 of the financial statements for further details.

Operating costs

Operating costs for the year ended 31 March 2025 were £3,314 million (2024: £2,960 million). Of this, £2,713 million (2024: £2,506 million) related directly to system balancing costs. These costs include the full range of tools NESO uses to keep the electricity system stable and secure.

System balancing costs increased by 8.3% in FY2024–25. Further details are provided on page 24.



Financial Review continued

Other costs of our operations totalled £507 million (2024: £342 million), including payroll, licence payments and other running costs. The increase reflects the costs of delivering more transformation over the RII0-2 Business Plan 2 period and costs incurred in establishing NESO and its wider energy role. Further details are available in [Business Plan 2: End of scheme report](#), [Future System Operator: Blueprint](#) and [End of Day 1 report](#).

Depreciation, amortisation and impairment totalled £107 million for 2025 (2024: £112 million), driven substantially by depreciation of intangible IT assets. As part of the separation from National Grid, a separate section of the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGEG of ESPS) was established for NESO colleagues who were in the scheme. This resulted in a £13 million surplus being transferred to the Company on 1 October 2024, which has been recognised as an exceptional credit for the year.

Net finance costs

For the year ended 31 March 2025, net finance income was £37 million (2024: £28 million). While part of National Grid, this included interest paid on a fixed-term loan to National Grid, which was repaid in June 2024, offset

by interest received on centrally managed treasury banking arrangements.

From 1 October 2024, NESO began managing its own treasury function under a policy approved by the Board. The policy aims to retain at least £50 million in interest-bearing commercial bank accounts and to invest surplus funds in AAA rated sterling money market funds, with a maximum counterparty exposure of £500 million per fund. The Company also pays fees to providers of working capital facilities, which since 1 October 2024 have been payable to DESNZ.

Interest is also charged on balances owed from or to external customers during the normal course of business. The increase in interest received reflects returns on the over-collected BSUoS income retained during the year. Under the regulatory regime, interest earned or paid is reflected in allowed internal revenues and is returned to, or recovered from, customers in tariffs.

Taxation

The tax credit on profits and remeasurements was £81 million (2024: £219 million charge), at a rate lower than the standard UK tax rate of 25%.



Statement of financial position commentary

	Years ended 31 March	
	2025	2024
	£m	£m
Non-current assets	576	469
Current assets	1,297	1,796
Total assets	1,873	2,265
Current liabilities	(993)	(1,161)
Non-current liabilities	(142)	(77)
Total liabilities	(1,135)	(1,238)
Net assets	738	1,027

Non-current assets

Key movements include:

- £206 million of capital investment, largely in IT systems, offset by a depreciation and amortisation charge of £107 million
- £15 million of net pension assets recognised on the balance sheet following the establishment of a separate section of the ESPS pension scheme for NESO colleagues who are members of the scheme (see note 16)

Current assets

The movement reflects a £563 million reduction in the level of financial investments held by the Company, with £554 million of funds returned to customers during the year. Tariffs were set with the intention of returning £686 million.

Current liabilities

The reduction in liabilities reflects the repayment of the loan and associated interest from National Grid in June 2024, ahead of the transfer of ownership of the Company to the Secretary of State.

Provisions

The Company has no provisions, having been indemnified by National Grid for any prior under-payment of IT licences.

Non-current liabilities

Key movements include:

- an increase of £75 million in deferred tax liabilities

Cash flow statement commentary

Cash inflows and outflows are presented to help users understand their relationship to:

- day-to-day operations of the business (operating activities)
- money spent or earned on assets in the year, including acquisitions of physical or intangible assets (investing activities)
- cash raised from debt or share issues and other borrowings or repayments (financing activities)

Our electricity system operations are subject to a multi-year regulatory agreement.

For the year ended 31 March 2025, cash flow from operations was an outflow of £283 million. This was driven by an operating loss, adjusted for depreciation, amortisation and provisions, of £317 million, and a working capital inflow of £34 million.

The key driver of the reduction from FY2023–24 was the over-collection of £820 million of revenues in that year, with £554 million of this returned in FY2024–25.

Reconciliation of cash flow to net debt

	2025 £m	2024 £m
Cash (outflow)/generated from operations	(283)	1,017
Net capital expenditure	(127)	(148)
Business net cash (outflow)/inflow	(410)	869
Net interest received	33	26
Tax paid	(30)	(198)
Net disposals of short-term financial investments	(623)	(4)
Net proceeds from (repayments of) loans	1,058	(686)
Payment of lease liabilities	(3)	(1)
Dividends paid to shareholders	—	—
Increase in cash and cash equivalents	25	6
(Decrease)/ increase in financial investments	(566)	699
Increase/(decrease) in borrowings and related derivatives	128	(13)
Net interest received/(paid) on the components of net debt	3	(9)
Net debt (decrease)/increase	(410)	683
Opening net debt	1,079	396
Closing net debt	669	1,079

Net capital cash expenditure

Net capital investment was £127 million (2024: £148 million), mostly relating to software and computer hardware for IT system development projects.

Net interest received

Net interest received was £33 million (2024: £26 million), with the increase reflecting interest earned on surplus cash.

Tax paid

Tax paid during the year was £30 million (2024: £198 million), reflecting the final settlement to National Grid relating to FY2023–24. As the Company forecast a loss, no payments on account were made to HMRC during the year. A repayment will be sought from HMRC when the FY2024–25 tax return is submitted.

Dividends paid

No dividends were paid in the year (2024: £nil).

Going concern

The Directors have concluded that there are no material uncertainties relating to the Company's ability to continue operating for a period of at least 12 months from the date of approval of these financial statements. Further details can be found in the Basis of Preparation section found in note 1 to the financial statements.

Accordingly, the financial statements set out on pages 110 to 140 have been prepared on a going concern basis.

Statement of viability

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a period through to 30 September 2027 (the viability assessment period). This is longer than the 12-month going concern period from the date of signing the financial statements and reflects the period for which agreed funding facilities are in place with DESNZ. Under the terms of these facilities, the Company is not permitted to have indebtedness to other parties, except for permitted lease arrangements. The facilities are provided by DESNZ and underpinned by HM Treasury.

The Company's role is established in primary legislation, and it operates under licences granted by its regulator, Ofgem. These licences and the associated funding models provide NESO with certainty that all efficiently incurred expenditure is recoverable through its allowed Balancing Services Use of System (BSUoS) revenues. These arrangements mitigate the longer-term viability risk of the Company. Both DESNZ and Ofgem are aware of the Company's funding facilities and the circumstances under which HM Treasury may or may not consider any increase. The primary risk in assessing the viability of the Company relates to the timing of the cash flows within the assessment period. Key risks include:

1. NESO being asked to expand its roles and responsibilities
2. Market developments introduced after tariffs have been set, resulting in earlier cash outflows than the associated revenue receipts
3. Balancing costs being significantly higher than assumed when setting tariffs for the year ahead

NESO's current regulatory planning period, BP3, runs to 31 March 2026. The next regulatory period will span two years to 31 March 2028, with the corporate business plan covering a five-year period through to 31 March 2031. These plans outline the roles and responsibilities NESO expects to deliver, along with the associated cost requirements.

The regulatory plans are consulted on with stakeholders to ensure alignment with expectations and are discussed with DESNZ and Ofgem before formal submission. This provides the Company with clear visibility of the activities it is expected to perform and the funding it requires through BSUoS revenues.

The energy market is evolving rapidly, and NESO plays a central role in this transition. Before any market changes are introduced, they are subject to consultation with the industry, DESNZ and Ofgem. As the regulator, Ofgem must approve these changes. Policy decisions are set by DESNZ, also following consultation. These consultation periods allow NESO to assess potential impacts and provide evidence on how proposed changes may affect its cost base and the timing of cash flows.

Current market changes under consideration include Connections Reform and the Review of Electricity Market Arrangements (REMA). Connections Reform could increase short-term funding risks, as refunds of application fees and connection charges to customers removed from the queue – though recoverable – will only be recovered through Transmission Network Use of System (TNUoS) tariffs from 2026/27 onwards. REMA proposals could have introduced zonal rather than national tariffs. This would have required the establishment and operation of a Financial Transmission Rights (FTR) market, significantly altering NESO's risk profile.

In both cases, NESO has engaged closely with DESNZ, Ofgem and wider stakeholders to assess the financial and operational risks and determine whether these can be managed within existing funding arrangements.

As noted in the going concern assessment, BSUoS tariffs are set in advance and fixed for six months. The Company can reset tariffs if forecasts indicate it will incur a cumulative under-recovery of £300 million. This mitigates the risk of higher-than-expected balancing costs, with this amount effectively earmarked within NESO's available funding facilities.

As at 30 September 2024, the Company had a Regulatory Asset Value (RAV) of approximately £450 million. This represents expenditure yet to be recovered through BSUoS revenues, which is allowed to be collected over a seven-year period. The recovery of these funds is expected to be paid to the Shareholder as a dividend, as it reflects value held in the business at the point of purchase and was factored into the original consideration. However, the timing of any dividend is at the discretion of the Board, taking into account NESO's funding needs.

Under NESO's new funding model, all forecast expenditure – both capital and operational – is recoverable in the year it is incurred. BSUoS tariffs are set each December for the financial year ahead, aligned with NESO's internal planning and budgeting processes. Spend is tracked monthly against the forecast to ensure transparency and control.

The Directors have assessed that the regulatory arrangements and processes in place provide appropriate safeguards for the Company to manage short-term funding risks. This included a qualitative assessment of how the Company has previously mitigated similar risks, including during the Covid-19 pandemic and the introduction of fixed BSUoS tariffs.

The assessment considered the Company's current level of available cash and short-term financial assets, the recoverability of RAV monies, and the committed funding facilities available from DESNZ, underwritten by HM Treasury. These facilities were sized based on a reasonable worst-case scenario for cash flows across the Company's revenue streams. Both DESNZ and Ofgem are aware of the sizing of these facilities when considering market changes that may alter the Company's risk profile.

The Board expects to renew these facilities ahead of their maturity, with a new sizing assessment to be undertaken if the Company's risk profile changes during the viability period. It considers it reasonable to expect that adequate funding can be secured.

Based on this assessment, the Directors have a reasonable expectation that the Company will continue to operate and meet its liabilities as they fall due over the viability period to 30 September 2027.

Our People

Our role as NESO expands our remit beyond electricity, taking a whole energy system view. To meet our duties, our workforce must be diverse and equipped with the expertise needed to deliver across the full scope. Our people should also be representative of the communities, customers and consumers we serve.

To support this, we have developed a strong employee value proposition and inclusive HR policies, which we will continue to evolve to attract and retain the skills and expertise required.

Culture

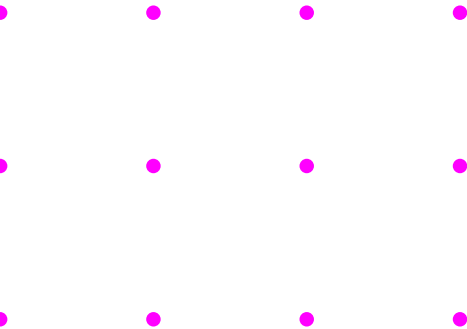
As we became NESO, it was important to establish a clear set of cultural values that all colleagues across the organisation can align with. Our values – outlined on page 11 – underpin the behaviours we encourage at NESO and help build a strong, inclusive culture to deliver our mandate. Listening is a cornerstone of how we measure our success with our people. We regularly monitor engagement, belonging, psychological safety, wellbeing and the ability to speak up across all parts of the organisation. This data is analysed to help identify and deliver appropriate actions and interventions.

Colleague Engagement

Clear and open, two-way communication with colleagues is core to our organisational culture and contributes to NESO’s long-term success.

Our people are kept well informed of our performance, strategy and any significant events or developments impacting the business. We use many different communication channels to optimise engagement and communicate effectively to all colleagues within our hybrid working environment. We regularly communicate with all colleagues through our weekly Monday Matters engagement calls, hosted by the Executive leadership. These are supplemented by our quarterly all-employee town hall meetings, annual all-employee conference, a weekly NESO newsletter, Intranet site and internal social networking platform – Viva Engage.

This year, we launched our colleague survey, NESO@Listens. The data and insights provided from this and other colleague surveys help to inform our approach and decision making on issues that matter to our people, helping to make NESO a great place to work.



2025 Culture metric scores

NESO@Listens survey employee engagement score

84% (FY2023-24 - 79.0%*)

* This figure is from a National Grid Group Grid: Voice employee engagement index when ESO was part of National Grid group.

To read more about NESO's metric methodologies see our [Methodology Statement](#).

Belonging

78%

Belonging means feeling included and accepted as your authentic self – being heard, seen and recognised for your contributions.

Speak up

77%

At NESO, we encourage individuals to speak up when something needs to be addressed, reported or challenged.

Wellbeing

86%

We aim to ensure that colleagues feel supported in their wellbeing at work, know where to turn for advice and are able to maintain a healthy work-life balance.

Recruitment and talent pipeline

We employ more than 2,000 full-time colleagues across Great Britain, having recruited nearly 600 new team members in FY2024-25 to support our expanding remit. Our approach to hiring and building a diverse pool of talent begins with a strategic review of NESO's evolving goals and how these affect workforce needs. Our People, Strategy and Finance teams closely partner with the business to determine future requirements, which enables planning and recruitment of the right talent, in the right places at the right time.

We are committed to providing meaningful development opportunities for colleagues – enabling us to attract and retain key talent. We also work in partnership with other organisations to establish experience placements, secondments and rotational programmes. These initiatives support professional development and promote knowledge sharing across the sector.

To develop a strong talent pipeline, we are working with several external organisations to influence the academic talent strategy and promote Science, Technology, Engineering and Maths (STEM) in schools. This helps ensure our approach aligns with wider industry skills needs. We have also established an internal network of school ambassadors who engage directly with schools to improve awareness of the changing energy landscape and the journey to net zero.

NESO is an equal opportunities employer. Our core values are grounded in creating an environment where colleagues can perform at their best and feel fulfilled and confident in their work, regardless of any protected characteristics under the Equality Act 2010 or their background.

Our People continued

Rewards and benefits

We aim to offer fair and competitive pay to attract and retain the best talent. This is informed by an annual benchmarking exercise, where we assess our overall remuneration offering against appropriate peer groups. In addition to market data, we also consider business performance, individual contribution, role scope and the skills and experience of each colleague.

Learning and development

At NESO, our learning and development initiatives are designed to create a culture of continuous improvement and professional growth. We provide relevant on-demand training and have developed a catalogue of external modules aligned to evolving business needs.

We continue to strengthen our core people capabilities – including whole energy system awareness, digital and data literacy, critical problem solving, effective engagement and holistic thinking. A good baseline understanding of each of these is considered essential for all colleagues to contribute to NESO’s success. To support this, we have defined four proficiency levels for each capability: foundation, skilled, expert and advanced. With the backing of our Learning and Development and Early Careers teams, we are equipping NESO with the skills and experience required to thrive in a rapidly evolving talent landscape.



Diversity, equity, inclusion and belonging

At NESO, we recognise that diverse teams are more representative of society, better reflect our customers and other stakeholders, and can therefore bring wider perspectives and understanding to help drive better decisions. Diversity, equity, inclusion and belonging (DEIB) is central to NESO and embedded within our core values to ensure all colleagues feel a sense of belonging. We are committed to creating a workplace that values the power of diverse experiences – where people feel included for who they are and empowered by what we can achieve together. This in turn supports colleague retention.

Our equality objectives, set in line with the Public Sector Equality Duty (PSED), cover the five-year period from 2023 to 2028 and focus on four main areas:

1. Embedding our Belonging Strategy across NESO
2. Establishing new teams to support our Belonging Strategy
3. Refining our Equality Impact Assessment (EIA) processes and plans in line with our PSED requirements
4. Implementing DEIB data monitoring processes

In 2024, we established a new DEIB team to support the delivery of our Belonging Strategy. As part of this, we introduced a new EIA tool, along with supporting guidance and training. This sits within an organisation-wide PSED training package. We have also added training on inclusive hiring and unconscious bias to our in-house leadership course. Our Safe to Share campaign encourages colleagues to share information about their protected characteristics to help us build a more inclusive workplace.

Given the importance of DEIB, we continue to embed inclusive practices into our business operations. We have reviewed and updated policies to reflect DEIB principles and ensure they support all communities across NESO. Any changes to existing policies that could impact colleagues with protected characteristics are subject to consultation.

In 2024, we launched a new DEIB strategy and set out the following objectives to support our colleagues and strengthen our organisation:

- Actively build a diverse workforce at all levels, attracting and empowering talent from a wide range of backgrounds.
- Create a strong sense of belonging for all colleagues, empowering them to contribute fully and support others to do the same.
- Deepen engagement with diverse energy consumers to inform our strategic direction and strengthen NESO's role as a leading voice in the energy system.

To continue supporting DEIB across the organisation, we are working with Womens Utilities Network and Men for Inclusion.

While ethnic diversity in senior leadership remains stable, NESO continues to partner with the RISE Employee Resource Group and Investing in Ethnicity to support inclusion, recruitment, retention and development of colleagues from diverse backgrounds.

Metric	FY25	FY24
Diversity, Equity, Inclusion and Belonging (DEIB) metric scores		
Ethnic diversity of Executive leadership	12.5%	12.5%
Gender diversity of Executive leadership (% female)	75.0%	62.5%
Ethnic diversity of workforce	35.4%	35.6%
Gender diversity of workforce (% female)	39.2%	37.7%

To read more about NESO's metric methodologies see our [Methodology Statement](#)

Our People continued

NESO Employee Resource Groups

Employee Resource Groups (ERGs) and DEIB champions play a vital role in building a culture of belonging and supporting a resilient workforce across NESO. Since September 2024, we have established 10 ERGs that represent a wide range of colleague communities and protected characteristics under the Equality Act 2010. In addition, we have created working groups focused on the Armed Forces Covenant, Disability Confident, allyship and social mobility. ERGs provide a community for colleagues with shared identities or experiences to connect, support one another and advocate for their needs. Our ERGs raise awareness and deepen understanding of DEIB, helping to ensure all colleagues can be their authentic selves and reach their full potential.

We implement NESO’s Belonging Strategy through:

- understanding the extent to which colleagues feel they belong – and identifying what prevents this
- coordinating action plans that remove obstacles to belonging
- the DEIB team driving the organisation-wide coordination of our ERGs and interest groups, assuring implementation of relevant initiatives

Supporting the ERGs are more than 20 DEIB champions – volunteers who help drive cultural change across NESO. They ensure that equity and inclusion are embedded across the organisation, from hiring practices through to day-to-day operations.

Colleagues involved in our ERGs and champion roles volunteer alongside their core responsibilities, making an important contribution to NESO’s organisational resilience.



Case Study: Armed Forces Covenant and SeRve ERG



Our SeRve ERG focuses on creating inclusion and belonging for the Armed Forces community – including veterans, reservists, Cadet Force adult volunteers, and their families and partners. SeRve officially launched in September 2024 and has since introduced its strategy, which focuses on four key areas:

- the Armed Forces Covenant
- raising awareness and educating NESO about the Armed Forces
- recruitment of Armed Forces community members
- fundraising

We are proud that NESO signed the Armed Forces Covenant in December 2024, since achieving Silver and Bronze Level in the Defence Employee Recognition Scheme. In support of Armed Forces recruitment, SeRve has attended several job fairs, including Mission Renewable in early 2025. In line with our Covenant commitments, NESO also advertises some roles through Armed Forces-specific platforms such as Force Families Jobs and the Career Transition Partnership.

SeRve has been raising awareness among hiring managers about the benefits of employing individuals from the Armed Forces community. It has also introduced a buddy scheme to support new joiners from the community – helping them feel welcome, heard and supported, while also creating a sense of familiarity.

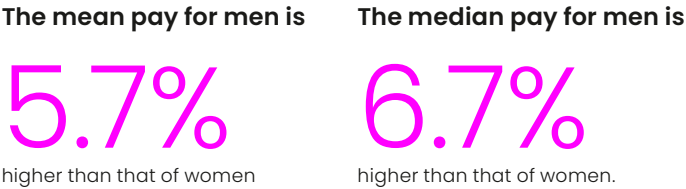
Gender pay gap

NESO is required under the UK Equality Act 2010 (Gender Pay Gap Information Regulations 2017) to publish statutory annual calculations showing the difference in pay between male and female colleagues.

Our most recent disclosure, covering the period up to April 2024, is available in the [2024 UK Gender Pay Gap Report on the NESO website](#).

This sets out the metrics we track and the calculations used, with this data reflecting the position under National Grid Electricity System Operator, prior to the establishment of NESO. The report also describes the measures we are taking to seek to reduce the gender pay gap.

Key findings:



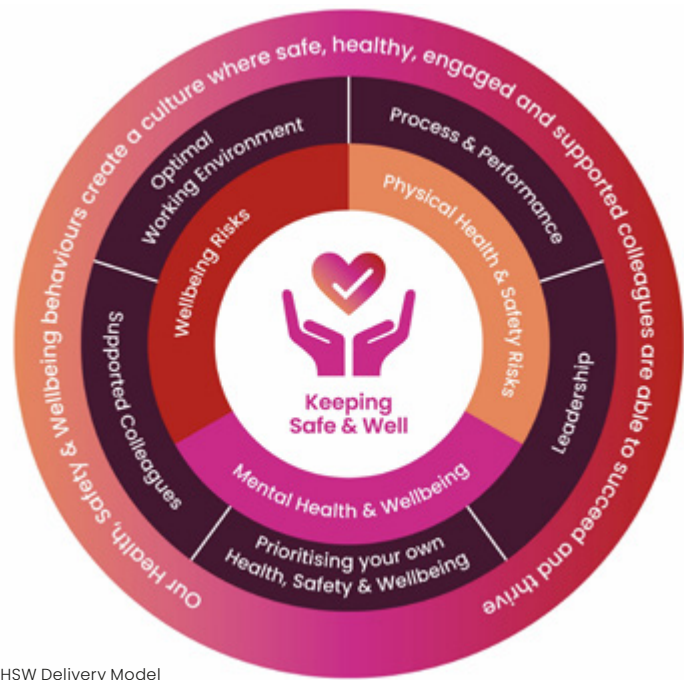
These figures reflect a higher concentration of men in higher-paying roles. The proportion of women in the top pay quartile has increased, but many roles in this group – including highly specialised engineering positions – remain in traditionally male-dominated areas.

We remain committed to reducing our gender pay gap over time and continue to focus on the attraction, retention and progression of women through our inclusion strategy and dedicated Employee Resource Group, Women in NESO (WiN).



Our People continued

Health, safety and wellbeing



HSW Delivery Model

We take proactive steps to protect the safety, mental and physical health, and wellbeing of our colleagues – whether they work in an office, in a hybrid role, or in a control room environment. We understand and comply with our legal and moral obligations for health, safety and wellbeing (HSW), and respond promptly to changes in external guidance or legislation. We also act on feedback from colleagues, including insights from internal HSW surveys, to drive continuous improvement.

NESO has a Health, Safety and Wellbeing Policy in place and operates a comprehensive safety management system. Our HSW strategy aims to create a culture where colleagues can feel psychologically and physically safe and able to perform at their best.

We continually identify, assess and mitigate risks by reviewing performance data, business feedback, executive priorities and relevant external publications. We monitor HSW performance through a range of key performance indicators and supporting measures. In response to identified risks, we develop and deliver campaigns and communications that are inclusive and responsive to the needs of our diverse workforce – making sure everyone has the right information at the right time.

Our health service providers offer a range of support, including an Employee Assistance Programme (EAP), counselling, physiotherapy, occupational health assessments and workplace adjustment recommendations. Where our standard offer does not fully meet the needs of individuals or teams, a tailored support pathway is also available. Our shift workers receive biennial health assessments, recognising the sedentary nature of their roles. We also provide an annual flu vaccination programme for all colleagues.

As NESO has grown, we have expanded our network of HSW Champions. These colleagues provide localised support and help raise awareness of key health and wellbeing topics. They facilitate campaigns, signpost colleagues to support services and cascade important messages across the organisation.

All Champions receive specific training, including mental health first aid. In addition, a full suite of mental health training is available to all colleagues, with targeted courses for managers on recognising signs of poor mental health, having supportive conversations and signposting to appropriate resources. We also provide access to self-help apps that offer immediate guidance and support, including self-referral to the EAP through our health services providers.

FY2024-25 Lost time injury frequency rate

0% (FY2023-24 – 0%)

To read more about NESO’s metric methodologies see our [Methodology Statement](#)



Environment, Social and Governance Report

This report presents the Company's environment, social and governance (ESG) performance from April to September 2024 as National Grid ESO, while a subsidiary of National Grid plc, and as NESO from October 2024 to March 2025. Where appropriate, we draw on historical data and comparable metrics from the previous annual report and accounts as National Grid ESO to support continuity and context.

This report and the preceding section on Our People align with the Companies Act 2006, the Equality Act 2010, and the Public Sector Equality Duty (PSED).

Environment

At NESO, we aim to create a future where everyone has access to sustainable energy. We recognise the importance of considering environmental impacts during the energy transition, including the effect of our operations. Information on our business, operating model and wider environmental impact can be found in this Strategic Report on pages 9 to 21.

Our operations

Streamlined Energy and Carbon Reporting Disclosure

We report our energy use and greenhouse gas (GHG) emissions as tonnes of carbon dioxide equivalent (tCO₂e) in line with Streamlined Energy and Carbon Reporting (SECR) requirements. We monitor our usage and proactively identify opportunities to improve energy efficiency.

As this is NESO's first year reporting independently under SECR, the previous year's figures for SECR metrics are not available. Where relevant, National Grid ESO's historical metrics are included in additional environmental reporting data to support continuity.

We monitor the GHG emissions from our main operational centres annually. We take active steps to improve energy efficiency and reduce emissions, including upgrades to lighting, heating, ventilation and air conditioning systems.

Sustainability is central to the way we expand our real estate portfolio. We aim to occupy properties that meet the highest sustainability standards, such as those accredited under the Building Research Establishment Environmental Assessment Method (BREEAM).

Metric	FY25
Scope 1 – Emissions from gas combustion (tCO ₂ e)	122
Scope 1 – Emissions from fuel used for transport (tCO ₂ e)	4

Metric	FY25
Scope 2 – Emissions from purchased electricity, including for transport (location-based) (tCO ₂ e)	1,559
Scope 3 – Emissions from business travel in rental cars or employee-owned vehicles where the Company is responsible for purchasing the fuel (tCO ₂ e)	154
Total Gross Emissions (tCO₂e)	1,839
Emissions intensity (total gross per full-time employee) (tCO ₂ e per FTE)	0.76
Total energy consumption (gas, electricity and transport) (kWh)	8,874,560

Methodology

All ESG metric methodologies are outlined in our [Methodology Statement](#). This year, we implemented a new reporting and calculation methodology, meaning NESO's results are not directly comparable with those previously published by National Grid ESO.

Boundary: This statement has been prepared in accordance with SECR. Our reporting year runs from 1 April 2024 to 31 March 2025. The emissions reporting boundary includes all facilities under NESO's operational control, including three operational centres. Two leased offices have been excluded as they are considered temporary and are not within NESO's operational control.

Reporting: Emissions have been reported for Scope 1, 2 and 3 using the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and associated guidance (GHG Protocol). Emissions are classified by origin: direct emissions from owned or controlled sources (Scope 1), indirect emissions from purchased energy (Scope 2), and other indirect emissions in the value chain (Scope 3). We account for emissions from operations where we have operational control. GHG emissions have been calculated using the UK government's greenhouse gas reporting: conversion factors 2024, and the 2022 DEFRA GHG supply chain SIC Code emission factors.

Environment, Social and Governance Report continued

Data explaining our operational environmental impact

Overall, emissions reported within our operational control are considered to contribute a small proportion in comparison to other companies within Great Britain's energy sector.

As NESO has expanded to fulfil its purpose and vision, this growth is reflected in our environmental performance. We have increased our workforce to meet our broader roles and responsibilities. During NESO's establishment, our colleagues have worked across operational centres and regional offices, leading to increased travel. Our role as a catalyst for global change, including sharing knowledge and best practice, has also led to an increase in international travel.

Metric	FY25	FY24
Scope 1 emissions – Building heat & Business vehicles (tCO ₂ e) (‡)	181	169
Scope 2 (location based) emissions – Electricity (tCO ₂ e) (‡)	1,559	1,055
Scope 3 emissions – Purchased services, Flights, Other travel and waste* (tCO ₂ e) (‡)	49,237	49,663
Total employee miles travelled by air (miles) (‡)	913,647	601,716
Total employee miles travelled by air per person (miles per person)	441	420
Percentage of electric management vehicles (company car fleet)	100	89

‡ Denotes FY25 metrics included within the scope of an independent limited assurance exercise undertaken by PwC, see page 47.

* Greenhouse gas emissions from waste (GHG Protocol Category 5: Waste generated in operations) were excluded from PwC's limited assurance. Waste generated in operations contributed 4 tCO₂e.

Nature and waste management

At NESO, we have continued to uphold our waste management approach, diverting 100% of total office waste from landfill. Sustainability has been embedded in the design of our office environments, including upcycling programmes for office furniture across our main sites. These programmes help minimise waste and reduce spend on new equipment. We work with a third-party supplier to ensure furniture is replaced, re-used or recycled in line with circular economy principles.

Operational environmental impact from waste

Metric	FY25	FY24
Total office waste (tonnes)	69.29	78.84
Office waste per person (tonnes per FTE)	0.03	0.05
Waste diverted from landfill (tonnes)	69.29	78.84

Our partnership with TCV

We are proud to have continued our partnership with The Conservation Volunteers (TCV) at our Wokingham office site. TCV is a charity supporting environmental conservation through practical, community-led projects.

This partnership offers colleagues the opportunity to learn new skills, improve their local community, and benefit from enhanced health and wellbeing.

We are supporting woodland management activities including stump treatment, invasive species control, pond maintenance and tree planting. These initiatives have contributed to the rejuvenation and regeneration of biodiversity in the Wokingham office estate woodland.

Climate-related Financial Disclosures

under s. 414CA and s. 414CB Companies Act 2006

Our mandate and NESO's purpose are intrinsically linked to climate and the energy transition, and our strategic priorities are designed to support this. Further information can be found on pages 9 to 21 of this Strategic Report.

Governance

NESO's corporate governance framework allows for assessment and management of climate risks and opportunities into regular oversight and decision making at Board and Executive level.

At almost every meeting the Board reviews progress towards NESO's organisational priorities and related performance objectives, as set out on pages 18 and 19. This includes discussing NESO's work on advancing clean power, decarbonising energy and maximising consumer value, in the context of the current period of transformational change in the energy system. The Operational Effectiveness & Resilience Committee has responsibility for reviewing operational, environmental and social risks, and the effectiveness of NESO's sustainability framework. You can read more about the work of the Board and its Committees in the Governance report on pages 62 to 101.

Executive responsibility for climate considerations – including energy costs, security of supply and environmental sustainability – is shared across departments. Executive responsibility for ESG is delegated to the Corporate Affairs Director, who is supported by NESO's ESG team. To support good planning and decision making, NESO engages with key stakeholders on climate, environmental and community matters, that you can read more about in our s.172(1) Statement on pages 48 to 52.

NESO has an environmental protection policy in place, outlining our responsibilities to avoid negative environmental impacts, including contributions to climate change. We also comply with the UK government's Orange Book, which sets out principles for effective risk management.

Risk management

You can read about NESO's overall risk management approach on page 54. NESO's work involves considering the identification, impact assessments and management of physical and transition climate risks and opportunities across Great Britain's energy sector, including in the following ways:

- Horizon-scans for emerging trends up to 2040 are conducted and presented to the Executive Committee and Board on a quarterly basis, to support identification of principal and emerging risks within NESO's Enterprise Risk Management framework. Further information on high level findings and integration of this into the business can be found in our Future Outlook section on pages 20 and 21.
- Dedicated teams assess risks, including climate, and impacts across the energy system, across the short term (0–5 years), medium term (5–10 years) and long term (10+ years). An Energy Resilience Assessment report is produced annually to comply with Ofgem Licence conditions and support DESNZ and Ofgem in ensuring energy system resilience.
- In our advisory role, we produce Future Energy Scenarios reports every three years. These include assessment of climate-related and energy transition risks and opportunities relating to the UK government's decarbonisation targets. You can access these reports by visiting [Future Energy Scenarios](#) (FES) on our website.

Although climate risks are a factor that NESO routinely considers and responds to in its core work, including in balancing the electricity system and in strategic planning of the energy system, climate risk is not presently considered by the Board to constitute a stand-alone, top-level Principal Risk that could significantly impact NESO's own business model, strategy or ability to continue conducting its operations. This is because there are many mitigations and measures that NESO draws on as part of its usual course activities to fulfil its core purpose and day-to-day responsibility to maintain a secure and resilient energy system.

Environment, Social and Governance Report continued

Transition risks are instead presently considered at an operational level within the following Principal Risks: (1) Security of Supply (during real-time operations); (2) Strategic Energy Planning (considered in our methodology for future strategic energy plans), and (3) Strategy and Reputation (considered within strategic insights integrated into Corporate Strategy and Enterprise Risk Management). For these reasons, our strategy and business model are considered resilient to climate risks and a full climate-related scenarios impact assessment on NESO's business model and strategy has not been undertaken at this time. The Board reviews the Principal Risks at least annually as part of the Enterprise Risk Management framework, providing the opportunity for the materiality and management of climate risks to be kept under review and categorised accordingly.

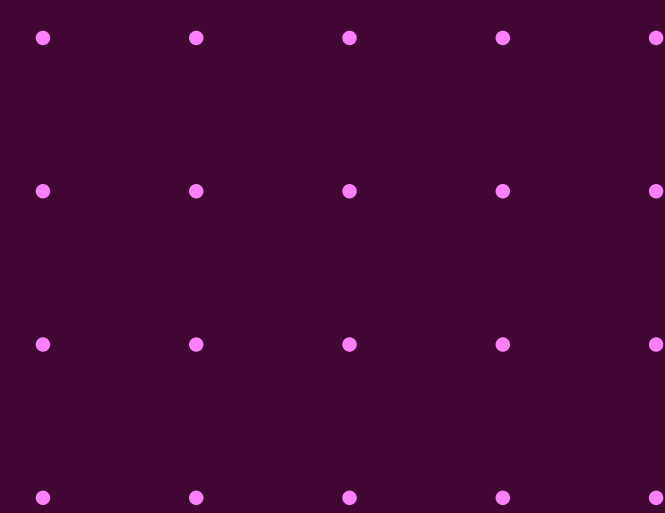
A few examples of how we manage and mitigate climate risks in what we deliver are:

- NESO's *Resource Adequacy report* provides key findings to maintain the resilience of the electricity system in the future. This identifies that weather patterns are expected to become a dominant driver of risks in a decarbonised power system, and that electricity storage, demand-side flexibility and interconnectors are key contributors to maintaining resilience. You can access the report on our website.
- Climate resilience is considered within the methodology adopted to deliver the Strategic Spatial Energy Plan (SSEP). For example, data sets are used to highlight locations which are more vulnerable to flooding or erosion. This data can be used to assess suitability of locations for energy infrastructure. Future water resource availability indicators can also be used for geo-spatial planning of water-reliant technologies such as hydrogen or nuclear power. You can read more about our SSEP work on page 51 and on our *Strategic Spatial Energy Planning* web page.

Metrics and Targets

NESO has an ambition for operating Great Britain's electricity transmission system using 100% clean power generation for short periods of time, when the market delivers a secure and operable mix of generation sources. We also monitor the carbon intensity of electricity, see page 14 for more information.

The metrics we use to annually monitor our climate-related performance are set out in our environment and SECR disclosure on pages 39 and 40. Appropriate targets for NESO's operational footprint are being considered for future reporting cycles, building on this first reporting period as a stand-alone operationally independent organisation.



Social

We are committed to making a positive impact on the lives of our colleagues, the communities we serve, and on society in general.

Our People

You can read more about our approach to supporting our colleagues in the 'Our People' section of this report on pages 30 to 36. There we explain how we develop our people, embed our desired culture and create a safe and healthy working environment in which everyone can thrive, as well as reporting on metrics we use to monitor progress on these areas.

Our impact beyond NESO

Community, customers and consumers

Delivering societal value is central to NESO's engagement approach. As NESO develops its public voice and brand, we are also evolving and broadening the audience we engage with.

NESO continues to be a customer-facing organisation. We build customer feedback into our work via stakeholder groups, our account managers, and our relationships with trade bodies. These opportunities create channels to build the customer voice into our work, aiding operational delivery that works for our customer base.

NESO's relationship with industry has changed, as we balance our independence from industry as a not-for-profit organisation. Our advice to the UK government on achieving clean power showed that one of NESO's strengths is as a convener. This role will be critical in addressing current and future challenges within NESO's remit as the energy transition continues.

Investors will be critical to the energy transition in Great Britain. We have engaged with the investment community to understand how they perceive our strategic plans and our market development, how NESO can make these more accessible to them and how we bring the investor voice to future work.



Environment, Social and Governance Report continued

NESO will only be successful with comprehensive engagement across Great Britain. NESO has significantly increased its regional engagement at local and combined authority level, building relationships for the long term.

As our regional presence has increased, so has our interaction with Members of the Senedd, UK and Scottish Parliaments about local level energy. Growing our understanding of local government and local politics allows NESO to provide independent, data-driven information on the energy system to these stakeholders, helping them with their engagement.

Our interactions with communities, local authority residents and parliamentary constituents are an opportunity to raise awareness about NESO’s role, and offer a data-driven view into questions that these stakeholders have about energy. These interactions, combined with independent research, allow NESO to build a clearer picture of how the wider public views the energy transition.

Our new strategic planning role involves engagement with environmental, community, societal, energy, and government groups. Considering public and stakeholder feedback helps us understand diverse views on energy infrastructure and its impacts. This input enables our strategies to balance the expectations of society with the demands of the energy system.

For more information about how the Board has regard to stakeholder views, see our Section 172(1) Statement on page 48 to 52.

We also encourage our colleagues to take part in volunteering, supported by our community volunteering policy, which provides an annual allowance of three days per colleague. This enables colleagues to contribute their time and skills to initiatives that benefit the environment, local communities, or support actions towards net zero – such as renewable energy and conservation projects.

Data to show our impact beyond NESO in society

NESO plays a broader societal role as an employer, tax contributor and active collaborator with customers and communities. We work across our value chain to support suppliers and local areas.

Since becoming NESO, our roles and responsibilities have expanded significantly. We now operate under a broader set of objectives set out in the Energy Act 2023, alongside new conditions across both our electricity and gas planner licences. Meeting these expanded duties and regulatory obligations has resulted in higher operating costs. In addition, the separation from our previous parent company, National Grid, and the establishment of NESO as a new organisation incurred one-off transitional costs.

As a result, our overall contribution to the average annual UK domestic electricity bill has increased to £6.46 this year. Our intention is to always keep consumer costs as low as possible.

Metric	FY25	FY24
Community, Customers and Consumers		
NESO contribution to average annual UK consumer electricity bill (⌘)	£6.46	£4.88
Number of people on an early careers learning and development scheme*	111	
Economy		
Supplier payments made to contractual terms	92%	95%
Corporation tax (recovered)/paid	£30m	£198m
Social security costs	£17m	£10m
VAT collected	£454m	£990m
Innovation spend	£24m	£11m
Service quality – number of voltage and frequency excursions	0	0

⌘ Denotes FY25 metrics included within the scope of an independent limited assurance exercise undertaken by PwC, see page 47.

* New metric for FY25 measuring NESO’s early career skills contributions across multiple schemes. See [Methodology Statement](#) for more information

Our partnerships with Citizens Advice and Consumer Scotland

NESO is responsible for considering the impact of its work on consumers across Great Britain. Our strategic partnerships with Citizens Advice – the statutory body for energy consumer advocacy in England and Wales – and Consumer Scotland – the equivalent body for Scotland – provide us with valuable expertise to embed the consumer voice across our activities.

Together, we work towards three shared objectives:

1. **Improved services to citizens** – Supporting each organisation’s statutory role through collaboration and shared advice, with the aim of improving services, creating better outcomes and delivering value for consumers.
2. **A just energy transition** – Enabling a fair, affordable and inclusive transition that places consumers at the heart of future energy system design, taking account of diverse demographics, needs, preferences and vulnerabilities.
3. **Informed stakeholders** – Supporting sector decision making that is underpinned by high-quality, robust evidence and insights, and reflective of modern Great Britain’s broad demographics.

While these partnerships are still in their first year, we are making strong progress in the following areas:

- Developing a shared vision for considering consumer impact and aligning strategic messaging across industry publications and consultations
- Jointly identifying focus areas for deeper research into future consumer impacts
- Strengthening industry-wide consideration of consumer impact in strategic planning
- Sharing knowledge and expertise through secondments

The economy

We are committed, through our strategic priorities, to helping unlock significant consumer benefits by delivering on our commitments. NESO’s contribution to economic value includes:

- ensuring the reliable, efficient and safe delivery of electricity to power businesses and homes, working with network owners and operators, regulators, business partners, suppliers and other key stakeholders
- designing major reforms to the connections process, in collaboration with the UK government, to move from a slow and cumbersome system, to one that enables economic growth; these reforms allow new electricity generation and demand, (for example, from businesses and data centres) to connect more efficiently – following Ofgem’s approval in April 2025, NESO is now implementing these reforms, including

reordering the queue and reissuing accelerated connection offers

- enabling more than 300 community and smaller-scale projects to move forward without the need for a Transmission Impact Assessment, supporting faster delivery while freeing up resources to focus on assessing larger projects with more significant impacts on the electricity network
- keeping consumer value at the heart of everything we do by continuing to minimise the balancing component of electricity bills while maintaining security of supply and operating according to market principles

We are on course to deliver cost savings of £3.4 billion in gross consumer benefits as outlined in our RIIO-2 business plan, by the end of the RIIO-2 period. NESO has delivered significant cost savings in the BP2 period (April 2023 to March 2025). To learn more about balancing costs, see pages 23 and 24.

Environment, Social and Governance Report continued

Governance

We ensure that our governance framework reflects our values and commitments. You can read our Governance Statement on pages 70 to 77.

Human rights and modern slavery

Respect for human rights is embedded in our employment practices and values, which are integral to our Code of Ethics.

In compliance with the Modern Slavery Act 2015, we publish a [Modern Slavery Statement](#).

While part of National Grid group, the Company committed to paying above the Living Wage, in support of National Grid’s Living Wage accreditation. Since becoming an independent organisation, our approach has not changed. NESO is now pursuing accreditation as a Living Wage employer.

Anti-bribery and corruption

NESO’s Code of Ethics, fraud, bribery and corruption statement, and anti-financial crime policy set out our zero-tolerance approach. These apply to all permanent employees, temporary agency workers and contractors. To ensure compliance with the UK Bribery Act 2010, we conduct an annual fraud and bribery risk assessment. Since becoming independent, NESO has redeveloped its e-training course for all colleagues, which will be rolled out during 2025–26. The training supports policy understanding and reinforces how concerns should be escalated.

Speak up

We have robust policies and procedures in place to support colleagues in raising concerns. A confidential external helpline is available 24/7 for both colleagues and customers and is promoted internally. Our Code of Ethics makes clear that we support and protect those who speak up. We do not tolerate retaliation of any kind against anyone raising a concern about conduct they believe breaches our Code, policies or the law – even if the concern is not substantiated. E-learning is provided to all colleagues and contractors, and we run regular internal campaigns to reinforce the importance of

speaking up. All matters reported were resolved promptly and in line with our policies.

Our aim is to prevent, detect and respond quickly and appropriately to any reports of misconduct, unethical behaviour or breaches of the law, while providing care and support to those affected. We want every NESO colleague to feel confident speaking up when they see or experience unethical conduct.

Ethical business conduct

Our Code of Ethics sets out the behaviours we expect of all colleagues and is shaped by our four NESO values. It is issued to all colleagues and supported by training and regular communications to promote a strong ethical culture. In FY2024–25, 96% of colleagues completed ethics training and signed the annual compliance statement.

NESO’s Executive leaders must also attest that all significant risk, compliance, ethics and control issues have been reported.

Metric	FY25	FY24
Employees completed ethics training and compliance statement	96%	98%



Suppliers

At NESO, we believe that conducting business with integrity is fundamental. Our [Supplier Code of Conduct](#) sets out the standards and expectations we have for our suppliers, helping to ensure high levels of ethical behaviour and transparency. We expect all suppliers to comply with applicable legislation at all times and will take appropriate action if these standards are not met.

Our Supplier Code of Conduct sets out clear requirements for suppliers to have procedures in place that comply with all relevant local and national laws and regulatory frameworks, including the Bribery Act 2010.

We are committed to working with suppliers who share our dedication to eradicating modern slavery. Our Supplier Code of Conduct sets out the standards we expect across key areas including adherence to the Modern Slavery Act 2015 and Procurement Policy

Notes (PPN) on tackling modern slavery in government supply chains.

In addition to the Supplier Code of Conduct, all suppliers are provided with the following NESO policies:

- Health safety and wellbeing statement
- Anti-financial crime policy
- NESO Code of Ethics
- Data policy

Compliance framework

NESO has a compliance procedure in place that outlines the key themes covered by our compliance framework. The procedure also defines ownership of the control sets for each theme. Annual assurance against NESO's compliance framework is provided to the Board.

Assurance over ESG information

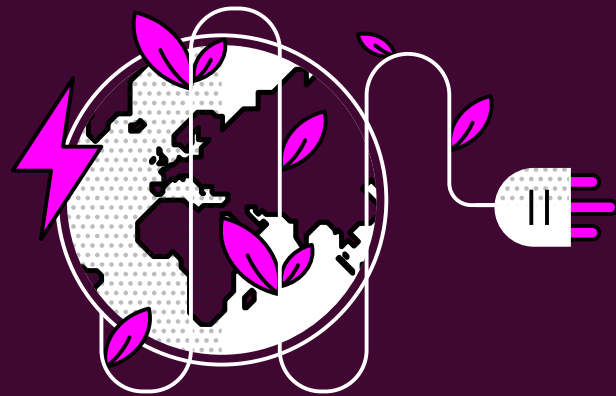
We engaged PricewaterhouseCoopers LLP (PwC) to undertake a limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and ISAE 3410: Assurance Engagements on Greenhouse Gas Statements. The Board of Directors of the National Energy System Operator Limited has reviewed and approved the Annual Report and Accounts for the 12-month reporting period ended 31 March 2025. We confirm that the information and data presented is accurate and aligned with mandatory requirements. PwC have provided an unqualified opinion in relation to the KPIs that are identified with the symbol (‡) and featured on pages 40 and 44.

We intend to evolve our assurance approach in line with market developments and will actively explore opportunities to increase rigour in future years.

A limited assurance engagement is substantially narrower in scope than a reasonable assurance engagement. This includes reduced risk assessment procedures and a less extensive review of internal controls and testing. Non-financial performance data – particularly GHG quantification – has more inherent limitations than financial information. It is important to read the ESG information in this report in the context of PwC's [full limited assurance opinion](#) and Our [ESG Metrics Methodology Statement](#).

Section 172(1) Statement – Board Engagement

As NESO establishes itself as an independent organisation, it is vital for the Board to build trust among stakeholders through open, honest and constructive relationships. This helps ensure the Board understands what matters most to them. This section sets out further detail on stakeholder engagement in the year under review. It describes how the Board continues to act, to promote the long-term success of the Company for the benefit of Shareholders, while having due regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006.



Stakeholders – government and politicians

Politicians across all levels of government – Westminster, devolved administrations, mayoralities and local councils – have an interest in NESO’s operations and strategic planning recommendations. Energy underpins every aspect of society and the economy, so NESO’s work carries significant political implications, including its impact on energy bills, industrial strategy and economic growth.

How we engage

- Our Corporate Affairs team provides regular written briefings to politicians and their advisers.
- We hold in-person meetings with energy and economic spokespeople across political parties to discuss challenges at national and regional level.
- We hold events in Westminster, Holyrood and the Senedd to provide independent analysis and data-driven insight, helping politicians understand how the energy system works and giving them a platform to engage with local residents.
- When publishing new information, we work on a cross-party basis to inform political stakeholders at all levels of its meaning and relevance.

- These meetings, briefings and events cover complex areas of energy in plain English, allowing us to build trust and credibility in our relationships.

What has our engagement told us?

- Politicians are highly interested in our strategic plans, particularly how NESO will engage the public.
- Politicians at all levels face challenges when NESO publishes a plan that references the need for new energy infrastructure – especially during a general election or devolved election year.



Stakeholders – colleagues

At NESO, our people are our greatest asset and fundamental to our long-term success. Understanding their views is key to improving our business performance. It is the Board's policy to foster a deep sense of belonging across the organisation, build a workforce that reflects the communities we serve, and create an environment where everyone feels valued, respected and treated fairly. The Directors recognise the dedication and expertise of our colleagues.

How we engage

- The Board is regularly briefed on strategic people matters and colleague engagement, including the results of employment lifecycle and engagement surveys. This has been a particular priority during the NESO transition programme.
- We have established a Board engagement programme, which enables Board members to meet with colleagues throughout the year. This includes site visits, the annual colleague conference, NESO awards and Employee Resource Group (ERG) events.
- Board members meet at least annually with the Chairs of NESO's ERGs to discuss colleague experiences and areas for improvement.

What has our engagement told us?

We know that colleagues are:

- engaged with NESO's purpose and feel a strong sense of belonging
- supported in balancing their work and personal lives
- concerned about workload and the pace of delivery
- keen to better navigate the organisation and understand lines of accountability and ownership as we grow

Section 172(1) Statement continued

Stakeholders – regulator

Energy is a highly regulated sector and our regulator, Ofgem, is a key stakeholder. NESO aims to evolve its relationship with Ofgem to reflect our status as an independent, publicly owned organisation. We seek to understand and align with Ofgem's expectations while identifying opportunities for partnership to help achieve our shared objectives.

How we engage

- The Board holds regular face-to-face meetings with the Chair and CEO of Ofgem to discuss the relationship, the experience of working together and NESO's performance.
- We respond to all relevant Ofgem consultations to ensure we contribute to the development of the energy sector. The Board is kept informed of these responses.

What has our engagement told us?

- We understand that Ofgem's key areas of focus are:
- NESO delivering its ambitious workplans to benefit consumers and industry
 - strong and transparent Board governance, including effective challenge on value for money
 - ongoing compliance with NESO's statutory objectives and licence obligations

Stakeholders – customers

Customer centricity is one of NESO's six strategic priorities. While we recognise that we do not always meet customer expectations in every area, we are making progress. We are developing a consistent organisation-wide approach to improve customer experience and increase satisfaction.

How we engage

- As part of our transition to NESO, the Customer Directorate is resetting the customer strategy and improvement plan.
- NESO's Customer Director regularly attends Board meetings to provide updates on customer sentiment, strategic improvements and issues that matter most to customers.
- To deliver our strategy, we aim to build trust by being credible, impartial, reliable and easy to work with.

What has our engagement told us?

- We know our customer priorities are:
- simpler access to NESO contacts and information clear, easy-to-understand data and guidance
 - proactive, collaborative engagement
 - reliable service delivery and clear expectation management
 - open and transparent decision-making processes

Stakeholders – energy industry, environment and communities

The Company and the Board recognise the importance of transparency and listening to the views of the energy industry, communities and environmental organisations on our plans and the impact of NESO's activities, to ensure a wide range of interests are captured.

How we engage

- The Board is briefed by members of the Executive Leadership Team on key developments and insights so that these can be considered in discussions and decision-making.
- Stakeholder Groups have been established by NESO with members from both inside and outside the energy sector.
- NESO Advisory Forums are in place with representatives from a wide range of community interest groups, each focusing on the energy needs and outlook of a specific section of society.

Find more information on our [stakeholders groups](#) webpage.

- NESO engages with stakeholders such as local authorities and community interest groups who are interested in how NESO's Strategic Spatial Energy Plans (SSEP), and the resulting construction of energy infrastructure across Great Britain, may affect their communities.

Find out more on our [Strategic Spatial Energy Planning](#) webpage.

- Addressing climate change requires international cooperation, and NESO is a leading member and partner of many global energy organisations helping to deliver greener grids around the world. Find out more on [our global network](#) webpage.
- The impact of NESO's operations on the environment is set out in further detail in the ESG Report on pages 39 and 40.

What has our engagement told us?

- Our stakeholder groups provide valuable scrutiny, challenge and feedback on our actions, projects and plans.
- They offer industry expertise to support and inform the development of NESO's new roles and responsibilities, providing a whole energy system view.
- They help build trust and transparency.
- They ensure NESO considers a wide range of interests in decision-making.

Section 172(1) Statement continued

Stakeholders – shareholder

The UK’s Energy Act 2023 set the legislative framework for an independent system operator and planner to help accelerate Great Britain’s energy transition, leading to the establishment of NESO. NESO is wholly owned by the Secretary of State for Energy Security and Net Zero but operates independently of government.

How we engage

- The Shareholder nominates a Non-Executive Shareholder Director to sit on the Board and its core committees. This role is performed by a Director of UK Government Investments (UKGI), as the Shareholder Representative, is responsible for discharging the responsibilities of the Shareholder.
- The *Framework Document* describes the parameters within which NESO is expected to operate, the obligations with which NESO is expected to comply, and the nature of the relationship with DESNZ and UKGI.

- Annually, the Secretary of State writes to the Chair setting out the Shareholder’s objectives for NESO and expectations on areas of priority. This letter is shared with the Board. The Chair and Chief Executive Officer meet at least quarterly with the Minister and senior officials at DESNZ and UKGI.

What has our engagement told us?

We know that the matters of key concern to our Shareholder are:

- delivering operational performance and value for money for consumers
- effectively managing risk
- demonstrating the highest standards of business conduct

Key Board decisions

Long-term decision making

In addition to stakeholders, the Board must also consider the long-term in its decision making.

Our work is guided by our purpose and vision, with an ambition to enable a decarbonised, efficient and flexible energy system fit for the future. Our early focus includes working closely with government and Ofgem on the Clean Power 2030 goal. Much of our work also looks beyond this milestone towards achieving net zero carbon emissions by 2050.

The Board considers future risks and opportunities through regular horizon scans, papers and presentations from subject matter experts, as well as through the work

of the Audit & Risk Committee on long-term viability scenarios. Further detail can be found in the going concern statement and statement of viability on pages 28 and 29.

The following is an example of a key decision taken by the Board during the year, showing how stakeholder engagement influenced the decision. It demonstrates how the Board discharged its responsibilities under Section 172(1)(a) to (f) of the Companies Act 2006.

Third regulatory business plan under RII0-2 framework (BP3)

Background: NESO operates under the RII0-2 five-year regulatory framework. To complete the final year of this period, we were required to submit a one-year transitional regulatory business plan (BP3). This plan focuses on the Performance Objectives we are committing to in the next financial year, underpinned by success measures that reflect NESO's most important priorities. We are working with Ofgem to determine the enduring regulatory framework for NESO beyond BP3.

How we engaged with stakeholders

Regulator: We worked closely with Ofgem throughout the development of BP3, building in their feedback and seeking to understand their expectations. There was broad agreement that the plan should be more strategic and high level than previous business plans.

Energy industry and environmental & community stakeholders: We formed an Independent Stakeholder Group (ISG) and engaged extensively with them on the draft plan and Performance Objectives. The group was broadly supportive of the proposals. In addition, feedback gathered through our BP2 activities and the development of NESO's new roles helped to shape our BP3 Performance Objectives, Deliverables and Success Measures.

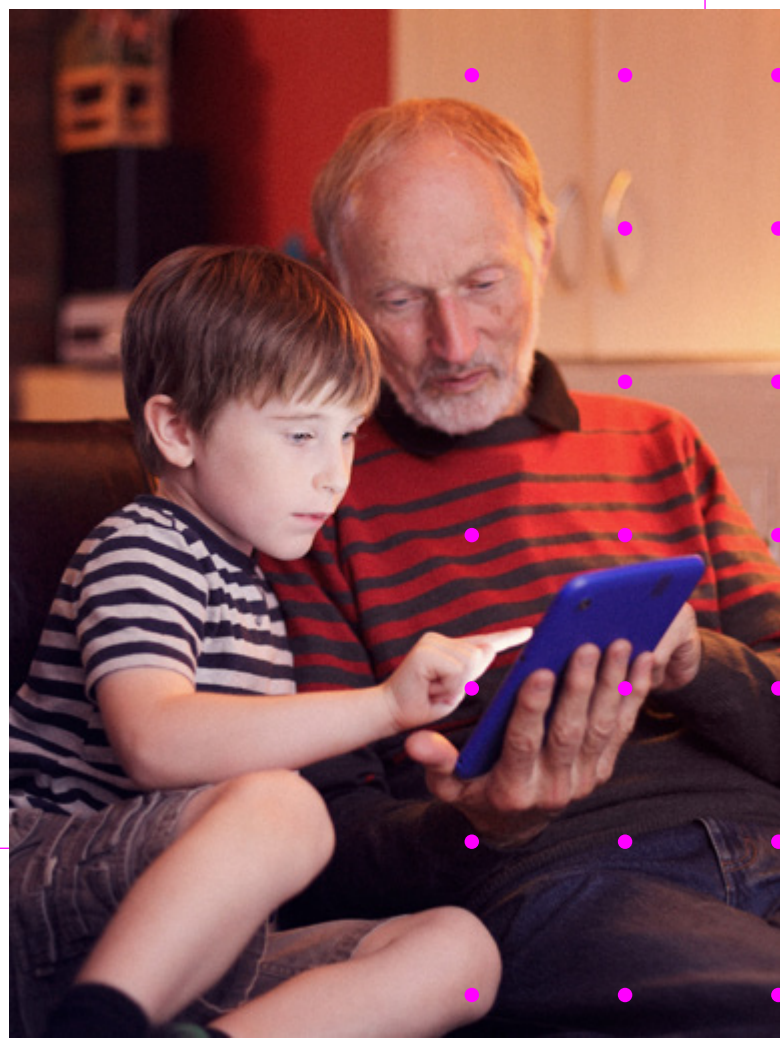
Customers: As part of our statutory obligations, we consulted on our draft business plan. We held five webinars, attended by more than 100 stakeholders, and received over 30 questions and 7 written responses from customers.

All feedback was shared with the Board at regular intervals and helped shape the final BP3 submission. The document was designed to be more accessible to reflect the wider range of stakeholders NESO now serves.

The decision: The Board approved the submission of NESO's BP3 business plan to Ofgem in February 2025.

The view of the Board and how this links to our priorities: The Board considered BP3 to be ambitious but deliverable. It believes the plan sets out an appropriate range of activities that will deliver value for consumers and help move the energy system towards periods of zero carbon operation by the end of 2025, while maintaining energy security and affordability.

Ofgem's Final Determinations on NESO's first business plan were published in June 2025.



Enterprise Risk Management (ERM)

NESO recognises that taking appropriate risks is an inherent part of doing business. The identification, assessment and management of risk is embedded within our organisational culture, decision-making processes and activities. While it is not possible to identify, anticipate or eliminate every risk, proactively considering both threats and opportunities, enables us to make more informed decisions – particularly when developing strategic objectives and plans.

Risk management approach

Our risk management process provides assurance that we understand, monitor and manage the key risks and uncertainties we face in delivering our objectives. NESO aligns its enterprise risk management framework with the principles set out in the UK government's Orange Book: Management of Risk – Principles and Concepts, ensuring a comprehensive and effective approach.

We have updated our ERM framework to better reflect NESO's operating environment. Alongside this, we have reviewed our risk taxonomy and introduced changes to the criteria used to assess risk impact and likelihood, improving our understanding of the drivers of significant risk.

NESO takes a holistic approach to risk management, with risk considerations integrated at every level of the organisation. Risk is a standing agenda item for the Board, Executive Committee and Operations Committee, and is embedded throughout our strategic planning cycle. Deep dives into Principal Risks are undertaken by the relevant Board sub-committees to support effective oversight.

We operate a tiered, top-down and bottom-up approach to managing risk. Control begins at the team level, progressing through to Management, the Executive, and culminating in the oversight of Principal Risks. Risks can transition between tiers based on their level of exposure and required oversight. A governance, risk and compliance (GRC) tool

is used to record and report on our corporate risk landscape.

Emerging risks

Our Horizon Scanning team investigates future developments and trends, assessing how they might evolve or interact and what implications they could have for NESO. This work strengthens strategic discussions and supports the Enterprise Risk team by providing additional context for the identification and management of emerging risks.

Risk appetite

NESO operates a five-point risk appetite framework aligned to the *Orange Book*: Averse, Conservative, Balanced, Tolerant, and Risk-Taking. Each level of appetite is accompanied by a tolerance indicator. The Board's appetite statements guide risk management across the organisation, providing clarity to risk owners on when a risk should be mitigated, accepted or considered effectively managed.

The Executive Leadership team is responsible for oversight of the risk categories and the development of risk appetite statements. Accountability sits with the Board, which reviews and approves the statements at least annually. This framework is underpinned by a 5x5 likelihood and impact matrix. Likelihood is measured by frequency and probability, while impact is assessed across five dimensions: Customer Focus, Strategic Priorities, Technology and Security, Finance, and Reputation.

Principal risks

NESO’s central ERM team works with the Executive Leadership team to propose to the Board a set of Principal Risks – those risks which, if they materialise, could significantly impact NESO’s ability to deliver its strategy or force a fundamental change in strategic direction. The Board considers this proposal and may amend or supplement it based on the experience and insight of Non-Executive Directors.

The Audit & Risk Committee advises the Board on the assessment of Principal Risks, including monitoring potential and actual changes to risks in the year, and the effectiveness of NESO’s risk management systems and internal controls. Further details on the Committee’s work are available on pages 78 to 80.

Risks are also periodically reported to the Shareholder.

Changes during the year

Following the establishment of NESO, the Principal Risk landscape was reviewed and updated to reflect our operating environment and expanded remit. This led to a reduction in the number of Principal Risks during the year, from ten (seven threats and three opportunities) to eight (seven threats and one opportunity). Key changes included:

- The Future Systems Operator Delivery risk was retired on 1 October 2024, the official launch date of NESO.
- The Effective Corporate Governance risk was merged with People Management, resulting in a new combined risk: People and Governance.
- The Reputation risk was merged with Strategy, Development and Delivery, forming a new risk: Strategy and Reputation.
- A new risk was introduced: Efficiently Connect and Incentivise Energy Users.

Our Organisational Priorities



Clean Power



Decarbonised Energy



Consumer Value



Customer Centricity



Digital Mindset



People Value

Enterprise Risk Management continued

Risk – Physical and Cyber Security

Overseen by: Operational Effectiveness & Resilience Committee



Risk description: The risk that NESO is unable to protect its assets – data, systems, sites and people – from accidental or malicious cyber and physical threats, affecting its ability to deliver effectively for customers.

Primary considerations:

- The threat landscape and the adequacy of protection for and security of assets.
- Impact upon confidentiality, integrity and availability, including disruption to business IT systems due to cyber or physical threats.
- Security of energy supply to consumers, including disruption to critical operational systems.

Risk response:

We are undertaking several risk mitigation initiatives to strengthen operational resilience and regulatory compliance. Key actions include:

- **Control maturity enhancements:** We are advancing our control maturity to align with Ofgem's Enhanced Profile regulatory requirements.
- **Technical debt remediation:** This programme focuses on replacing outdated hardware and software to ensure our infrastructure remains robust and efficient.
- **Cyber Security Operations Centre migration:** We are transitioning to NESO's Cyber Security Operations Centre (CSOC) to strengthen our cybersecurity capabilities.

All activities are overseen by the NESO Security Committee to ensure alignment with our security objectives and regulatory standards.

Risk – Security of Supply

Overseen by: Operational Effectiveness & Resilience Committee



Risk description: The risk that NESO fails to meet its licence obligations to operate the system in the most secure and economic manner.

Primary considerations:

- **Real-time operations:** Balancing supply and demand in real time in the most secure and economic way.
- **Balancing cost prediction and management:** Predicting and managing balancing costs efficiently.
- **System restoration:** Meeting the requirements of the Electricity Restoration Standard, as set out in the licence.

Risk response:

We are continuing to develop and implement innovative strategies to reduce the risk of a national power outage. These include targeted strategic delivery initiatives and comprehensive reviews of our control system. Key actions include:

- **Transformation of our primary control systems:** In balancing and energy management systems to meet the needs of a clean power system.
- **Enhanced situational awareness of the system:** Through deployment of leading edge monitoring techniques and technologies.
- **Innovating:** Through integrating artificial intelligence into system optimisation to make our processes fit for a clean power system.

Risk – Strategic Energy Planning

Overseen by: Operational Effectiveness & Resilience Committee



Risk description: There is a risk that government, energy and societal stakeholders across Great Britain will not accept NESO's unified strategic energy plan.

Primary considerations:

- **Strategic energy planning programmes:** The need for a joined-up energy plans with complex interdependencies across a wide range of internal and external stakeholders.

Risk response:

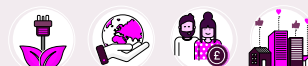
We are undertaking several actions to mitigate this risk. Effective engagement is in place, including collaboration with Ofgem and the UK, Scottish and Welsh governments, to support strategic energy and security planning.

Structured engagement through forums and working groups encourages expert input and commitment. This activity is led by a central team to ensure clear, consistent communication.

Robust governance facilitates coordinated decision-making and escalation of key issues. Regular workshops with DESNZ and Ofgem help maintain alignment on priorities and expectations.

Risk – Efficiently Connect and Incentivise Energy Users

Overseen by: Operational Effectiveness & Resilience Committee



Risk description: There is a risk that NESO does not successfully connect energy system users or deliver appropriate market arrangements.

Primary considerations:

- **Market design and operation:** Development and delivery of markets and services that support net zero operations and meet system needs.
- **Market rules and regulations:** Ensuring clear, supportive frameworks are in place.
- **Connections process reform:** Implementation of enhancements to enable faster and more efficient connections.
- **Electricity transmission:** Delivery of timely and appropriate contractual arrangements for customers.

Risk response:

This risk is closely linked to connections reform and ongoing electricity balancing service market developments. We expect to see continued improvement through successful delivery of the connection reform programme and progress against our delivery plan. We are working with network companies and Ofgem to agree a credible and ambitious plan for issuing connection offers and the current implementation trajectory indicates all offers will be issued by the end of March 2026.

Following the government's decision to pursue a reformed national pricing approach further developments to the Great Britain's electricity market are on the horizon, necessitating industry code and rule changes. In addition, through our Markets Roadmap NESO is continuing to progress reforms over the next decade to our balancing services markets to allow us to operate a low carbon electricity system.

Enterprise Risk Management continued

Risk – People and Governance

Overseen by: People & Governance Committee



Risk description: There is a risk that NESO does not have the appropriate resources, skills or governance practices in place to meet its operational and strategic needs.

Primary considerations:

- **Employee engagement:** Ensuring colleagues feel a sense of belonging, understand their roles, and are supported to remain motivated and retained.
- **Talent and capability:** Having the right skills, capabilities and talent in place to meet business goals.
- **Health safety and wellbeing:** Supporting managers and colleagues to manage health, safety and wellbeing effectively.
- **Legal, compliance and ethics:** Demonstrating compliance with relevant laws, licences, codes and the NESO Framework Agreement.
- **Portfolio governance and deliverability:** Ensuring robust delivery frameworks are in place to support business activities.

Risk response:

Our focus is on embedding newly transitioned people processes to support NESO's evolving structure and remit. Despite this developmental phase, employee engagement survey results have been positive and we have received recognition for good governance practice. Continued emphasis will be placed on capability-building and reinforcing our organisational culture.

Risk – Digital and Data

Overseen by: Audit & Risk Committee



Risk description: There is risk of disruption to NESO's business operations or missed opportunities from digitalisation due to mismanaged systems, poor data governance, or ineffective use of digital tools to meet strategic energy objectives and legal obligations.

Primary considerations:

- **Performance and stability:** Ensuring the reliability of all business-critical systems and service, including Critical National Infrastructure (CNI).
- **Data and AI governance:** Management, governance and adoption of data and artificial intelligence.
- **Separation from National Grid:** Ensuring the successful transition of all systems, services and processes.
- **Business operations:** Supporting digital solutions to enable efficient and secure business operations.
- **Strategic digitisation:** Ensuring digital solutions align with and support NESO's strategic objectives.
- **Adoption and effectiveness:** Achieving widespread organisational adoption and effective use of digital products.

Risk response:

We are proactively embedding operational and optimisation standards and controls across all systems and services.

An active data programme is underway to bring data into formal governance and develop a refreshed data strategy with broad organisational support.

We have agreed an exit plan, together with a supporting portfolio of activities with National Grid plc for full separation.

To measure adoption and effectiveness, we are using the Digital Quotient (DQ) metric, alongside wider interventions to embed our digital-first mindset strategic priority across NESO.

Risk – Strategy and Reputation (Opportunity risk)

Overseen by: Audit & Risk Committee



Risk description: There is an opportunity to position NESO as an independent leader in delivering a decarbonised electricity system by 2030 and supporting economy-wide net zero by 2050.

Primary considerations:

- Customer experience and strategy delivery
- Strategy development and delivery
- Reputation
- Innovation and agility

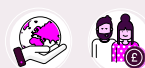
Risk response:

We are focused on the development and integration of several key strategic initiatives to respond to this opportunity.

- **Strategic decision process and framework:** Establishing a robust framework to guide strategic decision-making across the organisation.
- **Strategic architecture and metrics:** Creating a structured approach to define strategic goals and measure progress effectively.
- **Business strategy governance and strategy library:** Developing a governance model and comprehensive library to manage and access strategic documents, ensuring consistency and informed decision-making.
- **Strategy cycle process:** Implementing a continuous process for the development, evaluation and refinement of business strategies to adapt to evolving conditions and opportunities.

Risk – Financial Stability and Management

Overseen by: Audit & Risk Committee



Risk description: There is a risk that we are not financially responsible.

Primary considerations:

- Financial stability and management – management of day-to-day cash collections and payments
- Cashflow and short-term financial sustainability
- Fraud and financial crime
- Medium-term financial performance and sustainability
- Commercial – possible exposure to commercial liabilities or supply failure

Risk response:

There is an acknowledged increase in the commercial risk profile, attributed to expanded responsibilities in procurement, supply chain and property management.

Despite this, controls have been successfully transitioned to NESO. We are committed to ongoing reviews and enhancements of these controls to ensure they remain effective and robust.

Non-financial and sustainability information statement

The following summarises where you can find further information on each of the key areas of disclosure required by sections 414CA and 414CB of the Companies Act 2006.

Reporting requirement	Further information	Relevant NESO policies and procedures
Environmental matters including climate-related financial disclosures	ESG Report: pages 38 to 42	Environmental protection policy
Brief description of the Company's business model	What we do and why it matters: page 12	
Principal risks	Enterprise Risk Management: pages 54 to 59	Risk management business procedure Control standard business procedure Adherence to UK government's Orange Book Treasury policy
Non-financial KPIs	Highlights: page 3 A changing energy landscape: page 14 Our People: pages 30 to 36 ESG Report: pages 38 to 47	
The Company's employees	Our People: pages 30 to 36	Health, safety and wellbeing policy Remuneration policy Code of ethics Speak up policy HR policies
Social matters	Our People: pages 30 to 36 ESG Report: pages 43 to 45	Community volunteering policy
Respect for human rights	ESG Report: pages 46 and 47	Modern slavery statement Equal opportunities policy Data policy Public Sector Equality Duty (PSED) Equality Impact Assessment processes Diversity, equity, inclusion and belonging (DEIB) data monitoring processes
Anti-corruption and anti-bribery matters	ESG Report: pages 46 and 47	Code of ethics Speak up policy Fraud, bribery and corruption statement Anti-financial crime policy Supplier Code of Conduct

Strategic Report approval

The Company's Strategic Report is set out on pages 3 to 60. The Strategic Report is approved by the Board and signed on its behalf by:



Fintan Slye

Chief Executive Officer

24 September 2025

National Energy System Operator Limited

Registered in England and Wales Company number 11014226





Governance

Chair's Introduction to Governance



I am pleased to present NESO's first corporate governance report for the year ended 31 March 2025.

We aim to operate in a way that builds trust with our customers and stakeholders. Building that trust is about being open and transparent, combined with strong governance that people can rely on.

On appointment, I was very mindful of the major transition the organisation was experiencing and the importance of strong governance in times of significant organisational and cultural change. My focus is to ensure that NESO's governance arrangements are robust and fit for purpose to support the successful and efficient delivery of our new and extended remit.

This report sets out how we have applied good governance principles in the way our Board and its supporting committees operate. We have adopted the UK Corporate Governance Code (the Code) as the standard against which we benchmark ourselves since 1 October 2024. I am satisfied that we have met the principles and provisions of the Code where possible and applicable.

Approach to governance reporting

The UK Corporate Governance Code 2018 principles underpin the structure of this governance report. We believe that concise, clear and engaging reporting provides the most value to our stakeholders. This includes a clear focus on how we, as a Board, have applied high standards of corporate governance through our activities in the interests of both our Shareholder and wider stakeholders. We also explain how stakeholder priorities have informed and influenced our decisions throughout the year.

More information can be found in the Section 172(1) Statement on pages 48 to 52 and in our Governance Statement on pages 70 to 77.



Chair’s Introduction to Governance continued

Governance Highlights



Appointment of a new Chair:	Paul Golby was appointed as NESO’s first independent Non-Executive Chair on 1 October 2024
Governance framework:	NESO’s governance framework was aligned with the expectations of our Shareholder and corporate governance best practice (pages 70 to 77)
Risk management framework:	NESO’s risk framework was revised and strengthened to reflect our operating environment (pages 54 to 59)
Remuneration policy review:	A new remuneration policy was set during the year, including consultation with our regulator (pages 90 to 93)

Board changes

In the first half of the financial year, overseeing the separation from National Grid group and preparing for the transfer to a stand-alone organisation by 1 October 2024 was the Board’s primary focus.

In recognition of the future challenges and opportunities facing NESO, with its expanded remit and independent status under government ownership, the Board has been refreshed through a number of new appointments.

In addition to myself, as the independent Non-Executive Chair, Siobhan Duffy was appointed to the Board on 1 October 2024 as the Department for Energy Security and Net Zero’s (DESNZ) Shareholder Director. She is a Director of UK Government Investments (UKGI) and brings a wealth of experience, in corporate finance, public sector governance and risk management.

On 3 February 2025, I was pleased to welcome Jayne Scott to the Board as an independent Non-Executive Director. Jayne is Chair Designate of the Audit & Risk Committee and will succeed Hannah Nixon in this role in autumn 2025. Jayne is a Chartered Accountant with extensive Board and Audit Chair experience, including as a Non-Executive Director at Ofgem and a Panel Member at the Competition and Markets Authority.

To further strengthen the Board, I was also pleased to announce the appointment of John Crackett as an independent Non-Executive Director from 1 July 2025. As a Chartered Engineer with significant leadership experience in the energy sector, John will bring valuable expertise to the Board.

On 31 March 2025, Janice Crawford resigned as an independent Non-Executive Director, having served since July 2023. I am grateful to Janice for her support and her valuable contributions to our Board and committee work throughout her tenure.

I would also like to note the departure of Baroness Gillian Merron from the Board in July 2024. Baroness Merron served for over five years. We are grateful for her service during the establishment of NESO and her role in positioning the Company as an independent electricity system operator in preparation for its future development.

I have spent time getting to know each Board member, their skills, competencies, experience and boardroom styles. This has supported our Board succession planning, as we build a Board that is diverse and able to provide advice and constructive challenge across strategic and operational issues.

Areas of focus in FY2024-25

The Board has been actively engaged over the course of FY2024-25 and into the new financial year with two priorities.

Firstly, in providing guidance, constructive challenge and oversight to the Executive in preparing the organisation for its significant transformation to become the National Energy System Operator.

Secondly, working with the Executive to build an organisation that is equipped and appropriately structured to deliver against the Company's revised roles and responsibilities.

These priorities have led the Board to adopt a flexible and engaged approach to support the Executive. Our overarching aim is to work alongside the Executive in providing the guidance, challenge and support they require to deliver on NESO's purpose: to forge the path to a sustainable future for everyone, while ensuring that our energy system remains secure and affordable.

These, together with a range of other matters worked on by the Board over the course of the year, are outlined on pages 76 and 77. The work undertaken by the Audit & Risk, People & Governance, Remuneration & Operational Effectiveness & Resilience Committees is detailed in their respective reports on pages 78 to 101.

Engaging with stakeholders

The establishment of the National Energy System Operator, its transition to public sector ownership, and the extension of its roles and responsibilities have required the Board to consider and welcome a new audience of stakeholders. It is only through working with government, the regulator, industry and wider society that we can deliver on our Primary Duties: to run a safe, secure and affordable energy system capable of supporting net zero.

Since becoming Chair, there have been numerous opportunities to meet a wide variety of our stakeholders, listen to their feedback and discuss their perspectives – particularly on the challenges facing the energy sector in Great Britain. From policymakers to industry leaders, from innovators to consumers, everyone has a crucial part to play. Listening to and understanding their views is a core part of the Board's role, informing and guiding the decisions we make in the Boardroom.

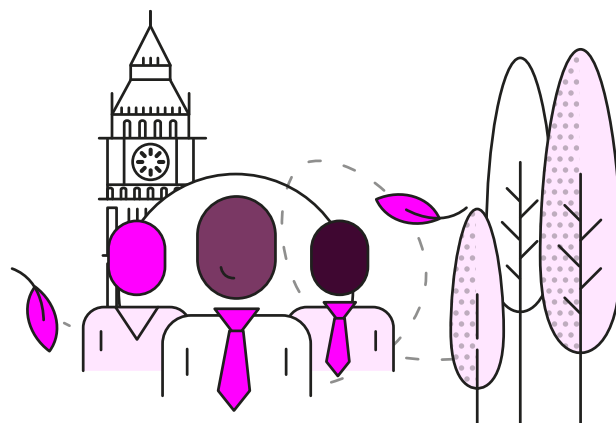
I look forward to continuing to develop our governance framework to meet the challenges and opportunities before us.



Dr. Paul Golby

Chair

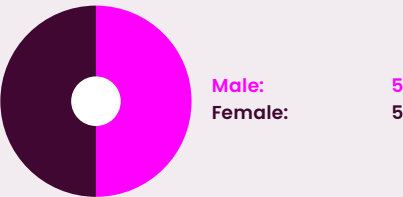
24 September 2025



Board of Directors

Board composition at a glance (as at 31 March 2025)

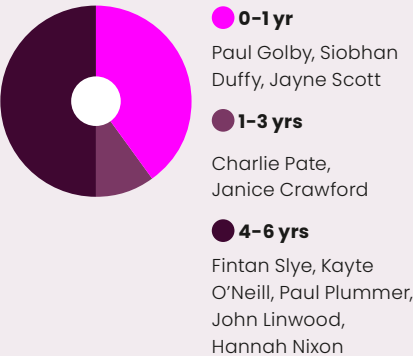
Gender representation



Ethnic background



Tenure



Board independence

Independent Non-Executive Directors

- Dr. Paul Golby, Chair*
- Hannah Nixon – Senior Independent Director
- Paul Plummer
- John Linwood
- Jayne Scott
- Janice Crawford (resigned 31 March 2025)

*Independent on appointment

Key to Committees

- A** Audit & Risk Committee
- O** Operational Effectiveness & Resilience Committee
- P** People & Governance Committee
- R** Remuneration Committee
- C** Committee Chair

Former Board Directors

The following people previously served as Directors but resigned within the 2024-25 financial year.

Baroness Gillian Merron resigned from her position on 10 July 2024 to take up a ministerial appointment, after serving as an Independent Non-Executive Director for five years from 2019 – 2024.

Zoe Morrissey resigned as a Board Director on 1 October 2024. She continues to support the Board in her role as General Counsel and Company Secretary.

Janice Crawford served as an Independent Non-Executive Director for one year and eight months from 17 July 2023, she resigned on 31 March 2025.

i Further biographical details for each Director are available by visiting [Meet the NESO Board](#) on our website.



Dr Paul Golby
Chair

P

Appointed: 1 October 2024

External appointments

- Board member of the ERA Foundation

Significant past appointments

- Chair, NATS Ltd
- Chair, Costain Group
- Non-Executive Director, National Grid plc
- Chief Executive Officer, E.ON UK Plc
- Chair, Engineering and Physical Sciences Research Council
- Member, Prime Minister's Council for Science and Technology

Key skills and experience

- Distinguished leadership career in the energy sector, with deep industry knowledge and business expertise
- Highly experienced Chair and Non-Executive Director of both privately owned and listed companies, with a focus on energy
- Fellow of the Royal Academy of Engineering
- Awarded a CBE for services to the energy industry



Hannah Nixon
Senior Independent Director

A*

P

R

Appointed: 1 April 2019

External appointments

- Chair of RECCO
- Chair of the SSRO
- Non-Executive Director, Financial Reporting Council
- Non-Executive Director, WorldPay UK

Significant past appointments

- Non-Executive Director, Channel Islands Competition and Regulatory Authority
- Non-Executive Director, Thames Water
- CEO, Payment Systems Regulator
- Senior Partner, Ofgem
- Member of several advisory boards, including the Government Economics Service

Key skills and experience

- Advisor in energy, financial services and infrastructure
- Broad experience in economics and regulation across multiple industries
- Progressive leader with strong delivery and influencing skills
- Extensive public sector experience

*Audit & Risk Committee Chair



Siobhan Duffy
Non-Executive Director
(Shareholder Director)

A

P

R

Appointed: 1 October 2024

External appointments

- Director, UK Government Investments

Significant past appointments

- Global Head of Private Placement, NatWest Markets
- Head of Private Debt, ABN AMRO
- Board Trustee, Carers Network

Key skills and experience

- Over 25 years of experience as a corporate finance professional
- Highly experienced board and executive level adviser across a range of industries
- Extensive knowledge of the public sector
- Expertise in capital markets, structured finance and contingent risk management



Paul Plummer
Independent Non-Executive Director

O

R

Appointed: 1 April 2019

External appointments

- Professor of Rail Strategy, University of Birmingham
- Consultant, Open Space

Significant past appointments

- CEO, Rail Delivery Group and Association of Train Operating Companies
- Non-Executive Director in the housing and energy sectors

Key skills and experience

- Board and executive-level experience in highly regulated utilities
- Economist with experience in policy, business strategy, transport, infrastructure and change
- Strong leadership in diversity and inclusion
- Thought leadership, delivery and influencing skills



John Linwood
Independent Non-Executive Director

O

R

Appointed: 16 June 2020

External appointments

- Non-Executive Director, Intercede Group plc
- Non-Executive Director, Brooks Macdonald Group Plc

Significant past appointments

- Strategic Technology Adviser and Chief Technology Officer, UK Ministry of Defence
- Executive Vice President and Chief Technology Officer, Wood Mackenzie
- Non-Executive Director, Data and Research Services Plc
- Chief Technology Officer, BBC and Earth-i
- Senior Vice President, International Engineering, Yahoo Inc.
- General Manager, MSN Engineering, Microsoft

Key skills and experience

- Strong digital capability and experience
- Extensive knowledge of digital, technology, cyber and IT security matters, with broad experience across a variety of industries



Jayne Scott
Independent Non-Executive Director

A*

Appointed: 3 February 2025

External appointments

- Chair, Private Healthcare Information Network
- Director, Nuclear Restoration Services Limited
- Board Member, Mining Remediation Authority
- Member, Audit and Risk Committee, Information Commissioners Office

Significant past appointments

- Non-Executive Director, Scottish Government
- Independent Oversight Group Chair, Electricity Northwest Limited
- Non-Executive Director, Ofgem

Key skills and experience

- Extensive experience of government, the public sector and economic regulation
- Strong capability in governance, finance, audit assurance and risk

*Audit & Risk Committee Chair Designate

Board of Directors continued



John Crackett
Independent
Non-Executive
Director



Appointed: 1 July 2025

External appointments

- Chair, Walker Trust
- Deputy Lieutenant

Significant past appointments

- Non-Executive Director, Ofgem
- Non-Executive Director, Office of Nuclear Regulation
- Chair, West Midlands RFCA
- Assistant Chief of Defence Staff
- Member, Executive Committee of Army Board
- Managing Director, Central Networks

Key skills and experience

- Extensive leadership experience in the energy sector and military
- Deep understanding of electricity generation and distribution
- Broad strategic and regulatory experience
- Specialist knowledge in project and change management, health and safety, and sustainability
- Fellow of the Institute of Engineering and Technology
- Fellow of the Institution of Mechanical Engineers



Fintan Slye
Chief Executive
Officer (CEO)

Appointed: 1 March 2019

External appointments

- N/A

Significant past appointments

- Non-Executive Director, AEMO Services Limited
- Chief Executive Officer, EirGrid Group
- Director, ENTSO-E
- Director, CORESO

Key skills and experience

- Extensive expertise in the regulated energy sector and its transformation
- Responsible for day-to-day management of NESO, bringing significant know-how and commerciality
- Significant strategic leadership experience
- Committed to decarbonisation
- Fellow of the Institute of Engineers in Ireland and the Energy Institute



Kayte O'Neill
Chief Operating
Officer (COO)

Appointed: 1 April 2019

External appointments

- Non-Executive Director, Jersey Electricity Plc

Significant past appointments

- Non-Executive Director, Regen
- Numerous senior roles leading strategy and markets teams

Key skills and experience

- Over 20 years of experience in the energy sector
- Strong operational leadership expertise
- Accountable for the design and delivery of the FSO on behalf of NESO
- Provides deep technical insight from her experience leading teams across NESO and National Grid



Charlie Pate
Chief Financial
Officer (CFO)

Appointed: 11 September 2023

External appointments

- N/A

Significant past appointments

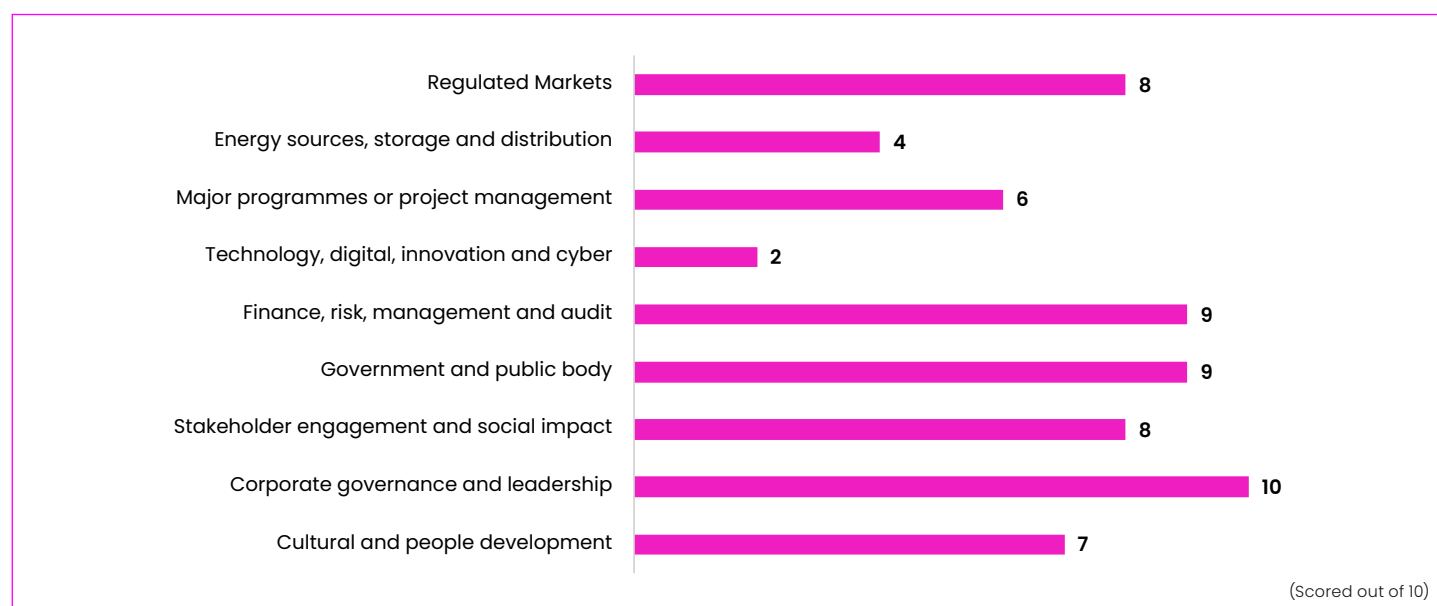
- Director General, Finance, UK Ministry of Defence
- Director of Resources, Royal Air Force
- Head of Home and Legal Spending Team, HM Treasury

Key skills and experience

- Chartered Public Finance Accountant
- Extensive financial experience in public sector organisations
- Expertise in financial strategy

Board skills and experience

We have created a Board skills matrix setting out the key skills needed to support NESO's strategy and oversight, as shown in the table below. Current Directors have undergone internal benchmarking against these competencies, which have also informed the recruitment of new Directors as part of the Board's succession planning.



Attendance at Board meetings held during FY2024-25

The Board held six scheduled meetings during the financial year. These were arranged in advance to provide sufficient notice for Directors to attend. The accompanying table shows each Director's attendance, expressed as the number of meetings attended out of those they were eligible to attend during the period to 31 March 2025.

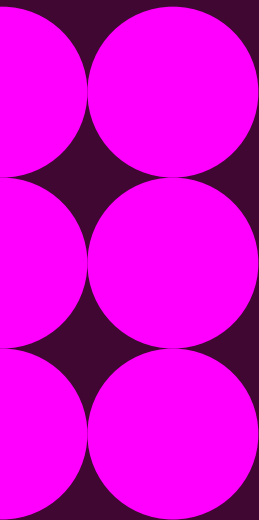
In addition to the scheduled meetings, 8 supplementary ad hoc meetings, workshops and deep dives were held. These covered key topics including the Future System Operator (FSO) programme, risk appetite and internal controls, Clean Power 2030 (CP30), connection reform and other time-sensitive matters. All Directors were either present or had the opportunity to provide feedback to the Chair in advance.

Throughout the year, Directors were also able to meet with members of the Executive Leadership Team and other NESO colleagues to explore specific areas of the business.

Director	Regular Scheduled Board Meetings
Paul Golby ¹	3/3
Fintan Slye	6/6
Hannah Nixon	6/6
Charlie Pate	6/6
Kayte O'Neill	6/6
John Linwood ³	5/6
Siobhan Duffy	3/3
Paul Plummer	6/6
Jayne Scott	1/1
Janice Crawford	6/6
Zoe Morrissey (as Director) ²	2/3
Baroness Gillian Merron	1/1

1. Paul Golby attended the May, July and September Board meetings as a guest of the Board, as part of his induction.
2. Zoe Morrissey sent apologies for the May meeting.
3. John Linwood sent apologies for the September meeting.

Governance Statement



National Energy System Operator Limited (NESO or the Company) is a private limited company registered in England and Wales. It is wholly owned by the Secretary of State for Energy Security and Net Zero (SoS, also referred to as the Secretary of State and the Shareholder).

UK Government Investments Limited (UKGI) is responsible for discharging the responsibilities of the Shareholder, in respect of NESO. A framework document governs the relationship between DESNZ, UKGI and NESO. A UKGI representative, Siobhan Duffy, has been appointed to the NESO Board as a Non-Executive Director, also referred to as the Shareholder Director.

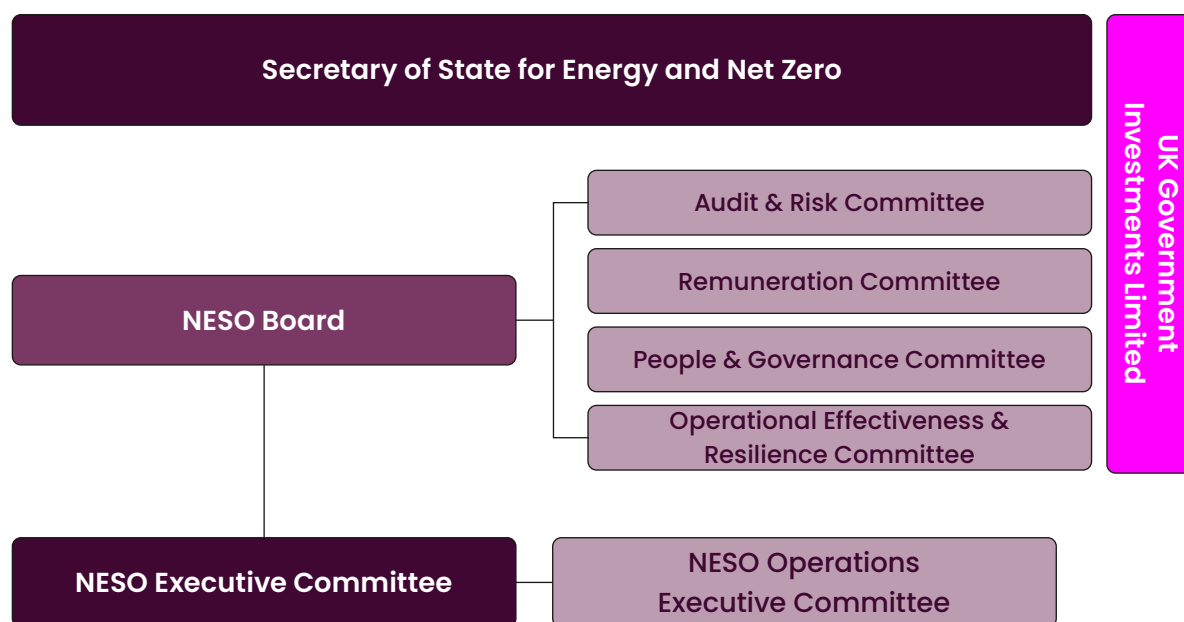
On 13 September 2024, DESNZ published a decision notice of the SoS and Ofgem’s Gas and Electricity Markets Authority (GEMA), confirming that with effect from 1 October 2024:

- the shares in the Company (then named National Grid Electricity System Operator Limited) would be transferred from National Grid Holdings One plc to the SoS under a statutory transfer scheme using the SoS’s powers under the Energy Act 2023 (the Act)
- the Company would be designated as the Independent System Operator and Planner (ISOP) for the purposes of the Act, providing NESO with its statutory functions and purpose to help accelerate Great Britain’s energy transition
- relevant electricity and gas licences and codes, as detailed in the decision notice, would be granted or modified to reflect the ownership transfer and statutory designation of NESO as the ISOP

NESO has been economically classified on an indicative basis by HM Treasury’s Classifications team as a public non-financial corporation, pending confirmation of NESO’s status by the Office for National Statistics at a future date.



Our governance framework



Governance framework documents

NESO's governance framework is set out in three core documents:

- *Framework Document* (January 2025) which outlines NESO's core responsibilities and its relationship with DESNZ and UKGI.
- *Board Terms of Reference*, effective from 1 October 2024, which set out the protocols for Board meetings, the responsibilities of the Company Secretary, and the matters reserved to the Board.
- *Articles of Association*, which describe the procedural, administrative and decision-making expectations of the Board and its Committees, as well as the rights attached to the Company's shares. The current Articles were adopted by the Shareholder on 1 October 2024 to reflect the Company's designation as NESO under its statutory role as the ISOP. The Articles of Association may be amended by a special resolution of the Company's shareholders.

These are available on the governance section of the [website](#).

The Board is collectively responsible for the governance oversight of the business. Our Board members recognise the importance of a strong corporate governance framework and support high standards of governance. With the support of UKGI, the Board continues to develop the Company's governance framework and supporting processes, adopting good practices as appropriate.

As specified in Annex A of the *Framework Document*, NESO is required to comply with applicable public sector guidance and to have regard to non-mandatory good practice. As part of the transition to NESO, a governance review was undertaken to assess the organisation against these requirements and to identify the measures needed to ensure appropriate compliance.

In addition to the governance requirements set out in legislation and NESO's regulatory licences, the Company is required to comply with the principles and provisions of the *UK Corporate Governance Code 2018* (the Code), to the extent that they apply (see our statement on Code compliance below). NESO also aims to take appropriate account of the principles of Managing Public Money and the UK government's Orange Book, to the extent applicable.

Governance Statement continued

The Board

The NESO Board has overall responsibility for setting NESO's strategy and purpose, approving its corporate and regulatory business plans, and ensuring that robust and effective risk management, internal controls and legal and regulatory compliance measures are in place. The unitary nature of the Board means that Executive and Non-Executive Directors share equal responsibility for Board decisions.

The Board sets NESO's values, behaviours and desired culture. It provides guidance on addressing the needs of our diverse customers and stakeholders, helping NESO to build strong relationships that protect consumer interests and support a secure, reliable, efficient and clean energy system.

The Board evaluates NESO's performance and progress against objectives in delivering the strategy. It provides constructive challenge and support to management, including on the development and delivery of business plans.

The Board is accountable to the Shareholder for the Company's performance, and DESNZ is committed to ensuring that the organisation has the operational independence required to allow it to operate as an expert, independent body at the centre of the energy system – trusted by both industry and government.

The NESO Board consists of:

- a Non-Executive Chair, determined to be independent upon appointment
- five independent Non-Executive Directors. All of whom are deemed Sufficiently Independent Directors (under NESO's Ofgem licence)
- a Non-Executive representative of UKGI, appointed to the Board as DESNZ's Shareholder Director (the Shareholder Director)
- three Executive Directors: the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer

You can find biographies of our Board members on pages 67 and 68.

The composition, skills, experience and diversity of the Board is kept under regular review, with the support of the People & Governance Committee. This ensures an appropriate composition and mix of Directors to enable fair, balanced and consistent decision making, by constructive challenge and support to NESO's management.

The Non-Executive Board members bring a wealth of experience and complement the Executive representation on the Board in the provision of challenge, scrutiny and support on operational and strategic matters.

The Board recognises that diversity is a challenge in the energy sector, but aims to ensure that appointments reflect the diversity of the society in which NESO operates. The Board strives to appoint Directors who bring an appropriate mix of expertise, objectivity and diversity. It is committed to encouraging greater diversity across the workplace and to developing a workforce that reflects wider society. Initiatives are underway to create opportunities for employees to progress to the most senior levels of the organisation. All Board appointments are made in consultation with our Shareholder, who ultimately approves the appointment of Non-Executive Directors and the Chief Executive Officer.

All Board members have full and timely access to relevant information to support them in discharging their responsibilities.

All Directors have access to independent professional advice, at the Company's expense, if required.

All Board and Board Committee meetings held during the year were quorate. Decisions made by the Board and its Committees have been appropriately recorded.

Board Committees

The Board discharges its duties both directly and through authority it has delegated to its four Principal Board Committees, the Executive Directors and the Executive Leadership Team. The Board is responsible for supporting its Committees and ensuring that sufficient resources are in place to carry out their responsibilities.

Each Board Committee is chaired by a Non-Executive Director, who reports to the Board on key matters discussed, actions taken and any recommendations arising from the Committee's meetings. Urgent matters are escalated to the Board by the Committee Chair as appropriate.

The terms of reference for each of the Board Committees are available by visiting [Corporate information](#) on our website. The Board reviews the effectiveness and terms of reference of its Committees regularly, in line with best practice.

The current Board Committees, their composition and terms of reference were last reviewed and approved by the Board in November 2024. This review led to the establishment of:

- **a new People & Governance Committee**, which absorbed responsibilities previously allocated to the former Nominations Committee, along with some key responsibilities previously overseen by the ESO Health, Safety & Wellbeing Committee
- **a new Operational Effectiveness & Resilience Committee**, with specific responsibilities for overseeing NESO's operational management, including key systems and processes, with a focus on those considered to have the most material impact on the system.

You can read more about the composition, role and activities of each Board Committee in their respective reports on pages 78 to 101.

Executive Leadership Team

The Board delegates the day-to-day management of the Company to NESO's Executive Leadership Team, comprising the most senior executives responsible for leading the business.

The Executive Committee reports to the Chief Executive Officer and includes three executive Board members (Chief Executive Officer, Chief Financial Officer and Chief Operating Officer), alongside the Chief People Officer, Chief Information Officer, Corporate Affairs Director, Strategy & Policy Director, and the Director of Legal & Regulation.

The Executive Committee is responsible for setting the overall strategy of the organisation, allocating resources to deliver against this strategy, tracking business performance, and reporting to the NESO Board.

The Operations Executive Committee is responsible for delivering operational transformation and ensuring the execution of our business plan commitments. It is led by the Chief Operating Officer, Strategic Energy Planning Director and Chief Engineer, Director of System Operations, Director of Transformation and Major Projects, Engineering and Customer Solutions Director, Director of Customer, Director of Connections Reform, Director of Markets, and Director of Resilience and Emergency Management.

The Executive and Operational Committees meet formally on a regular basis, and no fewer than 12 times per year.

You can learn more by visiting our [Executive Leadership Team webpage](#).

Governance Statement continued

UK Corporate Governance Code 2018 Compliance

As a private company limited by shares, NESO is not within the formal scope of the UK Corporate Governance Code 2018 (the Code). However, as is common for public corporations owned by government, the Framework Document requires NESO to:

“...comply with the ...Code...to the extent appropriate to NESO, or specify and explain any non-compliance in its annual report.”

Under its previous ownership, the Company adopted the Wates Principles as its applicable corporate governance code. A gap analysis was therefore undertaken to assess NESO’s governance arrangements against the Code and identify any measures required to ensure appropriate compliance.

The Board considers that NESO applies all of the Code’s principles and is compliant with its provisions, except where noted in the accompanying table. These exceptions arise either from NESO’s government ownership or as a result of public sector governance requirements applied by DESNZ. The Board is comfortable with this position, in the context of NESO’s indicative classification as a public corporation.

NESO will prepare to report on a ‘comply or explain’ basis against the updated *UK Corporate Governance Code 2024* in the Company’s Annual Report and Accounts for the financial year 2025–26.

Explanations for Code non-compliance	
Code Provision (Summary)	Explanation
18. All directors should be subject to annual re-election	NESO’s Directors are not subject to annual re-election and are typically appointed for an initial term of three years, subject to any reappointment. The Shareholder appoints the Chair and approves the appointment of the Chief Executive Officer and each Non-Executive Director is subject to Shareholder approval. As the sole Shareholder, SoS has the right under the Company’s Articles of Association to remove any Director by giving written notice to the Company.
24. The Board should establish an audit committee of independent Non-Executive Directors	The Shareholder Director is a member of the Audit & Risk Committee and Remuneration Committee. Although not independent due to representing NESO’s Shareholder, the Shareholder Director is considered sufficiently independent from the Executive Leadership Team for the purposes of the Committee’s work. All other members of these Committees are independent Non-Executive Directors.
32. All remuneration committee members should be independent Non-Executive Directors	
33 and 34. Remuneration Committee should have responsibility for setting Chair’s remuneration. Remuneration of Non-Executive Directors to be determined in accordance with the Articles of Association or, alternatively, by the Board	The remuneration of the Chair and other Non-Executive Directors is set by the Shareholder, rather than by the Board. The Shareholder Director does not receive any remuneration from NESO for acting as a Board member of the Company.
36. Remuneration schemes should promote long-term shareholdings by Executive directors	This provision is not applicable to NESO as a public corporation whose shares are owned by SoS and therefore cannot be acquired by Directors. However, Executive Directors participate in a long-term performance plan designed to align performance with NESO’s long-term strategy. See NESO’s Remuneration Policy on pages 90 to 93.

Board Code of Conduct and conflicts of interest procedures

To support the long-term success of the Company, the Board seeks to comply with the *Code of Conduct for Board members of Public Bodies*, which covers conduct in the role and the seven key principles of public life (the Nolan Principles): selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

All Board members are required to declare any personal or business interests that may influence their decisions or judgements in performing their role, as soon as they arise. The Chair and the Board, with advice from the Company Secretary, assess whether a declared interest constitutes an actual or potential conflict and what, if any, action is needed to manage it. This may include recusing the Director from discussions or decisions related to the matter, and restricting their access to relevant information. Directors have a duty to update any changes to their declared interests.

The NESO Company Secretariat maintains the Register of Directors' Interests and carries out periodic checks to ensure that all relevant interests have been declared. The Board considers the procedures for reporting and managing conflicts of interest to be effective.

Board effectiveness and evaluation

NESO is required to undertake regular internal and external reviews of Board performance and composition.

Given the transition to NESO mid-way through the year and the changes in Board membership, it was agreed to defer the annual Board performance review until FY2025-26 to allow time for the new Board to settle. An externally facilitated Board performance review will be conducted in early 2026.

The Board recognises that improving its effectiveness is a continuous process. It reflects on the quality of its discussions, the strength of relationships among Board members and with the Executive Leadership Team, and whether the balance of skills and experience remains appropriate when assessed against its skills matrix.

The composition, skills, experience and diversity of the Board are kept under regular review, with the support of the People & Governance Committee. Following a skills review after the transition to NESO, core competencies were identified and recommended for recruitment. As a result, two additional independent Non-Executive Directors – Jayne Scott and John Crackett – were appointed to bring further finance, audit, risk and engineering expertise to the Board.

Board activities

The tables on the following pages provide an overview of the matters discussed by the Board during the year. While not an exhaustive list of every item considered, it offers insight into the substance of boardroom discussions and how the Board's activities support delivery of NESO's priorities, with due regard to the interests of all of the Company's key stakeholder groups.

The majority of significant discussions, debates and decisions take place during the Board's regular, scheduled meetings. These are supplemented by an annual strategy off-site, as well as additional deep dives and workshops, to enable more detailed exploration of key issues. Board meetings are

a central mechanism through which Directors discharge their duties, including those under Section 172 of the Companies Act 2006.

Agendas are agreed in advance by the Chair and the Company Secretary, following discussion with the Chief Executive Officer about proposed topics and areas of focus. Meetings are scheduled to align, where possible, with the wider cadence of the business, ensuring they take place at appropriate points during the year. Agendas are structured to balance updates on operations and financial performance with deep dives into specific strategic priorities and governance matters that require Board oversight.



Governance Statement continued

Our priorities – strategy

The Board spends a significant portion of its time reviewing, analysing and debating matters relating to the Company’s key strategic priorities, advising on and shaping the strategic direction as required.

Summary of activities in FY2024–25

- Reviewed and discussed NESO’s purpose, vision, values and culture
- Held a number of strategy sessions to explore NESO’s strategic direction and business development over the next five years
- Focused in particular on the evolving energy sector in Great Britain and the key drivers of change, to better understand the challenges impacting NESO’s purpose and priorities

Deep dives and workshops

In addition to scheduled Board meetings, focused ‘deep dive’ sessions are held on areas of particular strategic and operational importance. These are typically led by Executive Leadership Team members, with support from relevant directorates. The sessions enable the Board to examine the complexity of key issues in greater depth and engage directly with senior leadership, supporting more informed decision-making.

Summary of activities in FY2024–25

- Reviewed *Clean Power 2030*, NESO’s first piece of expert and independent advice to government, and considered the underlying analysis on how Great Britain could achieve the clean power by 2030 target
- Discussed NESO’s post-event review into the fire and outage at North Hyde substation, which affected customer supply including Heathrow Airport, and reviewed recommendations to enhance resilience at Critical National Infrastructure (CNI) sites
- Reviewed the development of *RIIO-2 Business Plan 3*, NESO’s first regulatory business plan, ensuring that the Performance Objectives were appropriately ambitious and aligned with NESO’s long-term purpose
- Considered detailed updates on the Independent System Operator programme, assessing principal risks and providing challenge
- Held an annual risk day to examine NESO’s risk framework, risk appetite and horizon scanning activities

Governance

This includes regular reviews, regulatory updates and other standing items that assist the Board in fulfilling its statutory duties to the Company.

Summary of activities in FY2024–25

- Agreed the budgeting process and proposals for FY2025–26, taking into account key assumptions, principal risks and stress testing
- Considered the approach to establishing an enduring relationship and regulatory regime with the regulator, Ofgem, appropriate for an Independent System Operator
- Received reports on matters reviewed and approved by the Executive and Operational Committees during the year
- Received updates from the Chairs of the Audit & Risk, People & Governance, Operational Effectiveness & Resilience, and Remuneration Committees on their work, including key discussion topics and areas of concern
- Considered a range of 'ordinary course' governance matters, including the draft *Annual Report and Accounts* and the Modern Slavery Statement
- Monitored regulatory and legislative developments and considered their potential impact on NESO's operations

Director updates

These sessions enable the Board to review current performance with Executive Directors and offer advice on business priorities and stakeholder concerns.

Summary of activities in FY2024–25

- Received business performance updates from the Chief Executive Officer, including progress on priority initiatives, major programmes and Executive Leadership Team activities
- Reviewed financial performance updates at each meeting, led by the Chief Financial Officer, covering recent results, forecasts, capital allocation and budgeting
- Considered operational performance and priorities, including plans for NESO's exit from Transitional Service Arrangements with its former owner and the introduction of a bespoke Finance, HR and Procurement system
- Discussed themes and issues raised during employee engagement sessions and what they reveal about NESO's organisational culture
- Received regular updates on stakeholder relations and external communications, including feedback from engagement activities and media coverage

Audit & Risk Committee

Committee membership

The Committee is comprised exclusively of Non-Executive Directors. The members of the Committee are:

Hannah Nixon
(Committee Chair, Senior Independent Director, Non-Executive Director)

Siobhan Duffy
(Shareholder Director)

Jayne Scott
(Committee Chair Designate, Independent Non-Executive Director)

Attendance at Committee meetings during the year

Committee Member	Scheduled Meetings Attended
Hannah Nixon (Committee Chair)	6/6
Siobhan Duffy	2/2
Jayne Scott	1/1
Janice Crawford (until 31 March 2025)	6/6
John Linwood (until 19 November 2024)	5/5
Kayte O'Neill (until 19 November 2024)	5/5

NOTE: The Chief Executive Officer, Chief Financial Officer, Board Chair, Company Secretary, and representatives from the Finance, Internal Audit, Risk and Assurance teams, along with the Company's external auditor, Deloitte, also regularly attend meetings.

Committee composition

Hannah Nixon served as Chair of the Committee throughout FY2024–25 and will be succeeded by Jayne Scott in autumn 2025. The Committee is satisfied that Jayne Scott, a Chartered Accountant, has recent and relevant financial experience for the purposes of the UK Corporate Governance Code.

Role of the Committee

The purpose of the Committee is to monitor the effectiveness and integrity of NESO's financial reporting, systems of internal control and risk management, governance framework and internal and external audit processes.

Key responsibilities

The responsibilities of the Audit & Risk Committee include to:

- monitor and critically assess NESO's financial statements and financial information, including the annual report and accounts, reviewing the application of and changes to significant accounting policies, methods used to account for significant or unusual transactions, and appropriateness of estimates and judgements

- monitor and challenge the adequacy and effectiveness of NESO's internal controls and risk management framework and systems
- consider matters of business conduct and reports relating to NESO's Code of Ethics
- oversee the relationship with the external auditor and assess annually their performance, independence and objectivity
- ensure the internal audit arrangements are appropriate and effective
- oversee the duties of the Compliance Officer, in respect of the independence requirements, as required by NESO's licence
- assess and challenge annually the adequacy of NESO's insurance arrangements

The full responsibilities of the Committee are set out in its [Terms of Reference](#), which are available on our website.

Audit & Risk Committee activities during FY2024–25

The Committee held six scheduled meetings during the year. The Committee covered extensive ground in what was a year of considerable change for the Company.

A major area of focus was reviewing and providing assurance to the Board on the risks associated with the change in Company ownership and separation from the National Grid group. The Committee noted that NESO would no longer be subject to Sarbanes-Oxley (SOx) requirements and therefore would need to adopt an alternative approach to financial controls testing that was proportionate, sufficiently robust and meet stakeholder expectations. This included reviewing the development of NESO's stand-alone internal controls framework, covering controls over the Balancing Services Use of System (BSUoS) and Transmission Network Use of System (TNUoS) operational frameworks.

The Committee also considered risks related to the separation of financial systems and the capability required to support NESO in finance, regulatory reporting, internal audit, controls, risk and assurance. It reviewed the arrangements, plans and associated exit risks under transitional service agreements with National Grid to support the Company as it develops its own functional capabilities.

Risk deep dives

The Committee carried out "deep dive" reviews of the following Principal Risks during the year: Reputation; Future System Operator Programme Delivery; Financial Strategy and Management; Strategy Development and Delivery; Operations – Security of Supply; Operations – Strategic Energy Planning; and People Management, Development and Wellbeing.

During these reviews, the Committee assessed risk tolerance, the mitigations and controls in place, and how these are monitored and managed. The Committee provided challenge and suggestions, for example by identifying additional matters that could impact NESO's reputation and how risks might be mitigated through stakeholder engagement and explanatory communications to build understanding.

Financial information and internal controls

At each meeting, the Committee received a report from the Chief Financial Officer and discussed matters including: separation readiness; review of NESO's

revenue-to-cash process; management information and accounting updates; treasury matters such as the adequacy of NESO's working capital and banking arrangements, cash management and fraud controls; and variances to financial forecasts.

Internal controls remained a key focus throughout FY2024–25, and the Committee welcomed the continued progress in strengthening this area to prepare the business for full independence.

Internal audit

The Committee received regular updates from the Head of Internal Audit at its meetings throughout the year. It reviewed and approved a new NESO [internal audit charter](#) and the annual internal audit plan and discussed reports on the status and outcomes of individual audits undertaken. A teach-in session on the new Global Internal Audit Standards, which NESO is required to comply with, was undertaken. The Committee reviewed the proposed internal audit strategy, proposing areas where this could be strengthened.

External audit and financial reporting

Deloitte has been the Company's external auditor since 2018. A replacement will be appointed in FY2025–26, following a competitive tender process.

Representatives of the external auditor attended the Committee, where Deloitte's independence was reported on and reviewed at each meeting. The Committee remained satisfied as to such independence. In line with NESO's policy, the provision of any non-audit services by the external auditor requires the prior approval of the Committee.

At its June meeting, the Committee considered the Annual Report and Accounts 2023–24, including Deloitte's audit report, accounting judgements, going concern, financial statements and whether the report was fair, balanced and understandable. This was recommended to the Board for approval. In September, the Committee approved a new Audit Partner for NESO, noting that this would provide a greater level of separation and independence from National Grid and received assurance as to an orderly transition. In March 2025, the Committee discussed the external audit plan for NESO's FY2024–25 reporting. The Committee also received an update from NESO's Sustainability leads on the development of its future ESG strategy and proposed ESG reporting.

Audit & Risk Committee continued

Risk

At each meeting, the Committee received a risk and assurance update from the Head of Risk & Assurance. This included a review of the quarterly risk insights pack and monitoring of risk tolerance levels for each Principal Risk, as well as broader discussion of the risk landscape, including emerging risks.

At the final meeting of the year, the Committee endorsed and recommended to the Board a new risk framework for NESO. This reflects the new operating environment and includes revised Board-level risk categories and updated Principal Risks. Each Principal Risk was allocated to the most appropriate Board Committee for “deep dive” review on behalf of the Board. These allocations are shown in the Principal Risk table on pages 56 to 59.

Other activities during the year

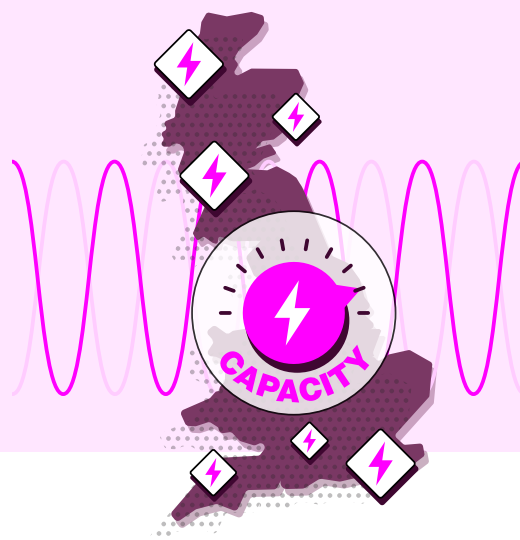
The Committee also undertook the following:

- Reviewed NESO’s response to a metering issue at the Robin Rigg offshore wind farm, and received assurance that robust processes had been implemented to reduce the risk of recurrence
- Reviewed and approved NESO’s tax strategy, recognising the importance of maintaining a reputation for responsible tax management
- Reviewed NESO’s approach to insurance following separation from National Grid, endorsing the procurement of appropriate commercial insurance policies in the market with no increase in risk to NESO
- Reviewed and updated the Committee’s *Terms of Reference* in anticipation of the requirements of the Corporate Governance Code 2024
- Received reports on audits undertaken by the Engineering Assurance team and reviewed actions relating to internal controls
- Approved new policies for non-audit fees and accounting, and endorsed for Board approval new policies covering travel and expenses, gifts and hospitality, accounting and treasury

Focus areas for FY2025–26

The Committee’s areas of focus for the financial year ending 31 March 2026 are expected to include:

- ensuring a smooth transition to a new Committee Chair
- overseeing the continued development and maturity of NESO’s risk management and internal controls frameworks, including in relation to NESO’s wider whole energy role, aligned with the agreed risk tolerance
- conducting deep dive reviews of the Principal Risks allocated to the Committee
- overseeing the exit from Transitional Service Agreements and the transformation of NESO’s financial and people systems
- monitoring delivery of NESO’s first full-year internal audit plan
- undertaking the re-tender of external audit services, and making recommendations on the selection and appointment of a new external auditor for Board and Shareholder approval
- monitoring arrangements for the effective transition of external audit services to the new external auditor, to commence ahead of the FY2025–26 external audit
- overseeing the development of NESO’s ESG strategy and reporting



People & Governance Committee

Committee membership

The Committee is comprised exclusively of Non-Executive Directors. The members of the Committee are:

Dr Paul Golby
(Committee Chair,
Non-Executive Board Chair)

Siobhan Duffy
(Shareholder Director)

Hannah Nixon
(Senior Independent Director,
Non-Executive Director)

Attendance at Committee meetings during the year

Committee Member	Scheduled Meetings Attended
Dr Paul Golby (Committee Chair)	2/2
Siobhan Duffy	2/2
Hannah Nixon	2/2

NOTE: The Chief Executive Officer, Chief People Officer and Company Secretary also regularly attend meetings.

Role of the committee

The Committee has primary responsibility for the composition of the Board and the Executive leadership of the Company.

Key responsibilities

The responsibilities of the People & Governance Committee are to:

- keep the structure, size and composition of the Board and its committees under review and make recommendations to the Board regarding any changes it considers necessary
- lead the process for appointments to the Board, other than those reserved for the Shareholder (specifically the Chair of the Board and the Shareholder Director), subject to the approvals required by the *Articles of Association*, the *Framework Document* and the Shareholder

- give consideration to the challenges and opportunities facing the Company and the future leadership skills required by NESO to ensure that it remains effective and focused on delivering its strategy, including oversight of the development of a diverse pipeline of candidates for succession to the Board and Executive Leadership Team
- review employee policies and practices and their alignment with NESO's purpose, strategy, values and behaviours
- keep apprised of relevant developments in law, regulation and evolving practice relating to corporate governance

The full responsibilities of the Committee are set out in its [Terms of Reference](#), which are available on our website.

People & Governance Committee continued

Establishment of the Committee

At the start of the financial year, the Board operated a Nominations Committee. This Committee was chaired by Baroness Gillian Merron, an independent Non-Executive Director. Other members included Hannah Nixon, Janice Crawford (both independent Non-Executive Directors) and Fintan Slye (CEO and then Executive Board Chair).

As part of the Board's governance review on the transition to NESO, it was resolved in November 2024 to reconstitute the Committee as the People & Governance Committee and to broaden its remit and responsibilities. The composition of the Committee was changed to its current membership.

People & Governance Committee activities during FY2024–25

The Committee held two scheduled meetings in the year, in November 2024 and January 2025. In addition, it held several ad hoc meetings to oversee the recruitment of two new independent Non-Executive Board members.

The Committee considered the size and composition of the Board, along with the skills and competencies required to ensure NESO has the necessary leadership to deliver its new purpose and address future challenges. As a first step, the Committee recommended to the Board and Shareholder the recruitment of two new Non-Executive Directors. This search was supported by the executive search firm, Russell Reynolds, which has no other connection with the Company or individual directors.

Jayne Scott joined the Board as an independent Non-Executive Director in February 2025, bringing recent and relevant financial experience. She will succeed Hannah Nixon as Chair of the Audit & Risk Committee. The Committee also led the recruitment of a Non-Executive Director with skills in engineering design, standards and governance. The process concluded with the appointment of John Crackett in June 2025. You can read more about the recruitment process on page 83.

The Board is required to undertake an annual review of its effectiveness, in line with good practice and the *Framework Document*. It is proposed that an externally

facilitated performance review will be conducted in the first half of 2026 to allow the newly appointed Non-Executive Directors time to settle into their roles, while capturing the experience of longer-serving Board members ahead of the conclusion of their tenures. An independent organisation has been selected to facilitate this review.

The Committee also considered the effectiveness of the Board's methods for obtaining the views of colleagues. This included a tailored approach and a formal programme of engagement activities with colleagues. You can read more about this on page 49.

The results of the latest colleague engagement survey, NESO@Listens, were reviewed, showing positive progress. The Committee discussed follow-up plans to support further improvement and ongoing engagement.

In addition, the Committee reviewed the recently agreed Executive leadership structure and considered the development of resilient succession plans for key leadership roles, ensuring the skills required to lead NESO into the future are in place.

Focus areas for FY2025–26

The areas of focus of the Committee's work in the financial year to 31 March 2026 are expected to include:

- oversight of the recruitment, selection and onboarding of additional Non-Executive Directors in line with an agreed succession plan, to enhance the Board's skills and capabilities
- oversight of the first externally facilitated Board performance review planned for early 2026
- the development of succession planning for the Board, Executive Leadership Team and other key roles
- continued monitoring of the effectiveness of the Board's engagement with NESO colleagues and listening to their views
- reviewing NESO's Diversity, Equity and Inclusion strategy, and its Health, Safety and Wellbeing strategy

Board appointment process

The timeline below summarises the process to appoint John Crackett to the Board as a Non-Executive Director.

The Committee is satisfied that the process was appropriately thorough.

Brief (December 2024)

The Board instructed the People & Governance Committee to develop a role profile for a new Non-Executive Director, setting out the required attributes, skills and experience, and to oversee the search process.

A candidate with expertise in engineering design, standards and governance was sought – someone who could demonstrate substantial and high-quality engineering leadership and provide strategic and technical advice at Board level to management and stakeholders on actions required to support energy security, operational resilience, to meet the zero-carbon target for the energy system by 2030 and net zero for the UK by 2050.

Search (December – March 2025)

Once the role profile was finalised, executive search firm Russell Reynolds Associates (RRA) conducted an extensive market review to identify candidates who met the required criteria. A diverse longlist of high-potential Non-Executive Directors was presented to the Committee for consideration. Following further evaluation by RRA, a final short list was agreed for review and approval ahead of the assessment stage.

Assessment (March – April 2025)

The assessment began with individual, informal conversations between each finalist candidate and the NESO Chair, Chief Executive Officer and Chief Operating Officer. Feedback from these discussions was shared with Committee members to inform the final panel interviews, with a focus on relevant experience and cultural fit with the Board.

Each candidate then took part in a formal panel interview with the three members of the People & Governance Committee.

Following completion of the interviews, the Committee was unanimous in recommending John Crackett for appointment to the Board, recognising his strong expertise and suitability for the role.

Offer and appointment (April – June 2025)

Following Board approval, Shareholder approval was sought and granted, and the role was formally offered to John Crackett.

The appointment was announced in June 2025, and John attended his first Board meeting in July 2025.

John Crackett
Independent
Non-Executive Director



Remuneration Committee

Committee membership

The Committee is comprised exclusively of Non-Executive Directors. The members of the Committee are:

Paul Plummer
(Committee Chair, Independent Non-Executive Director)

Siobhan Duffy
(Shareholder Director)

John Linwood
(Independent Non-Executive Director)

Hannah Nixon
(Senior Independent Director, Non-Executive Director)

Attendance at Committee meetings during the year

Committee Member	Scheduled Meetings Attended
Paul Plummer (Committee Chair)	5/5
Siobhan Duffy	4/4
John Linwood	5/5
Hannah Nixon	4/5

NOTE: The Board Chair, Chief Executive Officer, Chief People Officer, Senior Reward Manager, Company Secretary and representatives from the Committee's remuneration adviser, Korn Ferry, also regularly attend meetings.

Establishment of the NESO Remuneration Committee

Before NESO was established, National Grid Electricity System Operator Limited (ESO) already had in place comprehensive policies and processes for the remuneration of employees, as a subsidiary of National Grid plc.

The Board of ESO instituted a Remuneration Committee, in readiness for assuming employee remuneration responsibilities as an independent company. Its role was to begin development of the necessary remuneration policies and processes for the new organisation and to support a smooth transition. On 1 October 2024, the new NESO Board then established the NESO Remuneration Committee.

Under the Terms of Reference established by the NESO Board, the Remuneration Committee is responsible for oversight of the Company's Remuneration Policy. It sets the remuneration of the Executive Directors – the Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) – and, on the

recommendation of the CEO, the remuneration of the Executive Committee members. The Committee also oversees the remuneration of members of the Operations Executive Committee, who report to the COO, and the overall remuneration arrangements for all NESO employees.

The Committee is supported and advised by NESO's independent remuneration consultant, Korn Ferry, which has no other connection to the Company, or individual directors, beyond remuneration and organisational design matters. Korn Ferry's appointment was made following a competitive tender and interview process conducted by the Committee's members.



Role of the Committee

The Committee has primary responsibility for determining the Remuneration Policy for NESO and setting remuneration for Executive Directors and other Executive Committee members.

It also reviews NESO's wider remuneration framework and monitors related policies, ensuring that incentives and rewards are aligned with organisational performance and with the Company's purpose, strategy, values, behaviours and culture.

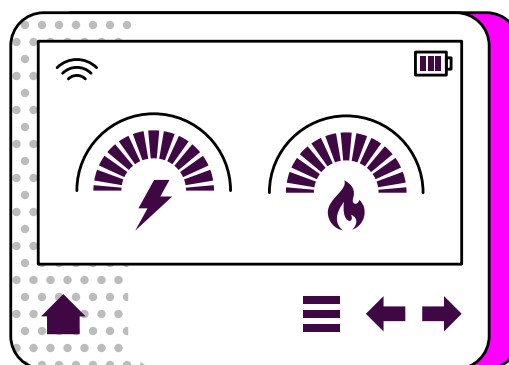
Key responsibilities

The responsibilities of the Remuneration Committee are to:

- determine and propose a NESO Remuneration Policy to the Board, ensuring a clear link to organisational performance; review its implementation for alignment and proportionality; and review its ongoing appropriateness and relevance
- review and approve the principles and design of all performance-related bonus and incentive plans
- satisfy itself that Executive Committee members' remuneration is aligned with NESO's performance, purpose, strategy, values, behaviours and culture
- set and approve the terms of appointment, remuneration, benefits and termination of employment of each Executive Committee member in accordance with the Remuneration Policy
- establish a framework and determine criteria for measuring the performance of Executive Directors and other Executive Committee members, applying judgement and discretion when determining performance and remuneration outcomes
- review the fairness of any contractual termination terms and exit payments made to Executive Committee members
- review, approve and, where appropriate, apply the malus and clawback policy for recovery and/or withholding of sums paid or awarded
- provide oversight of the remuneration and objectives of the wider Executive Leadership Team
- consider colleague views and engagement initiatives related to remuneration

The full responsibilities of the Committee are set out in its [Terms of Reference](#) available on our website.

The remuneration of NESO's Non-Executive Directors, including the Chair of the Board, is set by the Shareholder and is included as one of the disclosures in this report. The Shareholder Director does not receive any remuneration from the Company.



Remuneration Committee continued

Approach to remuneration reporting

The Committee has determined that its remuneration reporting should include a number of the disclosures typically provided by listed companies, as these offer clear and transparent information in a format that is widely recognised and understood.

Aligned with market practice, this remuneration report summarises the remuneration for our Executive and Non-Executive Directors only. There are some limited disclosures on wider workforce remuneration on page 88.

This report sets out:

- the activities and decisions of the Remuneration Committee during the year
- our Directors' Remuneration Policy – the framework within which Directors are paid, applicable from the financial year ending 31 March 2026
- the annual report on remuneration, setting out the remuneration paid and awarded to Directors for the financial year ended 31 March 2025, and how the policy will be implemented for FY2025–26

Remuneration Committee activities during FY2024–25

The financial year FY2024–25 was a year of two parts for the Committee, with six months operating as ESO and six months as NESO. This report summarises the work and decisions of the Committee during the five scheduled meetings held throughout FY2024–25.

Development of our Remuneration Policy

While establishing policies and processes suitable for an independent public corporation with significant responsibilities, the Committee recognised the importance of maintaining continuity for colleagues. It reviewed existing arrangements and best practice to develop NESO's pay philosophy and Remuneration Policy. The Policy includes pay principles, practices and market positioning, as well as incentive plans that support NESO's strategic priorities.

In developing the Remuneration Policy, the Committee sought the views of all Board members through individual feedback sessions, along with those of Ofgem and the Shareholder. Each element of pay was carefully assessed against market practice, alongside the overall approach to remuneration as a public corporation with reference to the principles in *Managing Public Money*.

The Committee undertook a full review of NESO's pay arrangements during the transition. While most elements remain unchanged, it updated the structure

of the incentive plans and introduced greater transparency into remuneration reporting. Further details are provided below.

The NESO *Remuneration Policy*, which applies to all employees, is available on our website. The elements of the Policy specific to Executive Directors are set out on pages 90 to 93 of this Remuneration Report. This, with the Policy for the Non-Executive Directors is together referred to as the 'Directors Remuneration Policy'.



Remuneration philosophy and pay positioning

The Committee aimed to establish a reward system that enables NESO to attract, retain and engage skilled individuals essential to achieving NESO's mission and delivering on its business plan. The Committee also took into account affordability, value for money for consumers and stakeholders, and NESO's indicative classification by HM Treasury as a public non-financial corporation.

A method for benchmarking pay and reward for the CEO and Executive Committee roles was developed, involving the selection of appropriate comparator groups. These groups included both public and private organisations in the energy sector, as well as comparators from other industries, to reflect the wider talent market and organisational context.

Incentive plans

To support the approach described above, the Committee resolved to maintain an Annual Performance Plan (APP) that is largely consistent with the framework previously implemented at ESO. The APP is based on performance measured over a single financial year and assessed against both the Business Scorecard and a combination of individual and shared strategic objectives.

The Committee reviewed the performance measures and adjusted the weighting of the Business Scorecard objectives, as well as individual and shared strategic objectives. These changes reflect the Executive Committee's responsibility for delivering NESO's regulatory business plan and broader strategic priorities. The Committee also clarified the process for evaluating performance, including how Ofgem's assessment of NESO's delivery against the business plan will be considered.

The Committee evaluated options for NESO's long-term performance plan (LTPP). The final design is simple and transparent, aligning payments with the long-term strategy over a three-year performance period. Significant time was devoted to identifying appropriate performance metrics and ensuring their alignment with NESO's long-term strategic objectives.

The structure of the APP and LTPP, together with the selected metrics, is intended to ensure that incentive outcomes accurately reflect performance against agreed objectives. This approach supports NESO's strategic goals while mitigating the risk of disproportionate awards and discouraging behaviours inconsistent with the Company's purpose and values.

Pensions, benefits, use of discretion, malus and clawback

The Committee has noted that some members of the Executive Leadership Team have specific inherited arrangements, including participation in a legacy defined benefit pension scheme. This scheme is now closed to new members and is not part of the forward-looking Remuneration Policy.

The NESO Remuneration Policy provides that APP and LTPP awards that are straightforward, with a clear and transparent range of potential payments based on performance. The Committee acknowledged the need to exercise judgement in determining incentive outcomes and that discretion might be needed to adjust targets in exceptional circumstances, accompanied by clear disclosure of how and why it was applied.

The inclusion of malus and clawback provisions, which allow for payments to be reduced or reclaimed, was deemed appropriate for NESO's incentive plans. The conditions under which malus and clawback may apply are detailed in the APP and LTPP plan rules, as well as in the Directors' Remuneration Policy set out in this Remuneration Report.

The Committee also oversaw the development of a NESO workplace ISA to replace the discontinued National Grid employee share schemes, which could not continue following separation. This innovative scheme is designed to provide a continuation of important benefits for our broader workforce.

Remuneration Committee continued

Remuneration outcomes for FY2024–25

FY2024–25 APP outcomes

The FY2024–25 Annual Performance Plan (APP) for Executive Directors was determined by:

- a Business Scorecard, which applies to all management grades
- individual strategic objectives set by National Grid plc at the beginning of the financial year, and then updated by the Committee

The Committee reviewed and updated the individual strategic objectives, effective from 1 October 2024, to ensure they aligned with NESO's priorities for the remainder of the year.

The Committee reviewed the Business Scorecard outcome and determined the individual strategic outcomes for the Executive Directors. This resulted in overall APP outcomes ranging from 133% to 148% of target, with the Business Scorecard elements scoring 126% of target.

In making these determinations, the Committee considered the overall performance of the business, particularly the successful transition to NESO and the publication of the *Clean Power 2030* advisory report to government. While formal performance engagement with Ofgem was not a requirement for FY2024–25 under the Remuneration Policy, the Board welcomed feedback from Ofgem's Chair and CEO, who met with the Board to provide their view of NESO's overall performance. This feedback was taken into account as part of the Committee's deliberations.

The Committee concluded that the APP outcomes were fair and appropriate, with no adjustments required.

2022–2025, 2023–2026 and 2024–2027 LTPP outcomes

In line with the transition to NESO, it was agreed with NESO's new Shareholder that the Long-Term Performance Plan (LTPP) awards granted by National Grid plc in 2022, 2023 and 2024 would remain in place until their respective vesting dates in 2025, 2026 and 2027.

These awards are based on the change in value of ESO from the date of award to 30 September 2024. As part of the transition arrangements, it was agreed that the value of the awards would be tested as at 30 September 2024 and then increased in line with inflation through to vesting.

The 2022–2025 LTPP vested on 31 March 2025, with the final value determined on this basis, provided on page 97.

The Committee also reviewed the approach to pay awards and overall incentive outcomes for colleagues, taking these into account when considering the outcomes for the Executive Directors and Executive Leadership Team. The Committee is satisfied that the remuneration outcomes for FY2024–25 fairly reflect both business and individual performance.

Following a comprehensive review, the Committee concluded that NESO's remuneration policies and practices – including the changes proposed for FY2025–26 – remain fair and appropriate. These policies support the delivery of NESO's corporate strategy, help attract and retain essential talent, and balance the interests of stakeholders and consumers. The Committee recognises the need to continue monitoring these matters to ensure the Company delivers effectively and cost-efficiently for all stakeholders.

Stakeholders and engagement

The Committee has carefully considered stakeholder views in the development of NESO's Remuneration Policy, practices and outcomes, ensuring alignment with our overall approach. Additionally, the Shareholder Director is a member of the Committee and ensures the Shareholder's views are represented in all discussions.

Employees

In reviewing the Remuneration Policy, the Committee considered the pay arrangements for all employees. This reflects the importance of aligning, where appropriate, Executive remuneration with the broader workforce. NESO provides all employees with a comprehensive package of base pay and benefits.

Operation of the Directors' Remuneration Policy in FY2025–26

The Committee carefully considered how the Directors' Remuneration Policy should apply to Executive Directors in FY2025–26. The Committee's decisions are summarised on page 99 and include:

- review and approval of salary increases for FY2025–26 of 4%, aligned to the salary review budget for NESO's management population
- setting of performance measures and targets for the APP for FY2025–26
- determination of award levels, measures and targets for the 2025–2028 LTPP

Focus areas for FY2025–26

In the reporting year, the Committee has met frequently to review remuneration policies and processes to ensure they are fit for purpose. The Committee's focus for the coming year will be to adopt a more regular cycle of decision-making, ensuring these policies continue to be effective, are applied appropriately, and are communicated in a timely way to employees.

All forms of engagement are fundamental to how NESO operates, providing valuable insight and feedback. Ensuring the colleague voice is included in Board and Committee debate and decision-making is part of this. FY2025–26 will see the evolution of this programme of engagement activities, which will include, as required by the Code, Executive and colleague reward.

The areas of focus for the Committee's work in FY2025–26 are expected to include:

- implementing the Remuneration Policy appropriately in its first year, taking into account Ofgem's review of NESO's performance
- setting objectives for the Executive Directors and Executive Committee under the APP for the financial year
- determining LTPP award levels, measure and targets for 2025–2028 participants
- reviewing whether the Remuneration Policy and incentive plans are operating as intended to drive the right performance, behaviours and culture

- monitoring application of the Remuneration Policy during a period of significant organisational growth and considering how to manage factors affecting market recruitment
- reviewing the remuneration arrangements for the wider workforce

In line with the Code, the Remuneration Policy has been tested against the six factors listed in Provision 40:

- **Clarity** – the Policy is clearly and concisely explained to stakeholders in this report and in any documentation provided to incentive plan participants.
- **Simplicity** – remuneration structures are simple, typical of the market, and designed to align with performance and strategy while minimising the risk of rewarding failure. Defined limits apply to the maximum awards that can be earned under the variable remuneration structures.
- **Risk** – the Directors' Remuneration Policy has been shaped to discourage inappropriate risk-taking by providing a balanced weighting between fixed and variable pay, and by placing emphasis on longer-term incentives. The Policy ensures that the Committee can exercise discretion to adjust APP and LTPP payments if the formulaic outcome is inappropriate, with malus and clawback provisions in place. No Executive Director or other member of management is present when their own remuneration is under discussion.
- **Predictability** – information on the potential values that can be earned under the APP and LTPP is provided in this report and clearly set out in award documentation given to participants.
- **Proportionality** – there is an appropriate balance between fixed and variable pay. Incentive pay rewards the successful implementation of NESO's strategic priorities, reflecting both financial and non-financial performance. Outcomes do not reward poor performance.
- **Alignment to culture** – the Committee ensures that executive pay aligns with NESO's culture, values and workforce policies, with a strong emphasis on fairness of remuneration outcomes across the workforce. The APP structure broadly mirrors that of the wider management group, ensuring all participants are working towards the same goals.

Directors’ Remuneration Policy

This section of the report sets out the current policy for the remuneration of the Company’s Directors.

Component & link to strategy	Operation	Opportunity
Base salary		
Provides a base level of remuneration to help us recruit, retain and engage executives with the right skills and experience. Ensures an appropriate balance between fixed and variable pay.	Salaries are reviewed annually with any changes normally effective from 1 July. For the CEO, salary increases in excess of 6% of salary can only be made with the approval of the Shareholder.	Salaries will be set and reviewed taking into account factors such as the role, experience and performance of the individual and the business; salary increases elsewhere in the Company, internal relativity and external market positioning of total reward.
Benefits		
Provides a market aligned, cost effective level of benefits.	Benefits are determined by the Committee and currently include private medical insurance, life assurance cover and a benefit allowance. The CEO also receives a funded health assessment. Executive Directors may participate in the Company’s ISA and Flexible Benefits scheme on the same terms as other employees.	The value of benefits is determined by the cost to the business of providing them. There is an entitlement for the CEO and COO to family health cover with new appointments receiving individual cover only.
Pension		
To provide appropriate retirement benefits as part of a package to recruit, retain and engage executives with the right skills and experience.	The pension contributions for Executive Directors are consistent with those for other NESO employees noting there are some legacy arrangements as part of the separation of the business from National Grid.	For the CEO, participation in a defined contribution arrangement (pension plan or cash in lieu), employer contribution of 20% of basic salary. For the CFO and new Executive Directors, participation in defined contribution arrangement (pension plan or cash in lieu), maximum employer contribution of 12% of basic salary. The COO participates in a contractual defined benefit plan which provides benefits at 1/80th and 3/80th lump sum. Under this arrangement, increases to pensionable salary for service after 1 April 2013 are capped at a maximum of 3%.

Component & link to strategy	Operation	Opportunity
Annual Performance Plan (APP)		
To incentivise and reward the achievement of annual performance against financial and non-financial KPIs that align to the business plan and overall strategy.	The Committee determines performance measures, weightings and targets for the APP each year which align to the business plan and overall business strategy. They may comprise strategic and individual goals with clear line of sight to agreed business priorities. The actual measures set for each year the plan is operated will be set out in the Annual Report on Remuneration. Payments under the plan are determined by the Committee based on performance against those metrics set which are measured normally over a single financial year and taking account Ofgem performance assessment feedback on NESO's regulated business plan. The Committee has the discretion to adjust the formulaic outcome of the APP. Details of how this is operated are set out later in this Policy. Provisions whereby payments can be reduced or be required to be paid back, ('malus and clawback') in certain circumstances are set out later in this Policy, apply up to the date of the APP determination and for two years thereafter.	The maximum APP opportunity for the CEO and COO is up to 65% of salary. The maximum APP for the CFO is 50%. Target opportunity is 50% of maximum where the nature of the performance metric allows such an approach. Threshold payment is set by the Committee depending on the target set and will not be more than 50% of the target opportunity.
Long-Term Performance Plan (LTPP)		
To incentivise and reward the achievement of our long-term strategy.	The LTPP is a cash award based on the achievement of long-term strategic objectives. The Committee determines performance measures, weightings and targets for the LTPP each year which align to our long-term strategic plan. The actual measures set for each year awards are made will be set out in the Annual Report on Remuneration. Payments under the plan are determined by the Committee based on performance against those metrics which are measured normally over a three-year period. The Committee, in the same way as for the APP, has the discretion to adjust the formulaic outcome of the LTPP. The Committee may also reduce or require repayment of LTPP payments in certain circumstances as set out later in this report up to the date of the LTPP determination and for two years thereafter. There are some long-term incentive arrangements granted by National Grid which transferred to NESO, details of which will be set out in the Annual Report on Remuneration as applicable.	Target award levels will be determined by the Committee each year and will be between 65 - 90% of salary. These award levels will be set out in the Annual Report on Remuneration each year. Threshold performance will result in no more than 70% of the target award level vesting. Maximum performance will result in 130% of the target award level vesting.
Non-Executive Directors		
To provide an appropriate fee level to attract and retain Non-Executive Directors and to appropriately recognise the responsibilities and time commitment.	Neither the Board Chair nor the Non-Executive Directors participate in any incentive plans. Reasonable business expenses are reimbursed in line with the expenses policy for the business. Fees are determined by the Shareholder.	Non-Executive Directors are paid a base Board fee and an additional fee for acting as Chair of Board Committees. No fees are paid to the Shareholder Director by the Company. The Board Chair receives an all-inclusive fee.

Directors’ Remuneration Policy continued

Malus & clawback

The circumstances in which malus & clawback may apply are as follows:

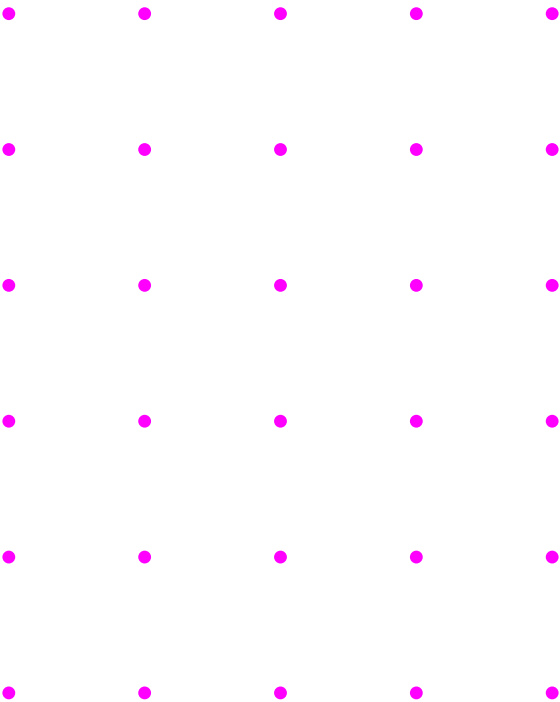
- Material misstatement of financial results which has resulted in an overpayment under the Plan, irrespective of whether the Participant was at fault;
- Reputational damage for NESO, customers or suppliers caused by the participant’s behaviour;
- Failure of risk management, corporate failure and/or a material fall in value;
- Gross misconduct;
- A significant environmental or health and safety or customer issue has arisen;
- Facts that emerge after termination of employment which would have resulted in the award lapsing;
- The recovery of payments based on erroneous or misleading data in determining award levels or vesting levels.
- Malus & clawback may be enforced by reducing or cancelling in-flight or future incentive awards (APP and LTPP); require a cash repayment and / or deducting from any salary or other payment due to the individual.

Operation of discretion

The Committee has the discretion to increase or reduce incentive payments to take account of any relevant circumstances, for example, where the formulaic performance outcome does not reflect overall and / or specific business performance achievements, significant safety or service standard incidents, environmental, social and governance issues including significant breach of licence obligations and/or significant poor performance reported by Ofgem.

Consideration of stakeholders in setting the Remuneration Policy and determining remuneration

The Committee is always mindful of the views of the Shareholder and of Ofgem in determining the appropriate levels of remuneration and ensuring that Shareholder, regulator and Director interests are aligned. The Remuneration Policy set out in this report reflects the terms of the wider Remuneration policy that has been approved as per the Ofgem licence condition, and in compliance with the requirement of the Framework Document, with the Shareholder reviewing the policy for comment.



Recruitment and Cessation Policy

Recruitment Policy

Salary and benefits	Remuneration will be set in line with the policy table.
APP & LTPP	APP awards will be prorated for the period of service as a proportion of the total performance period. LTPP awards may be prorated for the year of appointment depending on joining date. Where there is an internal appointment, the Directors' policy will apply, from the point of appointment to the Board. Any existing incentive awards will be honoured and benefits may form part of ongoing remuneration arrangements, with any adjustment considered appropriate, for example there may be a transitional alignment period.

Policy on cessation of employment

Salary, benefits and pension	Payments will be made for the duration of their notice period in line with contractual entitlements.
APP & LTPP	If an Executive Director is a 'good leaver', for example due to reasons relating to retirement or ill-health, they are eligible to receive their APP and LTPP award payments at the usual payment date with performance measured at usual time. The APP and LTPP awards will normally be pro-rated to reflect the period of service as a proportion of the performance period. A 'good leaver' is where an individual dies, or leaves through ill-health, disability or injury, agreed retirement or for any reason if the Committee so decides. Other leavers will not normally be eligible to receive an APP or LTPP award payment.

Service Agreements and Letters of Appointment

Executive Directors

Details of the Executive Directors' service contract are set out below.

Executive Director	Date of appointment	Notice from the Company	Notice from the individual	Unexpired period of service contract
Fintan Slye	1 March 2019	Six months	Six months	Rolling contract
Kayte O'Neill	1 April 2019	Six months	Six months	Rolling contract
Charlie Pate	11 September 2023	Six months	Six months	Rolling contract

Chair and Non-Executive Directors

The table below details the letter of appointments for each Non-Executive Director.

Non-Executive Directors	Date of appointment	Notice from the Company	Notice from the individual
Janice Crawford	17 July 2023	3 months	6 months
Siobhan Duffy	1 October 2024	Shareholder discretion	Shareholder discretion
Paul Golby	1 October 2024	3 months	6 months
John Linwood	16 June 2020	3 months	6 months
Hannah Nixon	1 April 2019	3 months	6 months
Paul Plummer	1 April 2019	3 months	6 months
Jayne Scott	3 February 2025	3 months	6 months

Annual Report on Remuneration

This section of the annual report sets out details of remuneration paid and awarded to Executive Directors and Non-Executive Directors during the financial year ended 31 March 2025.

References to 'audited information' refer to an audit performed in accordance with UK statutory reporting requirements.

Single figure table for Directors
(audited information)

This table sets out the emoluments received by the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer (the “Executive Directors”) for the financial year ending 31 March 2025. This includes the period 1 April 2024 to 30 September 2024 as National Grid Electricity System Operator Limited (ESO) under the ownership of National Grid plc and the period from 1 October 2024 to 31 March 2025 when National Energy System Operator Limited (NESO) was established as an independent public corporation.

Remuneration for the prior financial year ending 31 March 2024 is not included within this report as it relates to the period of ESO ownership under National Grid plc. The next Remuneration Report for year ending 31 March 2026 will include remuneration for the year of report and the prior year, as detailed in this report.

	Salary	Benefits ⁴	Pension ⁶	Annual Performance Plan (APP)	Long Term Performance Plan (LTPP)	Total Remuneration
	£	£	£	£	£	£
Fintan Slye – CEO ¹	288,167	18,431	57,633	134,000	275,419	773,650
Kayte O'Neill – COO ^{2,3}	255,000	17,385	7,812	108,981	175,133	564,311
Charlie Pate – CFO ⁵	206,750	18,105	23,810	68,786	-	317,451

The Group General Counsel was a Director of the Company for the period 1 April 2024 to 30 September 2024. Their remuneration for this period is £142,080 and includes pro-rated APP and LTPP awards for the six-month period.

Notes to the table

1. In line with National Grid's performance retention scheme, the CEO was separately and directly by National Grid paid an amount of £156,870 following the successful establishment of NESO.
2. In line with National Grid's inherited performance retention scheme, the COO was additionally paid £105,000 following the completion of NESO. This represents 50% of the total retention performance award with the remaining 50% payable July 2025.
3. For the COO, the benefits figure contained a single additional payment of £2,801. This is in respect of one-off independent tax advice relating to the implementation of the NESO share ownership policy effective on transition from National Grid plc to NESO.
4. Benefits include a benefits allowance, private medical insurance, life assurance and for the CEO health-screening.
5. The CFO was appointed 1 September 2023 and as such has not received a vested Long Term Performance Plan award.
6. Pension for the CEO and CFO are provided on a Defined Contribution basis and represent the value of employer pension contributions. The COO is a member of a legacy Defined Benefit pension scheme, whose benefit is calculated as per the single figure requirement as the net increase in the pension over the year, multiplied by a factor of 20.

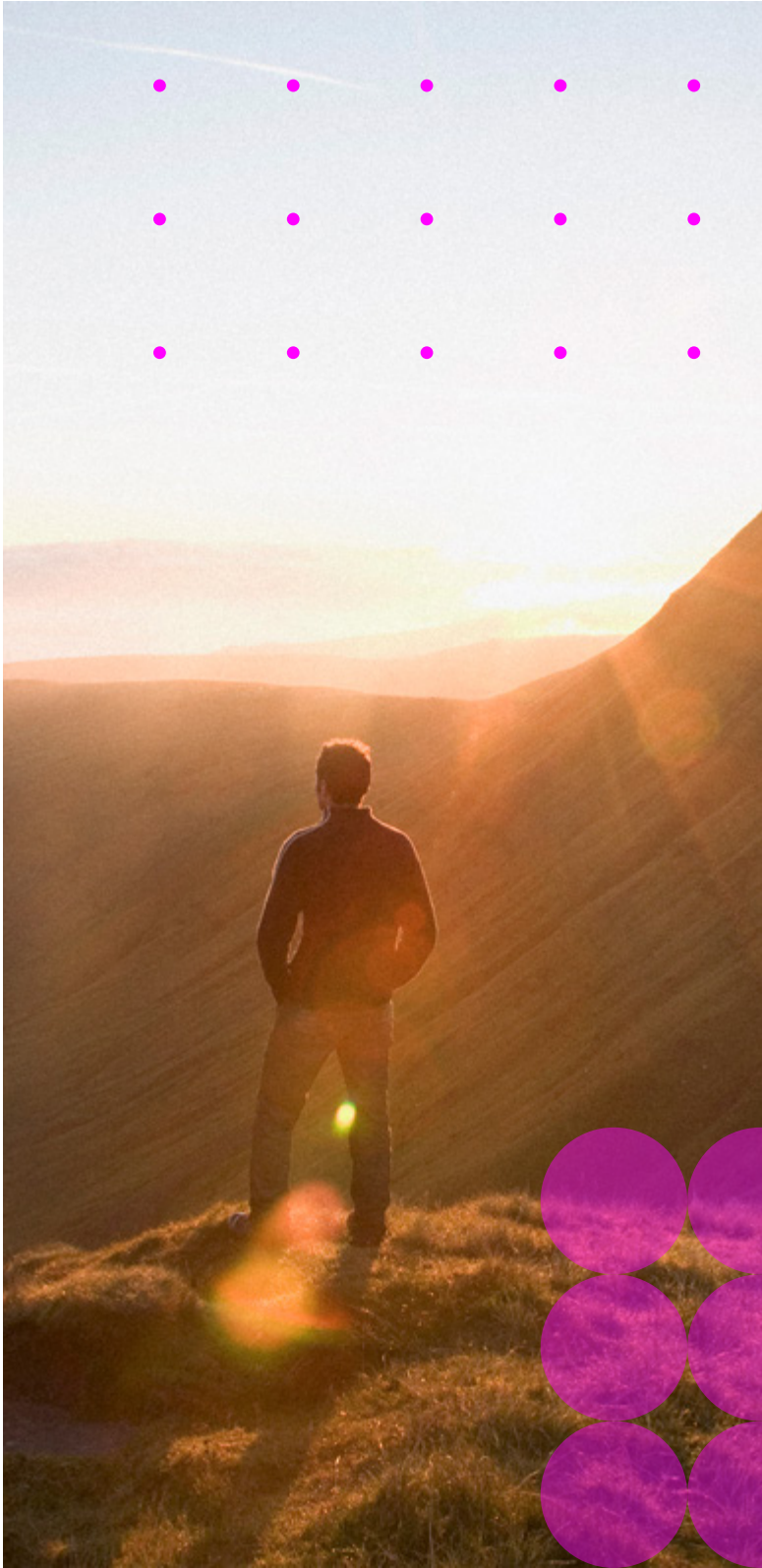
	Non-Executive Director Fees
	£
Paul Golby, Board Chair	£69,000
Janice Crawford	£40,000
Siobhan Duffy	£0
John Linwood	£40,000
Hannah Nixon	£40,000
Paul Plummer	£40,000
Jayne Scott	£6,459
Gillian Merron	£10,000

- Notes to the table**
- 1. Chair of the Board and Non-Executive Director fees are paid from the date of appointment where the individual was appointed during the financial year.
 - 2. The Non-Executive Director fees were reviewed and set at £35,000 with a £5,000 supplement for acting as a committee chair from 1 October 2024.
 - 3. Siobhan Duffy, as UKGI representative does not receive a fee from the Company for her role as Non-Executive Director and was appointed on 1 October 2024.
 - 4. Paul Golby was appointed as Chair of the Board on 1 October 2024.
 - 5. Jayne Scott was appointed on 3 February 2025.
 - 6. Gillian Merron resigned on 1 July 2024.
 - 7. Janice Crawford resigned 31 March 2025.

Salaries, benefits and pension

Salaries for the Executive Directors were reviewed prior to the establishment of NESO taking into account, where appropriate, new and increased responsibilities. Effective 1 October 2024 salaries were £309,000 for the CEO, £260,000 for the COO and £209,000 for the CFO.

Pension and benefits are paid in accordance with the approved Remuneration Policy.



Annual Report on Remuneration continued

FY2024-25 Annual Performance Plan (APP) outcome

The maximum APP opportunity for the CEO was 65% of salary, for the COO 50% of salary for the 6 months to 30 September 2024 and 65% of salary effective from 1 October 2024 recognising the COO’s increased responsibilities and new role in the NESO business, and 50% of salary for the CFO.

The FY2024-25 APP is determined by performance against a corporate scorecard of measures and individual objectives. The corporate scorecard applies to all APP participants and effective 1 April 2024 was 60% weighted to the corporate scorecard and 40% to individual objectives, applying to all management roles including Executive Directors.

From 1 October 2024 the weighting for Executive Directors was rebalanced to 40% on the corporate scorecard and individual objectives increased to 60%. This was to ensure the Executive Directors were clearly aligned to the objectives and priorities of the NESO business.

The individual objectives for the Executive Directors and the achievement against these are summarised overleaf. The outcome for the CEO is 160% of target, for the COO 170% of target and for the CFO 140% of target. The corporate scorecard achieved an outcome of 126% of target.



CEO objectives

Seamless transition to NESO – organisation established, operating effectively and delivering new roles. Regulatory business plan approved by Ofgem.

Clean Power 2030 – advice to government with positive feedback and response plan developed.

Reform Connections process – reform implementation agreed with Ofgem, government and industry. All necessary code and licence changes made or underway.

Development of people and capability – recruitment on track, succession plans in place for the Executive and employee engagement maintained through establishment of NESO.

New relationships – relationships are progressing to satisfaction of Board following Ofgem and DESNZ feedback.

COO objectives

Seamless transition to NESO – transition complete and delivered on time. Significant increased operational capacity and building new areas such as gas strategic planning, whole energy markets and sector resilience.

Clean Power 2030 – CP30 advice to government with strong support from government and industry. NESO response plan and approach developed and operational.

Reform Connections process – reform implementation agreed with Ofgem, government and industry. All necessary code and licence changes made or underway.

Reduced skips & Improve transparency – improved relationships with battery community. All battery management and post system action skip data published daily, with weekly review of performance.

Development of people and capability – newly established Operations Executive Team in place and operating effectively as a new team. Succession plans in place for Operations Executive Team.

Appropriate new relationships – strong DESNZ and Ofgem relationships across all key operational areas with positive feedback.

CFO objectives

Seamless transition to NESO – NESO established and operating with all finance systems and processes in place. Service and system separation from National Grid on track for separation by October 2026.

Regulatory Business Plan 3 – BP3 approved in line with budget and ongoing work with Ofgem to support business plan process.

Deliver effective portfolio and procurement management – established new Business Performance Reporting process across the business, and new procurement function stood up.

Development of people and capability – built CFO team with high engagement scores. Succession plans in place for CFO Leadership Team.

New relationships – trusted relationship in place with UKGI, DESNZ and HMT. Shareholder governance processes operating with high trust.

Overall Executive Director APP Outcome

Based on performance during the year, the amounts that Executive Directors received under the APP for FY2024-25 are set out below.

Executive Director	% of target	Overall APP outcome	
		% of salary	£ value
CEO	143%	46.5%	£134,000
COO	148%	43%	£108,981
CFO	133%	33%	£68,786

2022-25 Legacy Long Term Performance Plan (LTPP) awards vesting

The CEO and COO hold 2022-25 cash LTPP legacy awards granted by National Grid plc. As part of the transition arrangements the vesting value of these awards was determined based on the increase in value of the ESO business from the date of award to the 30 September 2024. From this date the value of the awards is preserved by increasing them in line with inflation to 31 March 2025.

The CFO was appointed 1 September 2023 and as such does not hold a legacy 2022-25 LTPP grant.

Set out below is the vesting value of the 2022-2025 LTPP awards.

Executive	Target award value at grant	% of salary at grant	% increase to target value at vesting	Value at vesting
CEO	£224,100	90%	122.9%	£275,419
COO	£142,500	75%	122.9%	£175,133

Executive Directors' outstanding LTPP awards

All three Executive Directors have outstanding 2023-26 and 2024-27 legacy National Grid plc unvested LTPP awards. These awards were also transitioned as a result of the separation of NESO from National Grid plc on the same basis as the 2022-25 award.

CEO Pay Ratio

The table below shows the pay ratios for FY2024-25 based on the remuneration of the Chief Executive Officer and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

The pay ratios have been calculated under Option A, to determine total remuneration for all employees against the CEO's single figure total remuneration.

Financial year	Method	Lower Quartile	Median	Upper Quartile
FY2024-25	A	12.8:1	10.6:1	8.5:1

The pay for the CEO and the employees at the percentiles is set out below:

	CEO	Lower Quartile	Median	Upper Quartile
Basic salary	£309,000	54,000	63,000	74,566
Total pay	£773,650	60,396	72,754	90,633

Annual Report on Remuneration continued

The employee pay figures were calculated by reference to 31 March 2025. The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies.

FY2024-25 represents an establishment year for NESO, with significant hiring activity and employment transfers from National Grid plc, which may have an influence on pay ratios.

Payments to past Directors and Payments for loss of office

There were no payments to past Directors and no payments for loss of office during the year.

Disclosures of staff remuneration

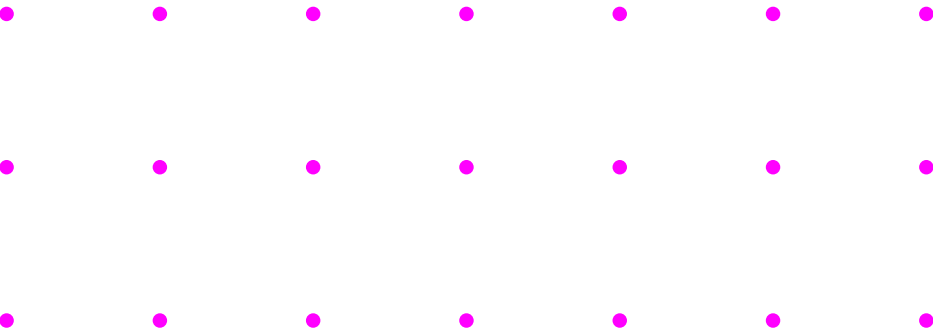
Under NESO's Framework Agreement with the Department for Energy Security and Net Zero, certain remuneration disclosures are required within the Annual Report and Accounts. This includes information in pay bands for members of the Executive Committee and other employees paid above the Remuneration Threshold as defined in HM Treasury's Senior Pay Guidance.

For FY2024-25, the Remuneration Threshold is defined as £150,000 total pay and £17,500 in respect of performance-related pay. For FY2025-26, disclosures will be assessed against the updated Remuneration Threshold confirmed by HM Treasury as £174,000 total pay and £25,000 performance-related pay. Relevant disclosures are included in the tables below.

Number of employees including Executive Committee	
Total number of employees with base pay and allowances >£150,000	21*
Total number of employees earning performance related pay for FY2024-25 > £17,500	28*

*some roles within both categories

Executive Committee FTE base salary	Number of Executive Committee
Above £275,000	1
£250,000 - £274,999	2
£225,000 - £249,999	-
£200,000 - £224,999	1
£175,000 - £199,999	3
£150,000 - £174,999	1



Implementation of Remuneration Policy in FY2025-26

Set out below is a summary of how the Directors' Remuneration Policy will be operated for the Executive Directors for FY2025-26, following review by the NESO Remuneration Committee.

Executive Director remuneration

Base Salary

Base salaries are increased by 4% which is aligned to the percentage increase available for the rest of the management workforce. Therefore, the base salaries for FY2025-26 are as follows:

- Chief Executive Officer £321,360
- Chief Operating Officer £270,400
- Chief Financial Officer £217,360

Pension and benefits

There is no change to pension and benefits from FY2024-25 which are within the approved Policy.

Annual Performance Plan (APP)

The maximum APP opportunity for the Executive Directors for FY2025-26 is 65% of salary for the CEO and COO and 50% of salary for the CFO. The APP is payable in cash.

The APP for the Executive Directors will be based on a balanced scorecard of measures for 20% of the award, a further 80% of the award will be determined by shared strategic measures and individual objectives.

Set out below is a summary of themes for the FY2025-26 APP performance measures and objectives.

- **Business Plan** – delivery of key objectives in NESO regulated business plan
- **Reputation** – build trust and confidence with key stakeholders
- **Connections** – reform proposals delivered to agreed timeline
- **Strategic planning** – SSEP pathways delivered to government and supported by Stakeholders. Regional capabilities established

- **Customer** – reduce friction and barriers with new customer journeys and enable wider participation in NESO markets
- **People** – employee engagement maintained/improved. Development of people and capability

Long Term Performance Plan (LTPP)

An LTPP award will be granted in line with our new Directors' Remuneration Policy. The Policy sets out a target award level range of between 65% – 90% of salary. The Committee has considered and agreed target award levels for all three Executive Directors of 90% of salary taking into account performance in role and increased responsibilities as Executive Directors of the NESO business as well as market data, historical outcomes and performance metrics. Performance will be assessed against the targets that are set by the Committee at the time of award and will be disclosed in the following year's Remuneration Report and measured over a three-year performance period, with vesting on the third anniversary of award.

Non-Executive Director Fees

The Chair of the Board and Non-Executive Director fees are set out below and are determined by the Shareholder. There is no change for FY2025-26 to the fees that were set on separation and are detailed below.

Non-Executive Director	Fee
Chair of the Board	£138,000
Non-Executive Director fee	£35,000 (no fees are paid to the Shareholder Representative Non-Executive Director by the Company)
Non -Executive Director fee for Committee Chair and/or Senior Independent Director responsibility	£5,000

The annual Directors' Remuneration Report was approved by the Board and signed on its behalf.



Paul Plummer

Chair of the Remuneration Committee
24 September 2025

Operational Effectiveness & Resilience Committee

Committee membership

The Committee is comprised exclusively of independent Non-Executive Directors. The members of the Committee are:

John Linwood
(Committee Chair, Independent Non-Executive Director)

John Crackett
(Independent Non-Executive Director)

Paul Plummer
(Independent Non-Executive Director)

Attendance at Committee meetings during the year

Committee Member	Scheduled Meetings Attended
John Linwood (Committee Chair)	3/3
Paul Plummer	3/3
John Crackett ¹	0/0

¹ John Crackett joined the Committee on 1 July 2025, after the FY2024-25 financial year.

Note: The Board Chair, Chief Executive Officer, Chief Operating Officer, Board Chair, Shareholder Director, Company Secretary, and members of our Digital, Design & Technology, System Operations, Strategic Energy Planning, and Resilience & Emergency Management teams also regularly attend meetings.

Establishment of the Committee

The Operational Effectiveness & Resilience Committee is not required under the UK Corporate Governance Code. However, due to the critical importance of a stable, reliable and secure energy system for Great Britain, the Board concluded during its November 2024 governance review that a dedicated committee should be established to support oversight of these matters.

The Committee is supported by a specialist cyber security and technology adviser, who provides expert input and constructive challenge during discussions.



Role of the Committee

The Committee's purpose is to support the Board in overseeing NESO's operational management, its effectiveness and resilience – whether electrical, physical or cyber – while ensuring acceptable costs to consumers. It oversees key systems and processes, and any risks or impacts from NESO's transformation programme.

The Committee focuses on areas considered potentially material to NESO's operations from time to time. These include:

- Critical National Infrastructure (CNI), including IT systems, OPTEL, physical control rooms and the contingency control centre. This includes CNI

process safety and operational risks, as well as cyber, data and physical security risks

- Control room operations (including policies, processes, resilience, staffing and incident response)
- Operational environmental and social risks, and the effectiveness of NESO's sustainability framework, including implementation of its net zero ambition and associated aims and targets

Key Responsibilities

The full responsibilities of the Committee are set out in its [Terms of Reference](#) available on our website.

Operational Effectiveness & Resilience Committee activities

The Committee met three times during the year – in November 2024, January 2025 and March 2025. As a newly established Committee, it focused on setting up its membership, responsibilities, Terms of Reference, governance arrangements and forward agenda.

The Committee considered the evolving nature of the wider electricity system and its implications for NESO's operational priorities. Discussions centred on control room operations, CNI operational continuity and resilience, the cyber threat landscape, and the role of data and artificial intelligence (AI).

The Committee also received updates on operational programmes and reviewed the effectiveness of risk mitigations within its remit.

Focus areas for FY2025–26

The areas of focus of the Committee's work in the financial year to 31 March 2026 are expected to include:

- conducting deep dive reviews of the Principal Risks allocated to the Committee's oversight
- overseeing the exit from the existing transitional and operational services agreements with National Grid, for various IT services, applications, and digital platforms, around core business processes that support NESO's day-to-day operations
- reviewing and approving NESO's annual NIS (The Network and Information Systems Regulations 2018) report on cyber security provisions for submission to Ofgem
- challenging the operational continuity, resilience and security of NESO's operations
- considering NESO's areas of responsibility, in the context of developments and events in the wider energy system
- reviewing the learnings from significant domestic or overseas energy incidents worldwide, whether or not involving NESO

Directors’ Report

The Directors present the Annual Report and financial statements of the Company for the year ended 31 March 2025.

This Directors’ Report should be read in conjunction with the Strategic Report and the Governance Report which are incorporated by reference into this Directors’ Report.

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to provide disclosures and information in relation to certain matters which are covered elsewhere in this Annual Report. These matters, together with matters required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are cross-referenced in the table below:

Topic	Page
Fair review of the Company’s business	3 to 60
Financial key performance indicators	3, 22 to 29 and 45
Non-financial key performance indicators	3, 30 to 46
Engagement with employees	30 to 36 and 49
Greenhouse gas emissions, energy consumption and energy efficiency action	39 and 40
Engagement with stakeholders	3 to 60
Principal risks and uncertainties	54 to 60
Directors during the year	66
Corporate governance arrangements	63 to 101

Director indemnity provisions

Each Director benefits from a standard indemnity under the Company’s Articles of Association, covering liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

Directors’ and Officers’ liability insurance

The Company has taken out Directors’ and Officers’ liability insurance for the benefit of its Directors and officers. This provides cover for liabilities arising from claims alleging a wrongful act in the performance of their duties. The insurance was secured on commercial market terms and is subject to standard exclusions and limitations.

Dividends

In line with the Board's residual dividend policy, the Board is not recommending the payment of a final dividend for the year ended 31 March 2025 (year ended 31 March 2024: nil).

Share capital

The share capital of the Company remains unchanged. See note 18 to the financial statements for further details.

Political donations

The Company did not make any political donations during the year to any political party, other political organisation or independent election candidate, and did not incur any political expenditure (2024: nil).

Research and development

Expenditure on research and development was £24 million (2024: £11 million). This covers spending under the Network Innovation Allowance (NIA), Network Innovation Competition (NIC) and Strategic Innovation Funding (SIF) programmes, which are regulated by Ofgem.

Branches

There are no branches of the Company.



Employees with disabilities

We give full and fair consideration to applications for employment from all internal and external candidates with disabilities, having regard to their particular aptitudes and abilities. We take great care to ensure there is no discrimination within our recruitment, training, career development and promotion processes and we support colleagues who require reasonable adjustments to help them perform at their best. In the event of existing employees becoming disabled, all reasonable effort is made to ensure that appropriate training is given and their employment with the Company continues.

Spending on consultancy and temporary staff

Consultancy and contingent labour expenditure during the year ended 31 March 2025

	£million
Total consultancy expenditure	14
Total contingent labour expenditure	44.5

Expenditure on consultancy for the year ended 31 March 2025 was £14.0 million¹. This represents spend on the provision of strategic advice to management in pursuit of NESO's purpose and objectives. It does not include services used to support business-as-usual activities or sourced through managed service providers.

Expenditure on contingent labour for the year ended 31 March 2025 was £44.5 million². Contingent labour refers to temporary staff covering business-as-usual or service delivery activities.

Off-payroll engagements are those workers not engaged directly via NESO's payroll. Data on these engagements, including those of Board members and/or senior officials with significant financial responsibility, is set out in the following tables.

¹ As consultancy data was not required to be disclosed in the *ESO Annual Report and Accounts* for FY2023–24, no prior year comparator is provided. FY2024–25 will serve as year 1 for future comparisons.

² As contingent labour data was not required to be disclosed in the *ESO Annual Report and Accounts* for FY2023–24, no prior year comparator is provided. FY2024–25 will serve as year 1 for future comparisons.

Directors' Report continued

Off-payroll worker engagements as at 31 March 2025, earning £245 per day or greater

Number (No.) of existing engagements as of 31 March 2025	343
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Of which, no. that existed:

less than 1 year	157
for between 1 and 2 years	90
for between 2 and 3 years	29
for between 3 and 4 years	17
for 4 or more years	50

Off-payroll workers engaged at any point during the year ended 31 March 2025, earning £245 per day or greater

No. of temporary off-payroll workers engaged during the year ended 31 March 2025	430
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Of which:

Not subject to off-payroll legislation	426
Subject to off-payroll legislation and determined as in-scope of IR35	0
Subject to off-payroll legislation and determined as out-of-scope of IR35	4
No. of engagements reassessed for compliance or assurance purposes during the year	0

For any off-payroll engagements of board members and/or senior officials with significant financial responsibility, between 1 April 2024 and 31 March 2025

No. of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year	1
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Total no. of individuals on payroll and off-payroll that have been deemed "board members and/or senior officials with significant financial responsibility", during the financial year	8
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Post balance sheet events

There were no post balance sheet events for the year ended 31 March 2025. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Effectiveness of risk management and internal control System

The Board, with the support of the Audit & Risk Committee, has assessed the effectiveness of the Company's risk management and internal control systems. These systems are designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board's report on risk management, including the Company's Principal Risks and mitigating actions, is on pages 54 to 59. The Board has concluded that the risk management and internal control systems were effective in supporting the management and mitigation of risks during the year to 31 March 2025. No significant failings of internal control were identified during the year.

The Board recognises that NESO, with its expanded remit, is a growing organisation that is significantly increasing its workforce and developing functional and business independence following its separation from the National Grid group. The continuing development of NESO's risk management and internal control systems will remain a priority area of oversight for the Board and the Audit & Risk Committee, to ensure these systems remain sufficiently mature in line with NESO's growth and changes in its risk profile.

Disclosure of information to auditor

In accordance with section 418 of the Companies Act 2006, each of the Directors of the Company in office as at the date of approval by the Board of this Annual Report and Accounts confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware. Each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the *Annual Report and Accounts* and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Company's financial statements in accordance with applicable United Kingdom law and UK-adopted International Accounting Standards (UK IAS). As described on page 28, the financial statements have been prepared on a going concern basis. Full disclosure surrounding the preparation of the financial statements can be found in note 1 to the financial statements.

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 financial position, financial performance and cash flows of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- state whether the Company has complied with UK IAS and provide additional disclosures when compliance with the specific requirements in UK IAS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and performance
- 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 for taking reasonable steps to prevent and detect fraud and other irregularities.

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

Directors' confirmations

Having considered and endorsed the preparatory and supporting arrangements, and having taken advice from the Audit & Risk Committee, the Directors consider that:

- the financial statements, prepared in accordance with applicable United Kingdom law and UK IAS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and opportunities that it faces
- the *Annual Report and Accounts*, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Company's position and performance, business model and strategy

This Directors' Report, prepared in accordance with the requirements of the Companies Act 2006, was approved by the Board and signed on its behalf by:



Dr. Paul Golby

Chair

24 September 2025

National Energy System Operator Limited
Registered in England and Wales Company number 11014226



Financial Statements

Independent auditor's report

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of National Energy System Operator Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2025 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of profit or loss and other comprehensive income;
- the statement of changes in equity;
- the statement of financial position;
- the statement of cash flow;
- the related notes to the financial statements, 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRS Accounting Standards as issued by the IASB.

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:

- review of assumptions used in the forecasts and the sufficiency of liquidity over the assessment period;
- sensitivity analysis of the forecasts;
- testing of accuracy of the forecasts and our assessment of the historical accuracy of forecasts prepared by management;
- review of the amount of headroom within the forecasts; and
- review of consistency of the forecasts with evidence gathered during the audit process.

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.

Independent auditor's report continued

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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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 the 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.

We discussed among the audit engagement team, including relevant internal specialists such as pensions

and IT, 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, reviewing internal audit reports and following inquiry with management, reviewing material correspondence with Ofgem.

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

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

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.



Louise Cooper, FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

24 September 2025

Financial Statements

Statement of profit or loss and other comprehensive income

for the years ended 31 March

	Note	2025 £m	2024 £m
Revenue	2	2,904	3,809
Provision for bad and doubtful debt	11	1	—
Operating costs	3	(3,327)	(2,960)
Operating (loss)/profit			
Before exceptional items		(422)	849
Exceptional items	4	13	—
Operating (loss)/profit		(409)	849
Finance income	5	42	42
Finance costs	5	(5)	(14)
(Loss)/Profit before tax			
Before exceptional items and remeasurements		(385)	877
Exceptional items and remeasurements	4	13	—
Total (loss)/profit before tax		(372)	877
Tax			
Before exceptional items and remeasurements		84	(219)
Exceptional items and remeasurements	4	(3)	—
Tax	6	81	(219)
(Loss)/Profit after tax for the year attributable to owners of the parent		(291)	658
Before exceptional items and remeasurements		(301)	658
Exceptional items and remeasurements	4	10	—
(Loss)/Profit for the year		(291)	658
Other comprehensive income/(loss):			
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of net retirement benefit obligations	16	2	—
Total items that will never be reclassified to profit or loss		2	—
Other comprehensive income for the year, net of tax		2	—
Total comprehensive (loss)/income for the year attributable to owners of the parent		(289)	658

Statement of changes in equity

	Note	Called up share capital £m	Share premium account £m	Retained earnings £m	Merger Reserve ¹ £m	Total equity £m
At 1 April 2023		3	327	181	(142)	369
Profit for the year		—	—	658	—	658
Total comprehensive income for the year		—	—	658	—	658
At 31 March 2024		3	327	839	(142)	1,027
Loss for the year		—	—	(291)	—	(291)
Total other comprehensive income for the year		—	—	2	—	2
Total comprehensive loss for the year		—	—	(289)	—	(289)
Transfer of merger reserve to retained earnings		—	—	(142)	142	—
At 31 March 2025		3	327	408	—	738

¹ Analysis of merger reserve has been provided within note 19.

Statement of financial position

as at 31 March

	Note	2025 £m	2024 £m
Non-current assets			
Intangible assets	8	469	363
Property, plant and equipment	9	92	103
Net pension asset	16	15	—
Investment in joint venture	25	—	1
Deferred tax assets	6	—	2
Total non-current assets		576	469
Current assets			
Trade and other receivables	11	453	572
Financial assets and other investments	10	631	1,194
Current tax asset		158	—
Cash and cash equivalents	12	55	30
Total current assets		1,297	1,796
Total assets		1,873	2,265
Current liabilities			
Borrowings	13	(3)	(134)
Trade and other payables	14	(990)	(1,025)
Provisions	17	—	(2)
Total current liabilities		(993)	(1,161)
Non-current liabilities			
Borrowings	13	(14)	(11)
Other non-current liabilities	15	(53)	(66)
Deferred tax liabilities	6	(75)	—
Total non-current liabilities		(142)	(77)
Total liabilities		(1,135)	(1,238)
Net assets		738	1,027
Equity			
Share capital	18	3	3
Share premium account	18	327	327
Retained earnings		408	839
Merger Reserve	19	—	(142)
Total equity		738	1,027

The financial statements set out on pages 110 to 140 were approved by the Board of Directors and authorised for issue on 24 September 2025. They were signed on its behalf by:



Fintan Slye
Chief Executive Officer



Charlie Pate
Chief Financial Officer

National Energy System Operator Limited
Registered number: 11014226

Statement of cash flow

for the years ended 31 March

	Notes	2025 £m	2024 £m
Cash flows from operating activities			
Operating (loss)/profit		(409)	849
Adjustments for:			
Exceptional items		(13)	—
Depreciation, amortisation & impairment		107	112
Share-based payment charge		1	—
Changes in working capital		34	57
Changes in pension obligations		(1)	—
Changes in provisions		(2)	(1)
Cash (used in) / generated from operations		(283)	1,017
Tax paid ¹		(30)	(198)
Net cash (outflow)/inflow from operating activities		(313)	819
Cash flows from investing activities			
Purchases of intangible assets		(113)	(148)
Disposal of intangible assets		(2)	—
Purchases of property, plant and equipment		(18)	—
Disposal of property, plant and equipment		6	—
Interest received		39	42
Net movements in short-term financial investments		(623)	(4)
Net cash flow used in investing activities		(711)	(110)
Cash flows from financing activities			
Payments of loans (to)/from ultimate parent		1,058	(686)
Payments of lease liabilities		(3)	(1)
Interest paid		(6)	(16)
Net cash flow from financing activities		1,049	(703)
Net increase in cash and cash equivalents		25	6
Cash and cash equivalents at the start of the year		30	24
Net cash and cash equivalents at the end of the year	12	55	30

¹ Refer to note 6. Tax in the financial statements.

Notes to the financial statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. The accounting policies applicable across the financial statements are shown below, whereas accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we have summarised new International Accounting Standards Board (IASB) and UK endorsed accounting standards, amendments and interpretations and whether these are effective for this year end or in later years, explaining how significant changes are expected to affect our reported results.

National Energy System Operator's principal activities involve the operation of the electricity transmission system in Great Britain and whole energy system planning. The Company is a limited liability company incorporated and domiciled in England and Wales, with its registered office at St. Catherine's Lodge, Bearwood Road, Sindlesham, Wokingham, RG41 5BN.

These financial statements were approved for issue by the Board of Directors on 24 September 2025. As the Company no longer meets the definition of a qualifying entity under FRS100 Application of Financial Reporting Requirements, it can no longer apply FRS101 Reduced Disclosure Framework. The recognition and measurements requirements of UK-adopted IFRS have been applied within these financial statements, with amendments where necessary in order to comply with the Companies Act 2006.

The financial statements have been prepared on a historical cost basis. These financial statements are presented in pounds sterling, which is also the functional currency of the Company. The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

a) Going concern

As part of the Board's consideration of the appropriateness of adopting the going concern basis of accounting in preparing these financial statements, the Board has considered the impact of principal risks on the NESO's operations. The NESO Board has assessed the principal risks including by modelling cash flow forecast scenarios. These cash flow scenarios included a reasonable worst case scenario.

The main cash flow transactions assessed in the forecast scenarios are:

- TNUoS and BSUoS under- and over-recoveries collected from or returned to customers in accordance with established regulatory structures. The risk on TNUoS collections has reduced following the principle timing risks being passed to the onshore Transmission Owners. The risks associated with BSUoS increased following the implementation of 6-monthly fixed tariffs from 1 April 2023. As NESO is not-for-profit, if we collect more BSUoS revenue via tariffs than we spend, we report a profit but ultimately return this money back to customers. If we collect less BSUoS revenue than we spend, we report a loss and recover this in future tariffs. BSUoS tariffs for FY2023-24 were set when the cost of energy was at a historic high. However, the actual BSUoS costs incurred by NESO during the period were much lower because energy prices subsequently fell significantly. This led to an over-recovery of revenues in FY2023-24, driving the reported operating profit to £849m. NESO acted by lowering its BSUoS tariffs for FY2024-25, to return these revenues to customers by collecting less than it spent during the financial year. This therefore shows up as an operating loss of £409m in our Annual Report and Accounts. With realised BSUoS costs continuing to fluctuate during FY2024-25, the loss realised was lower than the FY2023-24 profit and we will therefore continue to return revenues back to customers in future financial years, FY2025-26 tariffs have been reduced to reflect this.

Should balancing costs be forecasted to be at a level that the Company could be cumulatively under-recovered by £300m it has the option to re-set tariffs, which would generate incremental cash flows within a month of their introduction;

- Significant termination payments or unfavourable timing of connection payments to Transmission Owners in advance of recovery through TNUoS tariffs;
- Bad debts, including higher bad debt costs than forecast; and
- Payment of proposed dividends to the Shareholder.

The Company has existing undrawn facilities from its current parent undertaking, DESNZ, of £700m through to 30 September 2027 with the option to extend for a further 12-month period.

Having considered the forecast scenarios, the Company continues to have headroom against its committed facilities. Based on the above, the Directors have concluded the Company is well placed to manage its financing and other business risks satisfactorily, and have reasonable expectation that the Company will have adequate resources to continue in operation for at least 12 months from the signing date of these financial statements.

They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

b) Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement.

c) Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the

reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 8 and 9
- Agency relationship in respect of certain Transmission Network Use of Service revenues, principally those collected on behalf of the Onshore and Offshore transmission operators under IFRS 15 – note 2

There are no key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

d) Accounting policy choices

The IFRS framework provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit and profit before tax, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement where applicable.

e) New IFRS accounting standards and interpretations effective for the year ended 31 March 2025 with significant impact

There are no new or other amended standards or interpretations adopted from 1 April 2024 onwards, that have a significant impact on the financial statements for 2025.

f) New IFRS accounting standards and interpretations not yet adopted

The following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the UK:

- IFRS 18 'Presentation and Disclosure in Financial Statements';
- IFRS 9 and IFRS 7 'Amendments to the Classification and Measurement of Financial Instruments';

Effective dates will be subject to the UK endorsement process.

The Company is currently assessing the impact of the above standards, but they are not expected to have a material impact other than in respect of IFRS 18.

IFRS 18 replaces IAS 1 and requires that companies classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Management-defined performance measures are disclosed in a single note and enhanced guidance is provided on the aggregation and disaggregation of information presented in the financial statements. The Company is in the process of assessing the impact of IFRS 18 and anticipates changes to certain presentational and disclosure-related matters in its financial statements in future periods.

The Company has not adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

2. Revenue

Revenue arises in the course of the ordinary activities of the Company and principally comprises balancing transmission services.

Balancing transmission services fall within the scope of IFRS 15, 'Revenue from Contracts with Customers'.

The Company's role in transmission services is as the system operator for Great Britain, which involves the procurement of services to balance the electricity transmission network, ensuring security and quality of electricity supply across the transmission network, and now as NESO a wider whole energy system planning role.

For this activity the Company applies a Balancing Service Use of System ('BSUoS') charge, which from 1 April 2023 is only payable by suppliers of electricity. Prior to 1 April 2023 generators were also subject to BSUoS charges. This revenue is recognised for each balancing settlement date based on the published tariff and BSUoS electricity volume for that day. We set two tariffs per year, each nine months ahead of the start of the tariff period. Tariffs take effect on 1 April to 1 October, each for a 6-month period.

Balancing transmission services are regulated by Ofgem, which establishes price control mechanisms that set the amount of annual allowed revenues that can be charged to customers for these services. With respect to BSUoS charges, where revenue received differs to the amount of allowable revenue permitted by the regulatory agreement, adjustments will be made to future prices to factor in these amounts. Where such differences arise, no asset or liability, depending on whether the difference between revenue received is less than or greater than allowable revenue respectively, is recognised because the adjustment relates to future customers and services that have not yet been delivered. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements.

As the Company became NESO under ownership of the Secretary of State, the regulatory regime transitioned to one that is not for profit. There are no financial incentive schemes, with any performance assessment being reputational only.

In its role as system operator, the Company is also responsible for the administration of charges to customers on behalf of the owners of the transmission network: National Grid Electricity Transmission plc; Scottish Power Transmission plc; Scottish Hydro Electric Transmission plc; and various Offshore Transmission Owners. Under IFRS 15, this arrangement is considered to result in the Company acting as an agent on behalf of the transmission network owners. Accordingly, revenues are presented on a net basis (amounts collected from customers and consideration paid to transmission network owners). This comprises the entire billing cycle (invoicing and cash collection) and our performance obligation is deemed satisfied when funds have been remunerated to transmission network owners.

These charges are termed Transmission Network Use of System ('TNUoS') charges and relate to use of the transmission network. Use of the transmission network involves the supply of high-voltage electricity. Revenue is billed based on capacity (for generators) and site level demand (for suppliers) and where the customer pays upfront, revenues are deferred and released when the relevant transmission network owner has provided their services to the customer.

TNUoS charges are regulated by Ofgem, which establishes price control mechanisms that set the amount of annual allowed returns for companies operating in the sector. With respect to TNUoS charges, where revenue received differs to the amount of allowable revenue permitted by regulatory agreement, adjustments will be made to future prices to factor in these amounts. Where such differences arise, we recognise either an asset or liability, depending on whether the difference between revenue received is less than or greater than allowable revenue respectively. As part of our regulatory agreements we are entitled to recover certain costs directly from TNUoS customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements.

The Company also administers other charges on behalf of transmission network owners principally for construction work they have completed for customer connections. The Company also acts as intermediary for Scottish Hydro Electric Power Distribution Limited (SHEPD) which receives specific additional revenues under the Assistance for Area with High Electricity Distribution Costs (AAHEDC) scheme.

As system operator, we also act as intermediary for various electricity interconnectors in satisfying their regulatory obligations. Interconnectors may have a cap on the amount of revenue they are allowed to earn during any financial year (1 April to 31 March). Where actual revenues exceed this cap, the excess must be passed onto consumers. We invoice and recover this amount from the interconnectors and in turn reduce the TNUoS charges due from customers. We recognise an asset for the amounts payable from them, and a corresponding liability for the requirement to reduce customer bills, which occurs two financial years after the measurement period.

The following table details the disaggregation of revenue between TNUoS and BSUoS.

	GB Electricity System Operation	GB Electricity System Operation
Revenue for the years ended	2025	2024
	£m	£m
BSUoS	2,820	3,763
TNUoS ¹	82	46
<i>Other non-IFRS 15 revenue:</i>		
Other	2	—
Total revenue from continuing operations	2,904	3,809

¹ TNUoS revenues of £82m are reported net of £4,500m (2024: £4,828m) consideration paid to transmission network owners and SHEPD. These revenues reflect the recovery of costs borne by the system operator in relation to TNUoS and AAHEDC operations.

Total revenue from continuing operations are generated from operations based in Great Britain.

Analysis of BSUoS revenue by major customer, greater than 10% revenue contribution:

	2025	2024
	£m	£m
Customer A	503	622
Customer B	406	548
Customer C	339	437

No other single customer contributed 10% or more to NESO's revenue in either 2025 or 2024.

3. Operating costs

Below we have presented separately certain items included in our operating costs. These include a breakdown of payroll costs and fees paid to our auditors.

	Before exceptional items and remeasurements		Exceptional items and remeasurements		After exceptional items and remeasurements	
	2025	2024	2025	2024	2025	2024
	£m	£m	£m	£m	£m	£m
Depreciation, amortisation and impairment	107	112	—	—	107	112
Payroll costs	126	87	—	—	126	87
Net pension asset recognised on separation from NG plc	—	—	(13)	—	(13)	—
System balancing costs	2,713	2,506	—	—	2,713	2,506
Ofgem License Fee	44	37	—	—	44	37
Other ¹	337	218	—	—	337	218
Continuing operations	3,327	2,960	(13)	—	3,314	2,960

¹ Included within Other Costs is Research & Development expenditure of £24m (2024: £11m).

(a) Payroll costs

	2025	2024
	£m	£m
Wages and salaries	122	65
Recharge of payroll costs from other National Grid companies	—	27
Social security costs	17	10
Pension scheme costs	20	12
Share-based payments	1	—
Severance costs (excluding pension costs)	1	1
Total payroll costs	161	115
Payroll costs capitalised	(35)	(28)
Net payroll costs	126	87

(b) Directors’ Emoluments

Details of Executive Directors’ emoluments are contained in the Remuneration Report on page 94 and those of Non-executive Directors on page 95.

(c) Number of employees, including Directors

	31 March 2025 Number	31 March 2024 Number	Monthly Average 2025 Number	Monthly Average 2024 Number
Continuing operations	2,076	1,433	1,850	1,246

(d) Auditors’ remuneration

	2025 £m	2024 £m
Audit services		
Audit of the Company’s financial statements	0.7	0.2
Other services supplied		
Other non-audit fees ¹	0.9	0.7

¹ Other services supplied represent £0.6m (2024: £0.6m) of fees payable for audit services which were required to be carried out by auditors whilst the Company was part of the National Grid plc reporting requirements; £0.2m (2024: £nil) fees payables for professional services relating to capacity market auction, and £0.1m (2024: £0.1m) for the Contracts for difference independent audit. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley), and assurance fees in relation to regulatory returns.

4. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. Business performance, (which excludes exceptional items and remeasurements as defined below) is used by management to monitor financial performance as it is considered that it aids the comparability of our reported financial performance from year to year. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Exceptional items and remeasurements from continuing operations performance:

	2025	2024
	£m	£m
Included within operating profit:		
Exceptional items:		
Net pension asset recognised on separation from NG plc	(13)	—
Total included within profit before tax	(13)	—
Included within tax		
Tax credit on exceptional items	3	—
Total exceptional items after tax	(10)	—
Analysis of total exceptional items after tax:		
Total exceptional items after tax	(10)	—
Total exceptional items	(10)	—

Exceptional items

As part of the establishment of NESO under ownership of the Secretary of State, the Company recognised a surplus of £13m being its share of the ESPS defined benefit pension scheme surplus attributable to its employees at the date of the change of ownership. As this is a one off transaction it has been considered as an exceptional item. For further details of the Company's pension arrangements see note 16.

5. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities.

	2025	2024
	£m	£m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	39	42
Other interest	3	—
	42	42
Finance costs		
Other borrowings	(5)	(10)
Other interest	—	(4)
	(5)	(14)
Net finance income from operations	37	28

6. Tax

This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in accounting and tax bases of profit.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Tax (credited)/charged to the income statement.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and NESO intends to settle its current tax assets and liabilities on a net basis.

	2025	2024
	£m	£m
Total tax (credit)/charge	(81)	219

The tax (credit)/charge for the year can be analysed as follows:

	2025	2024
	£m	£m
<i>Current tax</i>		
Current tax (credit)/charge	(137)	225
Corporation tax adjustment in respect of prior years	(21)	(4)
Total current tax	(158)	221
<i>Deferred tax</i>		
Deferred tax charge/(credit)	46	(7)
Deferred tax adjustment in respect of prior years	31	5
Total deferred tax	77	(2)
Total tax (credit)/charge	(81)	219

The tax credit for the year is lower than (prior year: the same as) the standard rate of corporation tax in the UK of 25%:

	2025 £m	2024 £m
(Loss)/Profit before tax from continuing operations	(372)	877
(Loss)/Profit before tax multiplied by UK corporation tax rate of 25%	(93)	219
Effect of:		
Adjustments in respect of prior years	11	1
Expenses not deductible for tax purposes	1	—
Non-taxable income	—	(1)
Total tax (credit)/charge	(81)	219
Effective tax rate	21.8%	25.0%

Factors that may affect future tax charges

The main UK corporation tax rate is 25% with effect from 1 April 2023. Deferred tax balances as at 31 March 2025 have been calculated at 25%.

Tax included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

Deferred tax (liabilities)/assets

	Accelerated tax depreciation £m	Share-based payments £m	Pensions £m	Total £m
At 1 April 2024	1	1	—	2
Charged to income statement	(72)	(1)	(4)	(77)
At 31 March 2025	(71)	—	(4)	(75)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £75m.

7. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held.

Interim dividends are recognised when they become payable to the Company’s shareholders. Final dividends are recognised when they are approved by shareholders.

On 24 September 2025, the Board of Directors proposed no final dividend for the year ended 31 March 2025 (2024: no final dividend).

8. Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

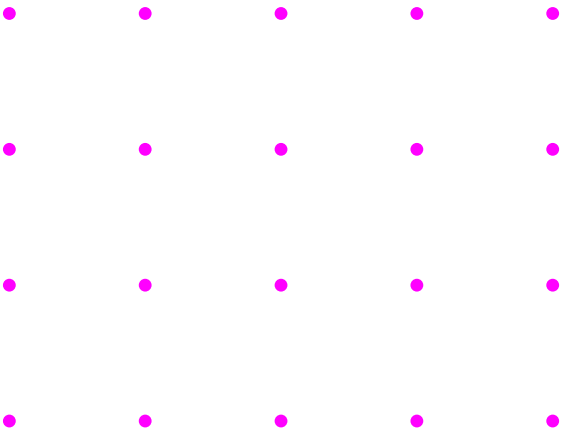
Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for software is usually between three to seven years but can be up to ten years.

Cloud computing arrangements are reviewed to determine if the Company has control of the software intangible asset. Control is considered to exist where the Company has the right to take possession of the software and run it on its own or a third party’s computer infrastructure or if the Company has exclusive rights to use the software such that the supplier is unable to make the software available to other customers.

Costs relating to configuring or customising the software in a cloud computing arrangement are assessed to determine if there is a separate intangible asset over which the Company has control. If an asset is identified, it is capitalised and amortised over the useful economic life of the asset. To the extent that no separate intangible asset is identified, then the costs are either expensed when incurred or recognised as a prepayment and spread over the term of the arrangement if the costs are concluded to not be distinct.



	Software	Assets in the course of construction	Total
	£m	£m	£m
Cost at 31 March 2023	339	167	506
Additions	—	148	148
Disposals	(8)	(20)	(28)
Reclassifications ¹	135	(137)	(2)
Cost at 31 March 2024	466	158	624
Additions	—	184	184
Disposals	(16)	(1)	(17)
Reclassifications ¹	131	(122)	9
Cost at 31 March 2025	581	219	800
Accumulated amortisation at 1 April 2023	(182)	(20)	(202)
Amortisation charge for the year	(81)	—	(81)
Disposals	28	—	28
Impairment	(6)	—	(6)
Accumulated amortisation at 31 March 2024	(241)	(20)	(261)
Amortisation charge for the year	(84)	—	(84)
Disposals	18	—	18
Impairment	(4)	—	(4)
Accumulated amortisation at 31 March 2025	(311)	(20)	(331)
Net book value at 31 March 2025	270	199	469
Net book value at 31 March 2024	225	138	363

¹ Includes £9m (2024: £(2)m) transferred from property, plant and equipment

9. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. This includes both their purchase price and the construction and other costs associated with getting them ready for operation. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which NESO's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually.

Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and Leasehold buildings	10 to 50
Motor vehicles	5 to 7
Office equipment	3 to 10

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and if immaterial are included within depreciation charge for the year.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipments	Total
	£m	£m	£m	£m	£m
Cost at 31 March 2023	34	13	32	88	167
Additions	12	—	7	1	20
Disposals	(5)	—	(5)	(2)	(12)
Reclassifications ¹	1	1	(25)	25	2
Cost at 31 March 2024	42	14	9	112	177
Additions	5	—	15	2	22
Disposals	(11)	—	(3)	(19)	(33)
Reclassifications ¹	2	1	2	(14)	(9)
Cost at 31 March 2025	38	15	23	81	157
Accumulated depreciation at 1 April 2023	(16)	—	(4)	(41)	(61)
Depreciation charge for the year	(4)	(1)	—	(17)	(22)
Disposals	5	—	5	2	12
Impairment	—	—	(3)	—	(3)
Accumulated depreciation at 31 March 2024	(15)	(1)	(2)	(56)	(74)
Depreciation charge for the year	(3)	(1)	—	(17)	(21)
Disposals	11	—	—	17	28
Impairment	—	—	2	—	2
Accumulated depreciation at 31 March 2025	(7)	(2)	—	(56)	(65)
Net book value at 31 March 2025	31	13	23	25	92
Net book value at 31 March 2024	27	13	7	56	103

Right-of-use assets

The Company leases various property and cars. New lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term. The lease payments include fixed payments, any variable lease payments dependent on an index or a rate, and any break fees or renewal option costs that we are reasonably certain to incur. The discount rate applied is the rate implicit in the lease or, if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and

any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis.

The following table shows the movements in the net book value of right-of-use assets included within property, plant and equipment at 31 March 2025 and 31 March 2024, split by category. The associated lease liabilities are disclosed in note 13.

	Land and buildings	Motor vehicles and office equipment	Total
	£m	£m	£m
Net book value at 31 March 2023	—	—	—
Additions	12	1	13
Depreciation charge for the period	(1)	—	(1)
Net book value at 31 March 2024	11	1	12
Additions	5	2	7
Depreciation charge for the period	(2)	(1)	(3)
Net book value at 31 March 2025	14	2	16

The following balances have been included in the income statement for the year ended 31 March 2025 and 31 March 2024 in respect of right-of-use assets:

	2025	2024
	£m	£m
<i>Included within net finance income and costs:</i>		
Interest expense on lease liabilities	(1)	(1)
<i>Included within operating expenses:</i>		
Expenses relating to short-term leases	(1)	—

10. Financial assets and other investments

The financial assets and other investments balance of £631m comprises of investments in money market funds and the associated accrued interest, and restricted cash balances in relation to Strategic Innovation Fund (SIF) projects.

Financial assets at amortised costs – debt instruments that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost, which approximates to their fair values, primarily due to short-dated maturities. Interest income is recognised using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, is recognised in the income statement. This category included our loans from our previous ultimate parent undertaking.

FVTPL investments – other financial investments are subsequently measured at fair value with any gains or losses recognised in the income statement (FVTPL). This comprises our money market funds. They are initially recognised on trade date at fair value less transaction costs and expected losses. In the current year, the transaction value equals fair value.

	2025 £m	2024 £m
Financial assets and other investments comprise the following:		
Restricted cash deposits	8	6
Loans and receivables – amounts due from the previous ultimate parent company	—	1,188
Investments in money market funds	620	—
Accrued interest on deposits	3	—
	631	1,194

	2025 £m	2024 £m
Financial assets and other investments comprise the following:		
Financial asset measured at fair value through profit or loss	623	—
Financial asset measured at amortised cost	—	1,188
Restricted cash deposits	8	6
	631	1,194

11. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services we have provided, accrued income which has not yet been invoiced to customers and other receivables that are expected to be settled within 12 months.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts.

Trade receivables are non-interest-bearing and generally have a 3-30 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value. All other receivables are recorded at amortised cost. The provision for impairment of receivables as at 31 March 2025 was £1m (2024: £4m).

	2025 £m	2024 £m
Current		
Trade receivables	100	79
Amounts owed by fellow subsidiary undertakings	—	10
Accrued income	292	384
Prepayments	8	—
Other receivables ¹	53	99
	453	572

¹ 2025 includes £nil (2024: £13m) receivable from coal plants as they sell unused coal stocks. Proceeds have been refunded to customers during the year.

Provision for impairment of receivables

A provision matrix is not used to assess expected loss rates as an assessment is performed on individual debtors.

	2025 £m	2024 £m
At 1 April	4	5
Released in the year	(1)	—
Write-off in the year	(2)	(1)
At 31 March	1	4

12. Cash and cash equivalents

Cash and cash equivalents include cash balances.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on Bank of England base rates. Cash is held in commercial bank accounts to maintain a level of liquidity depending on immediate cash requirements. Any surplus funds are invested in money market funds as detailed in note 10.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates.

	2025 £m	2024 £m
Cash at bank	55	30

13. Borrowings

Under the terms of the working capital facility with DESNZ the Company is not permitted to have financial indebtedness other than funds drawn on the facility and permitted leases. There are no direct issue costs for drawing down on the working capital facility and as such would be recorded at fair value, being the value of the proceeds received.

Previously, we borrowed money primarily from our ultimate parent company. This was for a fixed term and had floating interest rates. These borrowings were initially recorded at fair value. This reflected the proceeds received (net of direct issue costs for liabilities measured at amortised cost). Subsequently these were stated at amortised cost. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Changes to our price control from 1 October 2024 should lead to the Company being debt free with all expenditure being recoverable within the allowed annual BSUoS revenues.

Information on our net debt is presented in note 20.

	2025 £m	2024 £m
Current		
Borrowings from the previous ultimate parent company ¹	—	132
Finance Leases	3	2
	3	134
Non-current		
Finance Leases	14	11
	14	11
Total borrowings	17	145

¹ 2025: £nil (2024: £132m relates to borrowings from the previous ultimate parent company prior to separation from National Grid Group).

At 31 March 2025, we had committed and undrawn working capital credit facilities of £700m with DESNZ. The facility is for a 3-year term to 30 September 2027 with the option to extend for a further year. At 31 March 2024 we had external committed and undrawn facilities of £550m which expired on 1 April 2024. We also had £550m of credit facilities with National Grid plc which remained committed and undrawn until 30 September when the Company ceased to be at least 99.99% owned directly or indirectly by National Grid plc.

The loan and associated interest from the previous ultimate parent undertaking was repaid on 27 June 2024.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method.

	2025	2024
	£m	£m
Gross lease liabilities are repayable as follows:		
Less than 1 year	(3)	(2)
1 to 5 years	(8)	(5)
More than 5 years	(13)	(14)
	(24)	(21)
Less: finance charges allocated to future periods	7	8
	(17)	(13)
The present value of lease liabilities are as follows:		
Less than 1 year	(3)	(2)
1 to 5 years	(7)	(4)
More than 5 years	(7)	(7)
	(17)	(13)

14. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred amounts, some of which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

	2025	2024
	£m	£m
Trade payables	464	291
Social security and other taxes ¹	138	231
Deferred income	37	36
Amounts owed to fellow subsidiaries of National Grid plc	—	182
Capital Payables – Tangibles & Intangibles	73	6
Other payables ²	278	279
	990	1,025

¹ 2025 Includes Value Added Tax of £135m (2024: £229m).

² 2025 includes £44m (2024: £20m) relating to TNUoS charges caused by timing difference between amounts charged to customers and that passed through to the GB Transmission Owners. It also includes £223m (2024: £190m) in relation to application fees and capital contributions collected on behalf of GB Transmission Owners.

Due to their short maturities, the fair value of trade payables approximates to their book value.

15. Other non-current liabilities

Non-current liabilities are initially recognised at fair value and subsequently measured at amortised cost. There is no material difference between the fair value and the carrying value of other payables.

	2025	2024
	£m	£m
Other payables ¹	53	66

¹ Balances held in relation to application fees collected on behalf of GB Transmission Owners.

16. Pensions and other post-retirement benefits

All of our employees are eligible to participate in a pension plan. We have defined contribution (DC) and defined benefit (DB) pension plans. The fair value of associated plan assets and present value of DB obligations are updated annually in accordance with IAS 19 'Employee Benefits'. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the DB obligations.

Defined contribution plan

UK employees are eligible to join the NESO Retirement Savings Plan, a section of a Master Trust arrangement managed by Legal & General. NESO pays contributions into the plan to provide DC benefits on behalf of its employees, generally providing a double match of member contributions up to a maximum Company contribution of 12% of salary. Investment risks are borne by the member and there is no legal or constructive obligation on NESO to pay additional contributions in the instance that investment performance is poor. Payments to this DC plan are charged as an expense as they fall due.

Defined benefit plans

Prior to 1 October 2024, NGESO was a participating employer in the NGE Group (NGEG) of the Electricity Supply Pension Scheme (ESPS). NGEG is a registered and approved multi-employer defined benefit pension scheme. With effect from 1 October 2024, a deed of participation permitted NESO to remain as a participating employer in NGEG for a period of up to 1 year despite ceasing to be part of National Grid. From 1 April 2025 the Company established and participates in its own registered and approved pension scheme, the NESO Section ("NESO Section") of The Pension Masterplan ("TMPT") to provide future benefits to the active NGEG members who were employed by NESO as at 1 October 2024 (the "NESO Members"). These plans each hold assets in separate Trustee administered funds and are managed by Trustee companies. NGEG is managed by a board of Trustees consisting of company and member appointed directors. The NESO Section is managed by a sole corporate trustee appointed by the Company. This plan is closed to new members.

The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible in particular for the asset investment policy and the day-to-day administration of the benefits. The Trustee agrees the level of contributions and funding requirements with the employer.

Following a period of consultation with employees, the NESO Members ceased pension accrual in the NGE Group on 31 March 2025 and began to build up future pension benefits in the NESO Section with effect from 1 April 2025. The NGEG Trustees agreed to apportion the remaining s75 debt associated with NESO to another National Grid entity

and as such the Company has no further obligations to NGEG. The bulk transfer of past service liabilities and assets took place in July 2025. This was on a "share of funds" basis as certified by the NGEG Scheme Actuary and verified by the NESO Section Scheme Actuary, subject to a minimum of the aggregate of NESO members' cash equivalent transfer values.

UK legislation requires the Trustee to carry out independent actuarial funding valuations every three years. Following consultation and agreement with the Company, the qualified actuary certifies the employers' contributions which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable. The last full actuarial valuation of NGEG was carried out by the NGEG Trustee at 31 March 2022, with NGEG showing a funding shortfall at the valuation date. The shortfall was funded via recovery plan payments from the Company, which as at 31 March 2025 had all been paid. The Company also funds the cost of future benefit accrual (over and above member contributions). The NESO Section Trustee is in the process of carrying out an actuarial valuation as at 31 March 2025 which will determine the future funding requirements of the NESO Section. As an interim measure for the period from 1 April 2025, it was agreed between the Company and the NESO Section Trustee that the Company would continue to pay the cost of future benefit accrual at the same contribution rate as that previously payable to NGEG on the basis that the NESO Section is providing mirror image benefits to NGEG and that this would be subject to review shortly following the 31 March 2025 valuation. The expected contributions for the year from 1 April 2025 are £4.8m, subject to review for the outcome of the 31 March 2025 valuation of the NESO Section.

The weighted average duration of the DBO liabilities has been calculated at the reporting date by the independent actuary as 18 years. The NESO Section membership consists of 124 active members and 1 pensioner.

Actuarial assumptions

On retirement, members of DB plans receive benefits whose value is dependent on factors such as salary and length of pensionable service. NESO's obligation in respect of DB pension plans is calculated by projecting the estimated amount of future benefit payments that

employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities.

Advice is taken from independent actuaries relating to the appropriateness of the key assumptions applied, including life expectancy, expected salary and pension increases, and inflation. Comparatively small changes

in the assumptions used may have a significant effect on the amounts recognised in the profit and loss, the statement of other comprehensive income and the net asset or liability recognised in the statement of financial position. The sensitivities to significant risks are disclosed. Remeasurements of pension assets and post-retirement benefit obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

The Company has applied the following financial assumptions in assessing DB liabilities:

Key assumptions	As at 31 March 2025 (%pa)	As at 1 October 2024 (%pa)
Discount rate	5.70	5.05
Nominal rate of increase in salaries	3.20	3.20
Inflation:		
RPI inflation assumption (non-pensioner)	3.05	3.05
CPI inflation assumption (non-pensioner)	2.70	2.70
Nominal rate of increase in pensions in payment (pensioners)		
RPI 5%	2.90	2.90
CPI 3%	2.10	2.10
Life Expectancy	Years	Years
Male at age 65	21.8	21.8
Male at age 45	23.1	23.0
Female at age 65	24.1	24.0
Female at age 45	25.4	25.3

Sensitivity analysis

At the reporting date, reasonable possible changes to one of the relevant actuarial assumptions, with the other assumptions held constant, would have affected the defined benefit obligation (DBO) by the amounts shown below.

	2025 Increase in DBO £m
Discount rate +0.25%	(3)
Salary increase +0.25%	1
Inflation (RPI and CPI) +0.25%	3
RPI +0.25%	1
CPI +0.25%	—
Life expectancy + 1year	2

The change to the inflation sensitivity allow for changes to pension increases in deferment and in payment. Although the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation of the sensitivity of the assumptions shown.

In June 2023, the High Court judged that amendments made to the Virgin Media scheme were invalid because the necessary S37 certification associated to these amendments was not prepared or documented appropriately. The High Court's decision was reviewed by the Court of Appeal in July 2024 and was upheld. The NESO Section will not incur any liability arising from any amendment to the rules of NGEF which are found to be invalid as a result of the principles set out in the Virgin Media judgment.

For NGEF, the employers have an unconditional right to a refund in the event of a winding up of the scheme. The NESO Section was established to largely replicate the rules and powers of NGEF.

Amounts recognised in the statement of financial position	2025 £m
Present value of funded defined benefit obligations	(65)
Fair value of scheme assets	80
Surplus recognised in scheme	15

Amounts recognised in the statement of profit or loss	2025 £m
Included within operating costs:	
Net pension asset recognised on separation from NG plc	(13)
Current service cost	1
Scheme administration expenses	—
Total of operating costs	(12)
Included within finance income and costs:	
Interest credit	—
Total included in the income statement	(12)

Amounts recognised as Other Comprehensive Income	2025 £m
Return on assets (greater)/less than interest income	8
Actuarial loss/(gain) on financial assumptions	(8)
Actuarial loss/(gain) on experience adjustment	(2)
Total included in the statement of other comprehensive income	(2)

Change in defined benefit obligation during the year	2025 £m
Opening defined benefit obligations	—
Pension liability recognised on separation	71
Current service cost	2
Interest cost	2
Actuarial (gains) - experience	(2)
Actuarial (gains) - financial assumptions	(8)
Benefits paid	—
Closing defined benefit obligations at 31 March	65

Change in fair value of assets during the year	2025 £m
Opening fair value of scheme assets at 1 April 2024	—
Pension asset recognised on separation	84
Interest on assets	2
Return on assets (less)/greater than assumed	(8)
Employer contributions	2
Benefits paid	—
Expenses paid	—
Closing fair value of scheme assets at 31 March 2025	80

Fair value of scheme assets in each category

For the purposes of IAS19, the asset values stated are at the balance sheet date. Market values of the plans' assets which are not intended to be realised in the short-term may be subject to significant changes before they are realised.

	2025 £m	
	Quoted market price in active market	No quoted market price in active market
Property	—	4
Diversified alternatives	—	24
LDI and cash	52	—
Total	52	28

The scheme's assets include no assets from the Company's own financial instruments.

The scheme's assets include no property occupied by, or other assets used by the Company.



17. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a

past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Changes in the provision arising from revised estimates or changes in the expected timing of expenditures are recognised in the income statement.

	Restructuring £m	Other £m	Total £m
At 1 April 2023	1	2	3
Additions	—	—	—
Utilised	(1)	—	(1)
At 31 March 2024	—	2	2
Unused amounts reversed	—	(2)	(2)
At 31 March 2025	—	—	—
		2025	2024
		£m	£m
Current		—	2
Non-current		—	—
		—	2

Restructuring provision

The provision reflected cost efficiency and restructuring programmes undertaken in the wider National Grid group for which the Company received an allocation as it took services from centralised support functions.

18. Share capital and share premium

Ordinary share capital represents the total number of shares issued. In line with the provisions of the Companies Act 2006, the Company has no authorised share capital.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Number of shares 2025 millions	Number of shares 2024 millions	2025 £m	2024 £m
At 31 March 2023 and 2024 – ordinary shares of 1p each				
Allotted, called-up and fully paid	330	330	330	330
	Number of shares millions	Par value £m	Share Premium £m	Total £m
At 31 March 2025	330	3	327	330

19. Other equity – Merger reserve

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions. As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

At 31 March 2024, NESO held one form of other equity, being a merger reserve. The merger reserve arose on the acquisition of the NESO business on 1 April 2019. This acquisition did not fall within the scope of IFRS 3 Business Combinations, thus, assets and liabilities were transferred at their net book value. The difference between the net book value and consideration paid for the assets and liabilities acquired resides within this reserve. The merger reserve was principally attributable to the NESO business's exclusive licence and profitability.

	Merger Reserve £m
At 31 March 2024	(142)
Transferred to retain earnings	142
At 31 March 2025	–

As the Company's new regulatory regime from 1 October 2024 leads to it being not for profit, with all efficiently incurred costs being fully recoverable in allowed BSUoS revenues and there being no financial incentive arrangements, the merger reserve is now considered to be fully realised for the purposes of assessing the Company's distributable profits. As a consequence, merger reserve has been transferred to retained earnings.

20. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, current financial investments and related financing derivatives.

(a) Reconciliation of net cash flow to movement in net debt

	2025	2024
	£m	£m
Increase in cash and cash equivalents	25	6
(Decrease)/Increase in financial investments	(566)	699
Decrease/(Increase) in borrowings and related derivatives	128	(13)
Net interest receivable/(payable) on the components of net debt	3	(9)
Change in net debt resulting from cash flows	(410)	683
Movement in net debt in the year	(410)	683
Net debt at the start of the year	1,079	396
Net debt at the end of the year	669	1,079

Composition of net debt

Net debt is summarised as follows:

	2025	2024
	£m	£m
Cash, cash equivalents and financial investments	686	1,224
Borrowings and bank overdrafts	(17)	(145)
Net debt at the end of the year	669	1,079

(b) Analysis of changes in net debt

	Cash and cash equivalents	Financial investments	Borrowings	Total debt
	£m	£m	£m	£m
At 1 April 2024	30	1,194	(145)	1,079
Cash flow	25	(566)	135	(406)
Other non-cash movements	—	—	(7)	(7)
Interest received	—	3		3
At 31 March 2025	55	631	(17)	669
Balances at 31 March 2025 comprise:				
Current assets	55	631	—	686
Current liabilities	—	—	(3)	(3)
Non-current liabilities	—	—	(14)	(14)
	55	631	(17)	669

21. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments relate to contracts for the purchase of assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

	2025	2024
	£m	£m
Future capital expenditure		
Contracted for but not provided	28	41
Balances as at 31 March 2025 comprise:		
Less than 1 year	27	35
In 1 – 5 years	1	6
	28	41

Litigation and claims

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

22. Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a director who holds a controlling stake in that company and who is also a Director of National Energy System Operator Limited. The related parties identified include transactions with associated undertakings and key management personnel.

Prior to 1st October 2024, whilst part of the National Grid Group, related parties also included fellow National Grid subsidiaries and joint ventures. Post 1st October 2024, when the Secretary of State for Energy Security and Net Zero became NESO's shareholder, a related party is any entity within the DESNZ departmental group.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2025	2024
	£m	£m
Income:		
Goods and services supplied ¹	62	231
	62	231
Expenditure:		
Services received ²	(1,121)	(2,601)
Corporate services received	(1)	(2)
Interest paid on borrowings from previous ultimate parent	(2)	(9)
Interest received on borrowings to previous ultimate parent	26	42
Interest & facility fees on Working Capital Facility from DESNZ	(1)	—
	(1,099)	(2,570)
Balance Sheet as at 31 March:		
Lending to ultimate parent (amounts due within one year)	—	1,188
Borrowings from ultimate parent (amounts due within one year)	—	(132)
Amounts included in Trade and other payables	—	(182)
Amounts included in Trade and other receivables	—	10
At 31 March	—	884

1 Includes pre 1 October 2024 TNUoS related pre and post vesting charges to National Grid Electricity Distribution of £17m (2024 full year: £34m) and £45m (2024 full year: £197m) of charges to National Grid interconnector joint ventures under the interconnector cap and floor regime operated by Ofgem.

2 Expenditure includes pre 1 October 2024 TNUoS revenue collection for National Grid Electricity Transmission plc of £1,106m (2024 full year: £2,570m) and £11m (2024 full year: £31m) for balancing service from National Grid joint venture interconnectors.

In the UK, National Grid operates a centralised Support Function model. Costs for these functions including IT, procurement, and payroll services are initially borne by National Grid Electricity Transmission plc. The Company received an allocation of these costs based on its relative usage. For 2025, ahead of the sale of the Company by National Grid, these charges were fixed based on the budgeted allocations. The allocated costs for the period pre 1 October 2024 are included within operating costs and totalled £42m (2024: £90m). Post separation on 1st October 2024, the Company entered into Transitional Service Agreements (TSAs) with National Grid to continue to provide certain support primarily IT infrastructure support and payroll related services. The Company is expected to establish its own contracts and capability such that the TSAs can be exited by 30 September 2026. On 12 September 2024 the Company entered into a lease with National Grid Electricity Transmission plc for occupancy at Faraday House in Warwick. The lease commenced on 1 October 2024 until 30 January 2032 and has an initial rent of £1.2m. Either party can terminate the lease on or after 1 February 2029.

With agreement from Ofgem, National Grid was permitted to recover costs incurred in separating NESO from the National Grid Group, by charging these costs to the Company. The charge for the period to 1 October 2024 was £31m. Post 1 October 2024, Ofgem has permitted National Grid to recover any costs it incurs in separating the IT systems and supporting the exit of the TSAs. Both these charges are recoverable by NESO as a passthrough cost as part of our regulatory agreement.

DESNZ has policy responsibility for Ofgem but it is not consolidated within their accounts and as such has not been treated as a related party. Ofgem is a regulator to NESO and the license fee of £44m paid to Ofgem is included within operating costs (2024: £37m).

NESO has transactions with other public entities that sit outside of the DESNZ departmental group such as a connections agreement with Network Rail. Such entities are not considered to be related parties.

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears.

Goods and services supplied and received that relate to TNUoS revenues continue to be collected and charged to National Grid Electricity Transmission plc and National Grid Electricity Distribution post 1 October 2024. Under IFRS 15 we act as an agent and these balances are shown net within our revenue figure. Further details of this relationship have been provided in note 2.

Information relating to pension fund arrangements is disclosed in note 16.

23. Financial risk management

Prior to separation from National Grid plc, risk management activities were carried out by the central National Grid plc treasury department under policies approved by the Finance Committee of the National Grid Board. These policies were deemed appropriate for NESO. Following the establishment of NESO under the ownership of the Secretary of State, risk management activities are managed by the NESO finance department under a Treasury Policy approved by the NESO Board.

Our policies take into account principles as defined by the Managing Public Money document as published by HM Treasury. We also operate in accordance with the framework document, agreed with DESNZ. Whilst we have exposure to financial risks our regulatory agreements with Ofgem minimise this due to the passthrough nature of the agreements meaning all efficiently incurred expenditure or income is recoverable within our allowed revenues. Our policies are designed to minimise exposure to significant risks whilst preserving capital and providing a reasonable return on any surplus funds. All interest we generate is returned to customers in future tariff periods.

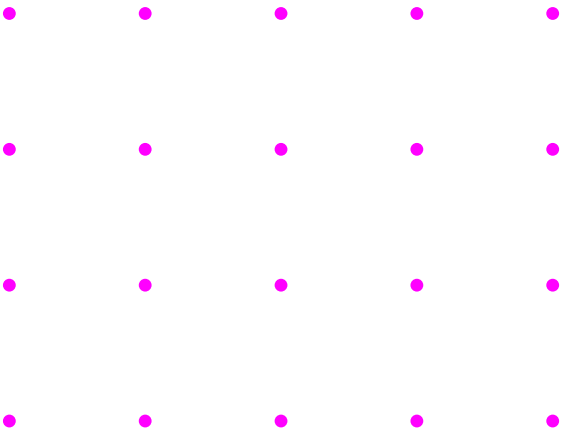
Our key areas of exposure and how we manage these are detailed below:

Funding and liquidity risk

Our only source of funding is the £700m undrawn and committed working capital facility with DESNZ. We monitor cash forecasts over a 12-18 month period to ensure the facilities remain sufficient to meet expected cash flows recognising the inherent risks associated with the use of forecasts, most notably the level of balancing costs during periods where BSUoS tariffs have been set. Shorter term daily cash flow forecasts are monitored to ensure near term liquidity can be managed. Our policy is to retain £50m in our commercial operational bank accounts to manage short term liquidity. This is to manage the time it would take to draw down funds under the working capital facility. Any surplus funds held above £50m are invested in highly liquid funds which are limited to call accounts, bonds, money market funds and term deposits.

Credit risk

We are exposed to the risk of loss resulting from counterparties defaulting on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our deposits with banks and financial institutions, as well as credit exposures to wholesale customers, primarily trade receivables and committed transactions.



Treasury credit risk

Counterparty risk arises from the holding of funds in commercial bank accounts and the investment of surplus funds. As at 31 March 2025, the following limits were in place for investments held with banks and financial institutions:

- £250m in commercial operational bank accounts
- £500m or 10% of the size of each authorised quoted money market fund, with such funds being AAA rated and denominated in Sterling

Our role as agent for the collection and settlement of TNUoS monies to Transmission Owners creates additional risk around the 15th of each month when monies are due from customers and payable to the Transmission Owners. Our policy has been amended since the year-end to allow up to £500m to be retained in the commercial operational bank accounts around this date to allow contractual payment terms to be adhered to.

Wholesale credit risk

Our principal commercial exposure is governed by the credit rules within the regulated Connection and Use of System Code (CUSC). The codes establish the use of credit limits and the level of collateral that can be required covering BSUoS, TNUoS and Connection agreements. Collateral can be in the form of parent company guarantees, letters of credit or funds being deposited in separate security bank accounts. The CUSC states that any deposited funds remain an asset of the customer but can be accessed and utilised by NESO in the event of default. At 31 March 2025, we held £1,500m of securities of which £456m was held in the form of cash securities with the remainder being letters of credit, parent company guarantees, and bonds. Management does not expect any significant losses of receivables that have not been provided for as shown in note 11. The Company’s allowed revenues permit the recovery of any bad debts experienced providing we have managed the risk appropriately.

Foreign Currency risk

The Company has limited exposure to foreign currency risk with most transactions being denominated in Sterling. Where we do make payments to suppliers in foreign currency, usually limited to Euros, our treasury

policy permits hedging where such exposures are greater than £2m. During the year to 31 March 2025 no hedging transactions were undertaken.

24. Ultimate parent company

The ultimate controlling party is the Department for Energy Security and Net Zero (DESNZ) by virtue of the fact the Secretary of State is the 100% shareholder. DESNZ does not consolidate NESO within its consolidated financial statements. NESO is consolidated within the Whole Government Accounts.

25. Subsidiaries and Associates

NESO holds investments in associates, the Company includes contributions from associates which are detailed in the below table.

Associates

The list below contains all associates included within National Energy System Operator Limited.

	Principal activity	Holding
Coreso SA (incorporated in Belgium) 71 Avenue de Cortnbergh, 1000 Bruxelles, Belgium.	Associate in relation to a European regional transmission operations coordination centre	16%

The Coreso SA shares were inherited on the 3 May 2019 as part of the purchase of the ESO business from NGET plc and have been accounted for at cost. As part of the transaction to establish NESO as a separate public corporation owned by the Secretary of State, the Company sold its investment in Elexon Limited for which it owned 100% of the share capital. To facilitate the sale, to the parties set by Ofgem, the Company subscribed for 12 new shares of £1 each that were issued by Elexon Limited, and then sold its entire holding of 13 £1 shares to the new owners at their nominal £1 value. Accordingly there was no profit or loss on the transaction.

26. Events after the reporting period

There were no events after the reporting period.

Glossary

References to 'NESO', 'the Company', 'we', 'our' and 'us' refer to National Energy System Operator Limited (formerly known as National Grid Electricity System Operator Limited).

Carbon intensity

The measure of CO₂ emissions produced per kilowatt hour of electricity consumed.

Clean power

Clean power, is power / energy that, when used, creates little or no GHG emissions.

Contingent liabilities

Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosures in the financial statements is made.

CPI

The UK Consumer Price Index as published by the Office for National Statistics.

DB

Defined Benefit, relating to our final salary pension scheme.

DESNZ

The Department for Energy Security and Net Zero, the UK government department established in February 2023 with responsibility for UK energy security, protecting billpayers and reaching net zero.

FRS

A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC).

FTE

Full time equivalent.

FY24, FY25 and FY26

The financial years ending 31 March 2024, 2025 and 2026, respectively.

GHG

Greenhouse gas.

GWh

Gigawatt hours, an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

IAS or IFRS

International Accounting Standard (IAS) or International Financial Reporting Standard (IFRS), as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe internally general accepted accounting principles as a whole.

KPI

Key Performance Indicator.

Lost time injury

A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties.

National Grid

National Grid plc, the previous ultimate parent company of National Grid Electricity System Operator Limited.

Ofgem

The UK Office of Gas and Electricity Markets is part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

Regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historic costs, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for effects to inflation.

RIIO

The regulatory framework for energy networks issued by Ofgem, Revenue = Incentives + Innovation + Outputs.

RPI

The UK Retail Price Index, as published by the Office for National Statistics.

SoS or Secretary of State

The Secretary of State for Energy Security and Net Zero.

Tonnes CO₂ equivalent

A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

TWh

Terawatt hours. An amount of energy equivalent to delivering 1 trillion watts of power for a period of one hours.

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