LONDON POWER NETWORKS PLC
(DISTRIBUTION BUSINESS)

Registration number: 3929195

Interim report and condensed financial statements

for the six months ended 30 September 2021

CONTENTS

COMPANY INFORMATION

Directors

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

Company Secretary

Andrew Pace

Registered Office

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

Auditor

Deloitte LLP
Statutory Auditor
1 New Street Square
London
EC4A 3HQ
United Kingdom

INTERIM MANAGEMENT REPORT

Business model

The Company is a licenced distribution network operator ("DNO") distributing electricity to approximately 2.4 million homes and businesses in the London area via a network of underground cables, taking power from the National Grid at high voltage and transforming it down to lower voltage before delivery to customer premises.

The Company's objectives are to:

- maintain the safety and reliability of the electricity network;
- efficiently connect new customers to the electricity network, including power generators;
- restore supply as quickly as possible to customers who experience interruption;
- innovate to continually improve efficiency and the service provided to customers;
- facilitate a low-carbon environment by investing in assets, processes and initiatives that enable low carbon technology to be connected to the network;
- extend and upgrade the network to meet the future needs of customers; and
- keep costs to customers as low as possible.

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

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

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

The Company employs no staff (31 March 2021: nil). Staff are employed by UK Power Networks (Operations) Limited, which operates the electricity distribution network on the Company's behalf with the support of UK Power Networks (Transport) Limited and UK Power Networks (South East Services) Limited.

Review of the business

The revenues of the Company are subject to the regulatory price control framework set by the industry regulator, the Office of Gas and Electricity Markets ("Ofgem" or "the Regulator"), which provides economic incentives to maximise operating, capital and financing efficiencies. The Directors aim to optimise shareholder returns through the safe operation of and efficient investment in the network, while seeing that the business delivers high levels of customer service and operates within the boundaries of the price control allowances.

The allowed revenue is calculated to finance an efficient level of operating costs, a capital expenditure programme and to deliver a return on investment on the regulatory asset value. The Company has an opportunity to outperform these allowed returns through the delivery of efficiencies beyond the regulatory cost allowances and through other performance based incentive mechanisms. Such outperformance delivers benefits to customers and creates value for shareholders. The Company's key areas of focus are:

- outperforming the cost allowances set by Ofgem through the delivery of sustainable efficiencies;
- improving network performance by reducing the number and length of power interruptions and outperforming the reliability targets set by Ofgem; and
- improving the levels of customer service across key areas of the business.

INTERIM MANAGEMENT REPORT continued

Review of the business continued

Recent instability in the UK Energy Sector has led to a number of energy suppliers going out of business including some of the Company's debtors. This has contributed to an increase in the bad debt provision of £0.8m during the period. A further potential financial impact is that the Company may incur losses under the supplier of last resort ("SOLR") scheme managed by Ofgem. When customers of a failed supplier transfer to an appointed SOLR that supplier may submit a claim to Ofgem for losses incurred as a result of the SOLR arrangement, for example additional administrative costs or inherited credit balances of affected customers. Once agreed with Ofgem the SOLR may then request payment of the claim from the Distribution Network Operators (the "DNOs"). Each DNO is able to recover such costs through future revenue allowances within the price control framework.

In the period subsequent to the balance sheet date until the approval of the condensed financial statements on 7 December 2021, the Company has incurred a bad debt expense of circa £2.0m relating to failed energy suppliers (refer to disclosure of subsequent events in note 16 to the financial statements). The Company also expects to receive claims for losses under the SOLR scheme, however both the amount and the timing of such claims are uncertain, and no liability has been recognised at the balance sheet date. The Company is able to recover the cost of bad debts and any SOLR claims through the price control framework revenue mechanism.

Performance for the six months ended 30 September 2021

The performance of the Company in the six months ended 30 September 2021 is compared to the six months ended 30 September 2020 (the prior period), in the discussion below.

Turnover has increased from £243.1m to £248.5m driven by higher electricity demand from businesses as the economy has emerged from the pandemic.

Earnings before interest, taxation, depreciation and amortisation (EBITDA) has decreased from £182.0m to £178.4m due to higher operating costs offsetting the increase in turnover.

The £68.2m reduction in profit after tax from £84.8m to £16.6m primarily reflects the impact of the corporation tax rate change enacted on 24 May 2021, increasing the corporation tax rate from 19% to 25% with effect from 1 April 2023. The revaluation of the Company's long term deferred tax liabilities at the new rate of 25% has resulted in a one off deferred tax charge of £59.1m to profit or loss in the period. Lower EBITDA, higher depreciation costs and higher finance costs contribute to the remaining reduction in profit after tax.

Gross capital expenditure increased by £29.9m from £106.5m to £136.4m, reflecting a recovery from the lower work volumes in the prior period due to the COVID-19 pandemic. Capital expenditure net of customer contributions increased by £18.7m.

Key performance indicators (KPI's)

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

Safety

The Group's first priority is the safety of employees, contractors and the general public. The safety performance of the Group as a whole is reviewed in the Group's annual report and financial statements for the year ended 31 March 2021.

Lost time incidents (LTIs), defined as the number of injuries to employees or contractors which result in lost time of one day or more, is a key safety measure. 2 LTIs have occurred within the Group in the six months ended 30 September 2021 which is an improvement on the 3 LTIs recorded in the prior period. The circumstances of each LTI are reported and investigated in detail with the aim of preventing the recurrence of such incidents. Findings from the investigations are used to improve training and safety procedures as well as raise awareness across the organisation.

Key performance indicators (KPI's) continued

Network performance

The principal measures used to assess network performance are customer minutes lost (CMLs) and customer interruptions (CIs). CMLs are the average length of time customers are without power for three minutes or longer and represent availability of supply. CIs, the number of interruptions per 100 customers, are an indicator of network reliability.

CMLs and CIs are measured on an annual basis to 31 March and presented in the Company's annual report and financial statements. Performance in the six month period to 30 September 2021 is broadly in line with the prior period.

Customer satisfaction

Ofgem measures customer satisfaction through surveys which record the experience of customers receiving services from distribution network operators for interruptions, minor connections and general enquiries. This is one of the most important measures of performance for the business. The Company recorded an average of 94% customer satisfaction in the six months ended 30 September 2021 compared to 92% in the prior period.

Financial key performance indicators

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

	Six months ended 30 September 2021	Six months ended 30 September 2020
Turnover (£m)	**248.5**	243.1
EBITDA (£m) [1]	**178.4**	182.0
Profit after tax (£m)	**16.6**	84.8
Gross capital expenditure on tangible assets (£m)	**136.4**	106.5
Capital expenditure on tangible assets net of customer contributions received (£m)	**96.6**	77.9

	As at 30 September 2021	As at 31 March 2021
Regulatory asset value (RAV) (£m) [2]	**1,861.9**	1,792.9
RAV gearing [3]	**64%**	66%

1 EBITDA is a non-statutory measure, and is calculated by adding back amortisation and depreciation to operating profit (also discussed in subsequent paragraphs).

2 "RAV" is the Regulatory Asset Value of the business. The values presented are based on the information available at the date the accounts are signed. Discussion with Ofgem may result in RAV being increased or decreased. The 31 March 2021 RAV has been restated from that previously published in the 31 March 2021 statutory accounts, to reflect the latest position agreed with Ofgem.

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

Financial key performance indicators continued

EBITDA

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

	Six months ended 30 September 2021	Six months ended 30 September 2020
Operating profit (£m)	**123.2**	128.5
Depreciation of tangible assets (£m)	**50.8**	48.6
Amortisation of intangible assets (£m)	**4.4**	4.9
EBITDA (£m)	**178.4**	182.0

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

Capital expenditure

Gross capital expenditure is a measure of the Company's investment in the electricity distribution network during the period. Capital expenditure net of customer contributions, as calculated in the table below, is also monitored because the contributions received from customers as payment for connections to the network, are directly attributable to those network assets.

	Six months ended 30 September 2021	Six months ended 30 September 2020
Gross capital expenditure on tangible assets (£m)	**136.4**	106.5
Less: Customer contributions received in the period (£m)	**(39.8)**	(28.6)
Capital expenditure net of customer contributions (£m)	**96.6**	77.9

RAV gearing

The proportion of debt measured against the Regulatory Asset Value ("RAV") of the business indicates the capacity of the business to source additional finance. This is a key metric for the Company's covenant arrangements with pension trustees and providers of finance and is monitored on a monthly basis. The RAV gearing ratio remains within pension and bank covenant targets improving from 66% at 31 March 2021 to 64% at 30 September 2021. The improvement reflects the growth in the RAV due to continued investment and recent rises in the Retail Price Index.

Dividends

Dividends of £29.0m were paid during the period (six months ended 30 September 2020: £nil).

Principal risks and uncertainties

As well as the opportunities the Company has to grow and develop its business, certain risks and uncertainties are faced in achieving its objectives. The principal risks and uncertainties relevant to the Company during the remaining six months of the financial year, are set out in tabular form below, with a summary of mitigating actions.

Risk	Mitigation
Inadequate response to major adverse events An inadequate response to a major event could result in a failure in the Company's performance (e.g. power outages at key facilities, safety incidents, poor customer service and/or breach of licence conditions) resulting in significant financial and reputational damage.	Senior Management addresses this risk in three main forums: the Organisational Resilience Leadership team, the Incident Leadership team and the Strategic Operational team. Mitigating measures include: • Business Continuity Plans and policies and procedures giving clear guidance of actions to be taken, roles and responsibilities (Organisational resilience is rated 4/5 by the Emergency Planning College). • Scenario planning to stress test the business continuity plans for each business unit. • Regular communications via email, the intranet and frequent video briefings from the CEO, keeping employees informed of the response plan, procedures and changing risks. • Monitoring by senior management of key performance areas which could be impacted by the event e.g. network safety and performance, customer satisfaction levels, employee health and absenteeism, PPE allocation, adherence to new policies and procedures, financial impacts. • Review and reprioritisation of work on the network as required, in response to the changing risks. This includes recovery plans to monitor work back-logs against strategic targets and resume work as quickly as possible if projects are impacted by the event. **COVID-19** In view of the current high infection rates in the UK, the Group is continuing with the following measures to reduce the COVID-19 risk to employees and those they come into contact with: • Social distancing, temperature checks, and hygiene practices at office and operational sites. • Use of PPE and specific safety procedures for field staff entering premises with occupants that may be self isolating due to COVID-19 infection. • Flexible working arrangements to limit contact between employees / members of the public. **Storms and flooding** The Group has a well developed plan for dealing with storms and other major weather events setting out roles, responsibilities and co-ordination processes for employees.

INTERIM MANAGEMENT REPORT continued

Risk	Mitigation
Health and safety incidents There is a risk that a fatality or serious injury occurs involving a member of staff, a contractor, a member of the public or a third party. Any such incident could lead to a prosecution or a fine and have an adverse impact on the reputation of the Company.	The Group aims to create and foster a culture in which safety is the highest priority in the minds of everyone who works for UK Power Networks. Safety measures include: • A health and safety strategy and action plan which sets out the policies and procedures of the Group. • Task risk assessments and on-site inspections to ensure that safety procedures are followed. • A range of "Stay Safe" training programmes aimed at staff, contractors and members of the public, to promote safety and increase awareness of the dangers of working with electricity. • Active monitoring, investigation and reporting of safety incidents, including near misses, to the Safety, Health and Environmental Committee which reviews the completion of follow up actions to improve safety procedures. • Communication of incidents and lessons learnt through monthly safety messages to staff. • Innovative renewal of health and safety messaging to keep safety fresh and front of mind across the organisation. • Control and monitoring of the health and safety practices of contractors to see that the Group's safety procedures are understood and followed.
Failure of network assets There are significant risks associated with network assets where failure of asset management procedures, systems or equipment could result in a major outage, major fine or a serious injury/fatality. Customer service and continuity/quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company.	The reliability of the Company's network is a key performance indicator and is closely monitored by the Company. Investment in the network is prioritised to those projects which are likely to have a beneficial impact on reliability. The Company strives to continually innovate to improve the ways in which it identifies and manages the risk of outages. The results of Inspection and Maintenance programmes, Compliance Monitoring, Asset Health index monitoring and other asset risk assessments are reported to senior management on a monthly basis and feed into long term asset management plans. The Group maintains accreditations in 55001 (Asset Management), 9001 (Quality) and 14001 (Environment).

Regulatory risks The Company is subject to extensive regulatory obligations which may be impacted by the prevailing political and economic climate. The following risks could result in lower financial returns reputational damage, breach of licence conditions or fines:	Examples of mitigating measures:
• Risk of non-compliance with regulatory requirements	• The Group operates a Regulatory Compliance programme to understand regulatory risks and obligations and implement controls and processes to meet compliance requirements.
• Risk of not achieving the output and cost efficiency targets agreed with the Regulator within the price control framework.	• The Asset Portfolio Planning (APP) tool tracks long term projects allowing monthly review of actual versus planned expenditure and monitoring progress at a project level. • Close collaboration and mitigation planning with suppliers during the COVID-19 pandemic and the Brexit transition, has maintained supply chain resilience. Additional racking has increased warehouse capacity by 50% and allowed higher stock levels (3 to 4 months supply of critical items). • The strategic planning cycle includes bottom up budgeting as well as top down target setting with specific actions to deliver on agreed cost targets. The saving plans of each business unit are monitored by senior management on a monthly basis.
• Risk of more challenging targets being set under the new price control RIIO-ED2 from 1 April 2023. • Risk of not meeting the accelerated demand on the network resulting from the uptake of low carbon technologies under the challenging timelines set by the government.	• Governance of the RIIO-ED2 process by a Board Sub Committee which meets on a regular basis. • Extensive engagement and consultation with Ofgem in developing the business plan for RIIO-ED2. • An ongoing research and engagement programme to understand the needs, expectations and low carbon ambitions of customers and other stakeholders (e.g. the Department of Business, Energy, and Industrial Strategy BEIS, Local authorities, Councils, other networks). The objective is to shape the Group's vision and strategy, improve services and solutions for customers, learn and share best practice and influence behaviours, policy and regulation. • Forecasts of the net zero impacts on the network with scenario modelling of the uptake of electric vehicles, decarbonised heat, distributed generation and battery storage. • Detailed resource planning for a range of net zero scenarios as part of workforce and supplier chain resilience plans with the aim of increasing the flexibility of delivery capabilities. • Understanding the impact of changes in the economy and regulatory environment on funding requirements and maintaining the Company's ability to raise finance at acceptable rates when required. Debt covenant and credit metrics are monitored monthly. Debt maturities are spread over a number of years in order to reduce the funding risk in any one year.

INTERIM MANAGEMENT REPORT continued

Risk	Mitigation
Regulatory risks continued *Emerging risk* • Negative impact (on profit and cash flows) of bad debt and SOLR claims resulting from energy supplier failures (as discussed on page 3). • Continued instability in the UK energy sector leading to further supplier failures.	• Close monitoring of the bad debt risk relating to failed energy suppliers and potential claims from Suppliers of Last Resort. • Forecasting the effect on profit and cash flows including sensitivity testing. • Continued dialogue/consultation with Ofgem, other DNOs and suppliers to examine the impacts of the supplier failures and the timing of the recovery of bad debt and SOLR costs through the price control mechanism.
Major Failure or Cyber security breach of IT Systems: A failure or cyber security breach of core IT systems could have a considerable impact on business operations. If the breach or failure is related to control systems, the Company's ability to operate the network could be impacted. Data breaches could result in legal or regulatory non-compliance with resulting financial penalties and reputational damage.	A Cyber Security Improvement Programme operates to reduce risks, strengthen controls and maintain compliance with changes in standards and legislation. The Group focuses its activities across three domains: operating a cyber security management system; maintaining cyber hygiene; and proactively testing resilience. All security policies and standards are closely aligned to ISO 27001 and are compliant with the requirements of applicable legislation. The Group operates a training programme to see that its staff are aware of cyber risks and know how to minimise and manage those risks, as well as how to respond in the event of a suspected breach.

Apart from the emerging risk relating to the failure of the energy suppliers (as disclosed above) there have been no significant changes to these risks since they were reported on pages 10 to 14 in the Company's statutory accounts for the year ended 31 March 2021.

Going concern

In considering the going concern basis in preparing the condensed financial statements the Directors have taken the Company's annual budget and long term strategic plan into account as well as the following factors:

- The Company profitably operates the regulated electricity distribution network within London. The revenue of the Company is regulated by Ofgem via established price control mechanisms providing a stable and predictable source of cash flows.

- The Company is funded predominantly by long-term debt with an average maturity of 7 years and has access to an undrawn revolving credit facility of £145.0m until March 2024 which was undrawn at the balance sheet date. Total borrowings (excluding derivatives) at 30 September 2021 amounted to £1,308.9m (31 March 2021: £1,312.1m) of which £90.0m (31 March 2021:£90.0m) was short term.

- As required by the electricity distribution licence the Company has an investment grade credit rating and has the ability to access external debt markets supported by cash generated by its operations.

Going concern continued

Although the COVID-19 pandemic impacted distribution volumes and progress on capital projects in the prior year, the Company has seen a recovery and resumption of normal activity in the six months ended 30 September 2021. If this normal activity level continues the pandemic is not expected to have a material impact on the Company's future financial position and prospects. However due to the current high infection rates in the UK, the Company continues to monitor the pandemic as a principal risk and controls remain in place to reduce the infection risk.

The Directors have applied sensitivities to the Company's forecasts with a central case that anticipates normal (pre-pandemic) distribution volumes and levels of activity, within the next twelve months. In addition, forecasts have been stress tested with different scenarios including higher costs due to major storms, a volume driven reduction in revenues arising from further COVID-19 lock downs or similar events, unexpected operational or capital expenditure required in response to safety incidents and higher levels of bad debt due to instability in the energy sector in the UK.

The forecast modelling has shown that the Company will remain profitable over the next 12 months, under all reasonable scenarios, and there is considerable headroom in lending facilities and covenants (comprising gearing and interest cover measures) which underpins the going concern assumption on which these financial statements have been prepared. The Directors closely monitor cash conversion and financial covenants. The stress tests in the forecast modelling indicate that a covenant breach is highly unlikely even before considering mitigations available to the Company, such as delay of capital expenditure or deferral of discretionary dividend payments.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, demonstrate that the Company will be able to operate within its credit facilities. The Directors are satisfied that the Company has adequate resources to continue operating for the foreseeable future and on this basis the principle of a going concern has been adopted in the preparation of the financial statements.

Approved by the Board and signed on its behalf by:

....

Basil Scarsella
Director

7 December 2021
Newington House
237 Southwark Bridge Road
London
SE1 6NP
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- The condensed interim financial statements for the six months ended 30 September 2021 have been prepared in accordance with FRS 104 Interim Financial Reporting; and
- The interim management report includes a fair review of the information required by DTR 4.2.7R (an indication of important events and their impact during the first six months of the financial year, and a description of principal risks and uncertainties for the remaining six months of the financial year).

Signed on behalf of the Board of Directors of London Power Networks plc on 7 December 2021.

....

Basil Scarsella
Director

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

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 which comprises the condensed profit and loss account, condensed statement of comprehensive income, condensed balance sheet, condensed statement of changes in equity, condensed cash flow statement and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

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

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed financial statements in the half-yearly financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Makhan Chahal

....

Deloitte LLP
Statutory Auditor
London, United Kingdom
7 December 2021

CONDENSED PROFIT AND LOSS STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

	Note	**Six months ended 30 September 2021 £m**	Six months ended 30 September 2020 £m
Turnover	2	**248.5**	243.1
Cost of sales		**(19.0)**	(14.6)
Gross profit		**229.5**	228.5
Distribution costs		**(103.3)**	(97.6)
Administrative expenses		**(3.0)**	(2.4)
Operating profit	3	**123.2**	128.5
Finance costs (net)	4	**(27.9)**	(24.5)
Profit before taxation		**95.3**	104.0
Taxation	5	**(78.7)**	(19.2)
Profit for the period		**16.6**	84.8

All results are derived from continuing operations.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

	Note	**Six months ended 30 September 2021 £m**	Six months ended 30 September 2020 £m
Profit for the period		**16.6**	84.8
Reclassified to profit or loss from hedge reserve		**0.7**	0.8
Remeasurement of net defined benefit pension liability	14	**75.0**	(123.7)
Other comprehensive income		**75.7**	(122.9)
Total comprehensive income		**92.3**	(38.1)

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

CONDENSED BALANCE SHEET
AS AT 30 SEPTEMBER 2021

	Note	**30 September 2021 £m**	31 March 2021 £m
Fixed assets			
Intangible assets	6	**17.2**	20.4
Tangible assets	7	**3,917.0**	3,831.4
		3,934.2	3,851.8
Current assets			
Debtors			
- amounts falling due within one year	8	**119.4**	340.1
- amounts falling due after more than one year	8	**417.6**	113.3
Cash and cash equivalents		**54.4**	35.7
		591.4	489.1
Creditors: amounts falling due within one year	9	**(330.0)**	(323.4)
Net current assets		**261.4**	165.7
Total assets less current liabilities		**4,195.6**	4,017.5
Creditors: amounts falling due after more than one year	9	**(2,350.8)**	(2,324.0)
Provisions for liabilities	12	**(351.2)**	(263.2)
Net assets		**1,493.6**	1,430.3
Capital and reserves			
Called up share capital		**10.0**	10.0
Hedging reserve		**(3.6)**	(4.3)
Profit and loss account		**1,487.2**	1,424.6
Shareholder's funds		**1,493.6**	1,430.3

The condensed financial statements of London Power Networks plc, registered number 3929195, were approved and authorised for issue on 7 December 2021 by the Board of Directors. They were signed on its behalf by:

....

Basil Scarsella
Director

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

	Called-up share capital £m	Profit and loss account £m	Hedging reserve £m	Total £m
At 1 April 2021	10.0	1,424.6	(4.3)	**1,430.3**
Profit for the period	-	16.6	-	**16.6**
Remeasurement of defined benefit pension liability	-	75.0	-	**75.0**
Reclassified to profit or loss	-	-	0.7	**0.7**
Total comprehensive income	-	91.6	0.7	**92.3**
Dividends	-	(29.0)	-	**(29.0)**
At 30 September 2021	**10.0**	**1,487.2**	**(3.6)**	**1,493.6**

	Called-up share capital £m	Profit and loss account £m	Hedging reserve £m	Total £m
At 1 April 2020	10.0	1,349.4	(5.8)	**1,353.6**
Profit for the period	-	84.8	-	**84.8**
Remeasurement of defined benefit pension liability	-	(123.7)	-	**(123.7)**
Reclassified to profit or loss	-	-	0.8	**0.8**
Total comprehensive income	-	(38.9)	0.8	**(38.1)**
Dividends	-	-	-	**-**
At 30 September 2020	**10.0**	**1,310.5**	**(5.0)**	**1,315.5**

CONDENSED CASH FLOW STATMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

	Note	**Six months ended 30 September 2021 £m**	Six months ended 30 September 2020 £m
Cash generated from operations	15	**210.6**	139.9
Corporation tax paid		**(13.4)**	(15.9)
Net cash flows from operating activities		**197.2**	124.0
Cash flows from investing activities			
Proceeds from sale of tangible assets		**0.6**	-
Gross capital expenditure		**(134.2)**	(104.3)
Capital expenditure on intangible assets		**(1.2)**	(2.1)
Interest received		**2.7**	2.9
Net cash flows used in investing activities		**(132.1)**	(103.5)
Cash flows from financing activities			
Equity dividends paid		**(29.0)**	-
Interest paid		**(17.4)**	(26.2)
Net cash flows used in financing activities		**(46.4)**	(26.2)
Net increase/(decrease) in cash and cash equivalents		**18.7**	(5.7)
Cash and cash equivalents at beginning of period		**35.7**	75.1
Cash and cash equivalents at end of period		**54.4**	69.4
Reconciliation to cash at bank and in hand			
Cash at bank		**24.4**	28.4
Cash equivalents [1]		**30.0**	41.0
Cash and cash equivalents		**54.4**	69.4

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

NOTES TO THE FINANCIAL STATEMENTS

1. General information and basis of accounting

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

The condensed financial statements for the six months ended 30 September 2021 have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with FRS 104 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority. The interim financial information is unaudited but has been reviewed by the Company's Auditor. The Auditor's review opinion is presented on page 12.

The interim financial information does not constitute the Company's statutory accounts which have been prepared under the Financial Reporting Standard 102 (FRS 102) for the year ended 31 March 2021 and filed with the registrar of companies. The Auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

The interim financial information should be read in conjunction with the annual report and financial statements for the year ended 31 March 2021 comprising the statutory accounts. The accounting policies applied in the preparation of the condensed interim financial statements and the significant accounting judgements and key sources of estimation uncertainty therein, are consistent with those of the financial statements for the year ended 31 March 2021.

The financial information for the year ended 31 March 2021 presented as comparatives in the balance sheet and notes to the balance sheet is derived from the statutory accounts for that year but should be not be regarded as statutory accounts within the meaning of s434 of the Companies Act 2006.

Going concern

Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Interim Management Report on pages 9 to 10.

NOTES TO THE FINANCIAL STATEMENTS continued

2. Turnover

Turnover for the six months ended 30 September 2021 was £248.5m (six months ended 30 September 2020: £243.1m), stated net of value added tax, arising entirely in the United Kingdom and attributable to the continuing activity of electricity distribution and the invoice value of other goods and services provided. This includes an estimate of the sales value of units distributed to customers between the date of the last meter reading and the year end. It also includes the annual impact of contributions from customers towards the cost of connections to the network. This income is initially deferred to the balance sheet and then amortised to turnover over the expected useful lives of the related network assets. During the period this amounted to £19.2m (six months ended 30 September 2020: £18.4m).

3. Operating profit

Operating profit is stated after charging:

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Depreciation of tangible assets	**50.8**	48.6
Amortisation of intangible assets	**4.4**	4.9

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

NOTES TO THE FINANCIAL STATEMENTS continued

4. Finance costs (net)

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Interest payable and similar expenses	**(24.0)**	(21.7)
Less: Investment income	**3.6**	3.9
Other finance costs	**(7.5)**	(6.7)
Finance costs (net)	**(27.9)**	(24.5)

Investment income		
Interest receivable on Group loans	**2.7**	2.9
Other interest receivable	**-**	0.1
Net interest income on pension surplus	**0.9**	0.9
	3.6	3.9

Interest payable and similar expenses		
Interest on bank loans	**(2.7)**	(2.6)
Interest on bonds	**(23.2)**	(23.1)
Accretion on index linked debt	**(0.4)**	(0.9)
Interest payable on Group loans	**-**	(0.1)
Net interest on swap instruments	**4.0**	3.2
Accretion on swap instruments	**(3.9)**	(0.4)
	(26.2)	(23.9)
Finance costs capitalised	**2.2**	2.2
	(24.0)	(21.7)

4. Finance costs (net) continued

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Other finance costs		
Fair value losses on financial instruments		
Interest rate swaps not in hedge relationships	**(0.5)**	0.5
Index linked swaps not in hedge relationships	**(6.5)**	(4.2)
Interest rate swaps in fair value hedge relationships	**(3.1)**	0.2
Hedged items in fair value hedge relationships	**3.2**	(2.4)
	(6.9)	(5.9)
Transfer to profit and loss on cash flow hedges	**(0.5)**	(1.0)
Amortisation of fair value hedge adjustments	**0.5**	0.5
Net loss related to derivative instruments	**(6.9)**	(6.4)
Net interest on defined benefit pension liability	**(0.6)**	(0.3)
	(7.5)	(6.7)

NOTES TO THE FINANCIAL STATEMENTS continued

5. Taxation

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
UK current tax		
UK corporation tax charge on profit for the period	**14.3**	16.3
Adjustments in respect of prior periods	**0.3**	(1.0)
	14.6	15.3
UK deferred tax		
Origination and reversal of timing differences	**5.0**	3.4
Effect of increase in tax rate on opening liability	**59.1**	-
Adjustments in respect of prior periods	**-**	0.5
	64.1	3.9
Total tax charge for the period	**78.7**	19.2

Tax rate changes

A corporation tax rate increase from 19% to 25%, effective from 1 April 2023, was enacted on 24 May 2021 within the Finance Bill 2021. Remeasuring the 31 March 2021 deferred tax liability at the new rate of 25% resulted in a charge of £59.1m to profit or loss in the period.

The current tax rate applied during the six months ended 30 September 2021 was 19% (six months ended 30 September 2020: 19%) and deferred tax was calculated at 25% (six months ended 30 September 2020: 19%) based on the standard rate of corporation tax substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS continued

6. Intangible assets

IT software and development costs	Total £m
Cost	
At 1 April 2021	71.9
Additions	1.2
At 30 September 2021	**73.1**
Amortisation	
At 1 April 2021	51.5
Charge for the period	4.4
At 30 September 2021	**55.9**
Net book value	
At 30 September 2021	**17.2**
At 31 March 2021	20.4

7. Tangible fixed assets

	Total £m
Cost	
At 1 April 2021	5,733.1
Additions	136.4
Disposals	(0.7)
At 30 September 2021	**5,868.8**
Depreciation	
At 1 April 2021	1,901.7
Charge for the period	50.8
Eliminated on disposal	(0.7)
At 30 September 2021	**1,951.8**
Net book value	
At 30 September 2021	**3,917.0**
At 31 March 2021	3,831.4

NOTES TO THE FINANCIAL STATEMENTS continued

8. Debtors

	30 September 2021 £m	31 March 2021 £m
Amounts falling due within one year		
Trade debtors	**44.3**	52.1
Amounts owed by Group undertakings	**73.4**	281.5
Other debtors	**0.1**	0.1
Prepayments	**1.3**	1.3
Derivative financial assets (note 11)	**-**	3.6
Corporation tax (Group relief receivable)	**0.3**	1.5
	119.4	340.1
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**196.1**	-
Derivative financial assets (note 11)	**30.1**	38.1
Defined benefit pension surplus (note 14) UK Power Networks Group of the ESPS (UKPN Group scheme)	**191.4**	75.2
	417.6	113.3
	537.0	453.4

Amounts owed by Group undertakings due within one year are interest free trade balances repayable on demand and a loan to UK Power Networks Holdings Ltd of £72.0m bearing interest at 0.4%.

Amounts owed by Group undertakings due after more than one year comprise a loan of £196.1m to UK Power Networks Holdings Ltd bearing interest at 2.6% and maturing in 2026.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Creditors

	30 September 2021 £m	31 March 2021 £m
Amounts falling due within one year		
Trade creditors	**1.1**	0.3
Borrowings (note 10)	**90.0**	90.0
Amounts owed to Group undertakings	**34.8**	36.1
Other taxation and social security	**20.9**	21.2
Other creditors	**1.8**	1.3
Accruals	**45.2**	40.5
Deferred income	**136.2**	129.9
Derivative financial liabilities (note 11)	**-**	4.1
	330.0	323.4
Amounts falling due after more than one year		
Borrowings (note 10)	**1,218.9**	1,222.1
Deferred income	**1,087.7**	1,067.8
Derivative financial liabilities (note 11)	**44.2**	34.1
	2,350.8	2,324.0
	2,680.8	2,647.4

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

Deferred income due after more than one year comprises contributions received from customers as payment for connections work, the cost of which is capitalised to network assets. This income is released to turnover over the expected useful lives of the related network assets. Deferred income due within one year includes customer contributions of £39.4m (31 March 2021: £38.9m) expected to be released to profit or loss within one year.

10. Borrowings

	30 September 2021 £m	31 March 2021 £m
Amounts falling due after more than one year		
£90m 2.485% EIB loan due November 2021	**90.0**	90.0
	90.0	90.0
Amounts falling due after more than one year		
£25.0m 2.335% EIB loan due October 2025	**25.0**	25.0
£80.0m 1.614% EIB loan due October 2028	**80.0**	80.0
£35.0m 2.070% EIB loan due April 2029	**35.0**	35.0
£15.0m 2.335% EIB loan due June 2030	**15.0**	15.0
£250m 5.125% Bond due March 2023	**249.7**	249.5
£300m 6.125% Bond due June 2027	**301.6**	301.7
£250m 2.625% Bond due March 2029	**248.4**	248.3
£150m 3.125% Index Linked Bond due June 2032	**252.7**	252.4
Fair value adjustment arising from fair value hedge relationships	**11.5**	15.2
	1,218.9	1,222.1
	1,308.9	1,312.1

Bonds are stated net of unamortised issue costs of £2.7m (31 March 2021: £2.9m). The 6.125% bonds include an unamortised net premium of £1.6m (31 March 2021: £1.7m) and the index linked bonds include accretion of £103.5m (31 March 2021: £103.2m). These balances together with the interest expense are allocated to profit or loss over the term of the debt.

The cumulative adjustment to the carrying amount of the bonds, arising from fair value hedge relationships with interest rate swaps, amounts to £11.5m (31 March 2021: £15.2m). This is presented on a separate line in the table above. Movements during the period comprise a fair value gain of £3.2m (six months ended 30 September 2020: £2.4m loss) relating to existing fair value hedge relationships offset by an amortisation adjustment of £0.5m (six months ended 30 September 2020: £0.5m) relating to discontinued hedge relationships. The fair value adjustment amortises to profit or loss from the date of cessation of the fair value hedge until the maturity of the previously hedged debt.

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

Borrowing facilities
The Company has access to an undrawn revolving credit facility of £145.0m until March 2024 with the option to extend to 2026.

11. Derivative financial instruments

	Due within one year		Due after one year	
	30 Sep 2021 £m	31 Mar 2021 £m	**30 Sep 2021 £m**	31 Mar 2021 £m
Derivative financial assets				
Interest rate swaps designated as effective fair value hedges	**-**	-	**10.3**	8.6
Interest rate swaps not designated in hedge accounting relationships	**-**	3.6	**19.8**	29.5
	-	3.6	**30.1**	38.1
Derivative financial liabilities				
Interest rate swaps not designated in hedge accounting relationships	**-**	(4.1)	**(12.6)**	(16.1)
Interest rate swaps not designated in hedge accounting relationships	**-**	-	**(31.6)**	(18.0)
	-	(4.1)	**(44.2)**	(34.1)
	-	(0.5)	**(14.1)**	4.0

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest calculated on agreed notional principal amounts. Index linked contracts convert floating or fixed interest rates to RPI inflation linked rates.

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

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

12. Provisions for liabilities

	30 September 2021 £m	31 March 2021 £m
Deferred tax liability	**278.4**	188.5
Defined benefit pension obligations		
UK Power Networks Pension Scheme (UKPNPS)	**59.8**	62.3
Other provisions	**13.0**	12.4
Total provisions for liabilities	**351.2**	263.2

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

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

13. Capital commitments

Amounts contracted for but not provided in the condensed financial statements amounted to £33.9m (31 March 2021: £40.4m).

14. Pension commitments

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

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

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

Funding levels are monitored annually and a funding schedule is formally agreed between the Group and the trustees every three years based on the most recent triennial actuarial valuation. The latest funding schedule, based on the triennial valuation as at 31 March 2019 became effective from 1 January 2021. The new contribution rates are considered sufficient to eliminate the funding deficit over the next five years.

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

14. Pension commitments continued

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

	30 September 2021 %	31 March 2021 %
Discount rate		
- UKPN Group	**2.1**	2.1
- UKPNPS	**2.0**	2.1
Rate of increase in RPI		
- UKPN Group	**3.1**	3.0
- UKPNPS	**2.9**	2.8
Rate of increase in CPI		
- UKPN Group	**2.8**	2.6
- UKPNPS	**2.4**	2.3
Rate of increase in salaries		
- UKPN Group	**3.6**	3.5
- UKPNPS	**3.4**	3.3
Rate of pension increases in payment		
- Pensions in excess of GMP (UKPN Group)	**3.1**	3.0
- Post 88 GMP (UKPN Group)	**2.3**	2.2
- RPI up to 5% per annum (UKPNPS)	**2.8**	2.7
- RPI up to 2.5% per annum (UKPNPS)	**2.0**	2.0
- Post 88 GMP (UKPNPS)	**2.0**	2.0
Rate of pension increases in deferment		
- UKPN Group	**3.1**	3.0
- CPI up to 5% per annum (UKPNPS)	**2.4**	2.3
- CPI up to 2.5% per annum (UKPNPS)	**2.4**	2.3

The demographic assumptions used in the calculation of the pension liability on the 30 September 2021 balance sheet are consistent with those reported in the statutory accounts for the year ended 31 March 2021.

14. Pension commitments continued

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

	UKPN Grp 30 Sep 2021 £m	UKPNPS 30 Sep 2021 £m	Total 30 Sep 2021 £m	Total 31 Mar 2021 £m
Fair value of scheme assets	1,793.2	159.8	1,953.0	1,819.7
Present value of defined benefit pension obligations	(1,601.8)	(219.6)	(1,821.4)	(1,806.8)
Surplus / (Deficit) in schemes	191.4	(59.8)	131.6	12.9

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

	UKPN Grp 2021 £m	UKPNPS 2021 £m	Total 2021 £m
Opening surplus/(deficit) at 1 April	75.2	(62.3)	12.9
Current service cost	(2.7)	(4.8)	(7.5)
Past service cost	(0.1)	-	(0.1)
Net interest credit/(cost)	0.9	(0.6)	0.3
Contributions by employer	2.4	3.8	6.2
Deficit repair payments	15.8	3.0	18.8
Actuarial losses	99.9	1.1	101.0
Closing surplus/(deficit) at 30 September	191.4	(59.8)	131.6

15. Notes to the cash flow statement

Reconciliation of operating profit to operating cash flows

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m
Operating profit	**123.2**	128.5
Adjustment for		
Depreciation and amortisation	**55.2**	53.5
Customer contributions recognised in turnover	**(19.2)**	(18.4)
Profit on disposal of tangible fixed assests	**(0.6)**	-
Operating cash flow before movement in working capital	**158.6**	163.6
Decrease/(increase) in debtors	**19.7**	(36.0)
Increase/(decrease) in creditors	**9.3**	(0.3)
Increase in provisions	**0.6**	-
Customer contributions received	**39.8**	28.6
Pension deficit repair payment	**(18.8)**	(16.7)
Pension adjustments	**1.4**	0.7
Cash generated from operations	**210.6**	139.9

Reconciliation of net debt

	At 1 Apr 2021 £m	**Cash flows £m**	**Fair value and exchange rate changes £m**	**Other non-cash changes £m**	**At 30 Sep 2021 £m**
Cash and cash equivalents					
Cash at bank	**35.7**	**(11.3)**	**-**	**-**	**24.4**
Cash equivalents	**-**	**30.0**	**-**	**-**	**30.0**
	35.7	**18.7**	**-**	**-**	**54.4**
Borrowings					
Debt due within one year	**(90.0)**	**-**	**-**	**-**	**(90.0)**
Debt due after more than one year	**(1,222.1)**	**-**	**3.7**	**(0.5)**	**(1,218.9)**
	(1,312.1)	**-**	**3.7**	**(0.5)**	**(1,308.9)**
Net debt	**(1,276.4)**	**18.7**	**3.7**	**(0.5)**	**(1,254.5)**

16. Subsequent events after 30 September 2021

Non adjusting post balance sheet events

Instability in the energy sector in the UK has resulted in a number of energy suppliers going out of business including some of the Company's debtors. This has resulted in an increase in the bad debt expense of circa £2.0m since the balance sheet date. The Company also expects to receive claims for losses under the Supplier of Last Resort ("SOLR") scheme, however both the amount and the timing of such claims are uncertain, and no liability has been recognised at the balance sheet date. The Company is able to recover the cost of bad debts and any SOLR claims through the price control framework revenue mechanism.