WESTERN POWER DISTRIBUTION (SOUTH WEST) plc

INTERIM CONDENSED FINANCIAL STATEMENTS
(Unaudited)

For the six months ended 30 September 2021

Contents

Interim management report

For the six months ended 30 September 2021

The directors present the interim condensed financial statements of Western Power Distribution (South West) plc (the "Company" or "WPD South West"), company number 02366894, for the six months ended 30 September 2021.

Ownership

WPD South West is owned by Western Power Distribution plc ("WPD plc"), which is a public limited company owned by one shareholder, National Grid Plc. National Grid is an energy company operating in the UK and US.

During the six month period ended 30 September 2021, the ultimate ownership of the Company changed from PPL Corporation to National Grid Plc. On 14 June 2021, PPL completed the sale transaction of its UK investment in Western Power Distribution Plc Group ('WPD Group'), which includes the Company, to National Grid Plc. On completion of the sale, the ultimate controlling parent is National Grid Plc, registered in England and Wales.

Business model and regulation

WPD South West is an electricity Distribution Network Operator ("DNO"), delivering electricity to approximately 1.6 million customers. Our 1.6 million customers are registered with licensed electricity suppliers, who in turn pay WPD South West for distributing electricity across its network. Our costs are regulated and based on an agreed allowance by Office of Gas and Electricity Markets ("Ofgem").

The DNOs are natural monopolies and to ensure value for money for consumers are regulated by the Gas and Electricity Markets Authority, which operates through Ofgem. The operations are regulated under the distribution licence which sets the requirements that the Company needs to deliver for its customers.

Ofgem regulates how much revenue we can earn by setting an allowance over the price control period. Ofgem sets the revenues at a level that covers reasonable costs and allows a reasonable rate of return. In addition to the base level of revenue which the DNOs are allowed to earn, there are incentives to innovate and deliver various outputs relating to customer service, network performance, the environment, connections and efficiency. The achievement of targets in relation to these activities can result in rewards or penalties.

We are currently operating under an eight year electricity price control (known as RIIO-ED1). RIIO-ED2 covering the period April 2023 to March 2028, is the second price control to be set by Ofgem.

Results and dividends

The profit for the six months ended 30 September 2021 is £5.2m (2020: £48m).

The tax for the six months ended 30 September 2021 is £66.7m as compared to £8.3m for the six months ended 30 September 2020. This increase is mainly due to the fact that the Finance (No.2) Bill 2021 published on 11 March 2021 increased the standard rate of corporation tax from 19% to 25% effective from 1 April 2023. This was enacted in May 2021 and therefore the increase is reflected in the deferred tax for the six months ended 30 September 2021.

The Company also reports other comprehensive income, which is posted directly to capital and reserves, of £40.6m (2020: £0.1m). This primarily relates to the defined benefit pension plan remeasurement, net of tax. Prior to the current interim period, the remeasurement of the defined benefit pension plan was performed annually as at March year end. Subsequent to the acquisition by National Grid Plc, for purposes of aligning with National Grid Plc reporting, the remeasurement of the defined benefit pension plan will be performed bi-annually as at September and March period end. This has resulted in a defined benefit pension plan remeasurement gain of £40.7m (2020: £nil) for the six months ended 30 September 2021.

No dividends were paid by the Company for the six months ended 30 September 2021 (2020: nil).

Interim management report (continued)
For the six months ended 30 September 2021

Principal risks

The Company's principal risks continue to be the same as reported in the 31 March 2021 annual report. These are listed below:

Accident risk

Due to the nature of the business there is an inherent safety risk associated with unsafe working practices. The following are the mitigating actions in place:

- WPD South West has robust safety policies and procedures in place to ensure a safe working environment. There is a system for reporting near misses and incidents and policies are reviewed and amended accordingly to avoid any future recurrence.
- The safety team actively supports managers with their safety responsibilities and provides assistance to enable them to maintain a clear focus on safety. Safety team consistently provided information for managers to use in their team meetings with their staff, which supports core areas of the safety action plan which are Safety, Health, Competence and Communication and also to keep staff informed about the measures required to prevent the spread of Covid-19 within the workplace.
- Regular safety site visits are undertaken to ensure that all safety policies and procedures are being followed and implemented.

Network disruptions

Events such as weather conditions, third party damage etc. may cause disruptions, which in turn can impact results both directly through the timing of recovery relating to lower units delivered on which income is charged, and also through the system of penalties and rewards that Ofgem has in place relating to customer service levels. The following are the mitigating actions in place:

- WPD South West has comprehensive emergency plans for network emergencies such as the recovery from a partial or country wide loss of electricity supply, referred to as the System Restoration Plan.
- WPD South West is committed to regular training sessions with its Network Control Centre Engineers to exercise a response to a System Emergency.
- WPD maintains a suite of Control Room Disaster Recovery sites that have played an instrumental part in our response to COVID-19. These have allowed WPD to split control rooms, limiting interaction between teams/individuals and allowing for segregation through working “bubbles” as part of our pandemic planning.
- Diligent and extensive routine maintenance for network assets including tree cutting costs is conducted.
- WPD South West has a resilient IT infrastructure with multi-site running with fault tolerant/mirrored systems with the ability to quickly shift to home working when required.
- Flood resilience plans are in place for major substations and other critical sites.

Cyber breach threat

There is a risk of unauthorised access to our key networks and systems. The following are the mitigating actions in place:

- Stringent policies and procedures are in place to provide controls around network security, proactive threat intelligence gathering, asset management, data backups and incident response.
- WPD limits direct connection of WPD’s corporate network to the internet, direct cloud based services and personal devices.
- Regular security drills are performed involving the Information Resources department and business teams.
- All servers are backed up for both operational and disaster recovery purposes and the data is secured off-site. This facilitates full recovery of each system once the appropriate replacement hardware or hosting capacity has been sourced. Disaster recovery testing is performed on a regular basis.
- Network segmentation of sensitive environments is either in place or currently being introduced to prevent unauthorised access.
- Distribution denial-of-service attacks ("DDOS") protection services on our key internet links have been introduced to prevent malicious disruption of our staff's connectivity to WPD systems whilst working from home continues.

Interim management report (continued)

For the six months ended 30 September 2021

Principal risks (continued)

Interest rate risk

WPD South West has had both short-term and long-term external debt during the period, at floating and fixed rates of interest, which exposes it to interest rate risk. WPD South West's interest rate risk management policy includes trying to achieve the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows.

An element of the long-term debt is index linked which creates a natural hedge against the Company's regulated income, which is also index linked. WPD South West also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecasted issuances of debt.

Credit rate risk

WPD South West has minimal credit risk in relation to debtors pertaining to revenue from providing distribution use of system services ("DUoS"). DUoS debtors are protected by Ofgem regulations, provided credit management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the Distribution and Connection Use of System Agreement ("DCUSA").

WPD South West is exposed to credit risk on its billed and unbilled portion of customer contributions in relation to any capital work undertaken. The Company maintains credit policies and procedures with respect to counterparties. Depending on the creditworthiness of the counterparty, the Company may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees.

Inflation risk

WPD South West's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI. This is mitigated by the fact that the WPD South West's regulated assets ("RAV") are linked to RPI due to the price setting mechanism imposed by the regulator, and also the allowed revenue is linked to RPI. By matching liabilities to assets, index-linked debt naturally hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash.

Regulatory changes

There is a risk that changes in legislation relating to environmental and other matters are not adopted by WPD South West. The following are the mitigating actions in relation to this:

- WPD South West has a dedicated regulation and compliance department with skilled personnel who track any regulatory changes and provide advice in relation to interpretation and compliance of those changes.
- There is regular engagement with the WPD Board on political and regulatory developments which may impact the Group. The Board monitors management's progress in ensuring compliance with changes to legislation.

Regulatory risk

WPD South West's revenue is regulated and is subject to a review at the end of each price control period. Thus the Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the next, RIIO-ED2. The following are the mitigating actions in relation to this risk:

- WPD deploys significant resources in engaging with Ofgem on all new consultations and decisions.
- WPD's RIIO-ED2 business plan submitted in December 2021 is based on guidance from Ofgem and the core commitments within WPD's draft business plan are driven by Ofgem's output categories.
- WPD actively engages with Ofgem in relation to all industry initiatives such as the Green Recovery Initiative which involved unlocking investment for green projects.

Interim management report (continued)
For the six months ended 30 September 2021

Principal risks (continued)

Negative impact of our network assets on the environment
Due to the nature of the equipment used in the industry, there is a risk that the network assets may have a harmful impact on the environment. The following are the mitigating actions in relation to this:
- Use of best technology to minimise the impact of network assets on the environment, such as the use of Perfluorocarbon Trace ("PFT") technology within WPD South West, reduces the effect on the total annual fluid losses.
- Frequent assessment and careful monitoring of all its network assets, specifically assets like SF6 equipment, which produce SF6 gas linked to potential global warming. WPD South West carefully monitors its SF6 equipment and employs the external ENA Engineering recommendations for the reporting of SF6 banks, emissions and recoveries.
- Following best practices and complying with various guidelines in connection with environmental practices.

Customer dissatisfaction
There is a risk of failure to meet the required level of customer satisfaction performance. WPD mitigates this risk by annually hosting workshops to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. In addition, WPD’s Customer Panel ("CP") meets quarterly and expert members represent a wide range of customers and other key stakeholder groups. Through the panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. The CP critically reviews our performance and, through extensive expert knowledge, provides strategic steer on our short and long term priorities. Members provide an external view to our business, acting as a sounding board for new ideas and initiatives as well as collaborating with WPD to create and influence future policy and processes.

Reliance on suppliers
WPD South West relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery. However, there are sufficient alternative suppliers for cable laying, tree cutting etc. such that, should an existing contractor or supplier be unable to undertake the activity or to make supplies, there will be no significant long-term impact on WPD South West's ability to operate the network.

Further, most of the electricity which enters WPD South West's network is carried on the National Grid's network and connects with the WPD network at grid supply points. The Company is dependent on National Grid. National Grid is the electricity transmission and electricity system operator ("ESO") regulated by Ofgem and thus the risk of a major failure is considered very remote.

All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity.

Lack of skilled employees
There is a risk of failure to attract, retain and develop our employees. To mitigate this risk, WPD ensures to maintain good practices and safe working conditions. Mitigating actions in relation to this are:
- Employee surveys are conducted to seek feedback and to ensure engagement across the workforce.
- WPD has benchmarked terms and conditions for all employees.
- WPD's employees have access to pension schemes (Defined Contribution schemes for the new members).
- Various training programmes are offered under the Trainee Development Scheme and Technical Apprentice Scheme.
- Succession plans are in place for key roles within the organisation.
- Employees are kept informed of WPD Group's goals, objectives, performance and plans, and their effect on them as employees through monthly business updates, regular team briefings, as well as through WPD Group's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest.

Liquidity and going concern

WPD South West is supported by its credit facilities; it has borrowing arrangements in place with a range of third parties with high credit ratings. At 30 September 2021, WPD South West had committed borrowing facility of £220.0m available, maturing in May 2023, of which £110m was drawn. Subsequent to the period ending 30 September 2021, the drawn amount of £110m was repaid. The repayment was financed through funds received from the parent company, National Grid Plc under a two-way loan agreement.

The Company has net current liabilities of £150.6m (31 March 2021: £157.7m). The Company's net current liabilities will be settled with a combination of cash flows from operating activities, borrowings from the WPD Group undertakings and use of existing facilities. The Company has sufficient head room available, under existing committed facilities, to meet its cash flow needs.

The directors have considered the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of the Company, the existing and future forecasted covenant compliance of the Company, which includes the gearing ratio and the anticipated ability of the Company and the WPD Group to be able to raise additional long term debt in the future. The directors have also assessed the principal risks and have taken the impacts of COVID-19 and related uncertainties into consideration in arriving at the going concern assumption for the preparation of the financial statements.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Company was an essential part of the country’s response to COVID-19, as what we do is crucial for the continuation of existing essential services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Therefore, even in these unprecedented times, where many business sectors were impacted severely, the Company had a continuing licence obligation to be a sustainable business and to continue to provide essential services to our customers. Thus COVID-19 has not materially impacted the liquidity position of the Company and the WPD Group.

Due to the global energy crises, there have been significant supplier failures in the UK during and subsequent to the six months ended 30 September 2021. Subsequent to the six months ended 30 September 2021, this has resulted in bad debts on DUoS debtors. The Company is not exposed to any credit risk in relation to these receivables, as the DNOs have protection from Ofgem under the licence conditions, to be able to recover any bad debts through increased DUoS charges in three years' time, provided credit management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the DCUSA. In terms of liquidity risk, the Company has sufficient headroom available under its existing committed facilities and is not materially impacted by the delayed recovery of these DUoS debtors.

Due to the licensed regulatory obligations of the business, the necessity of continued operations even in times of economic uncertainties and having access to sufficient liquidity, under a variety of scenarios, the Company does not consider that there is material uncertainty over the entity’s ability to continue as a going concern.

Thus, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future.

Interim management report (continued)
For the six months ended 30 September 2021

Events after the interim period

Dividend
Subsequent to the interim period end, no dividend has been paid by the Company.

Supplier of Last Resort ("SoLR") claims
It is Ofgem's statutory duty to protect customers' interests in light of supplier failure. When a supplier fails, Ofgem's focus is to ensure continuity of supply for its customers and to minimise wider negative impacts on the market. Thus, Ofgem ensures continuity of supply to the failed supplier's customers and seeks to minimise these wider negative effects by appointing a Supplier of Last resort ("SoLR") to supply the failed supplier's customers at short notice. The SoLR may then recover certain costs from the DNOs via a Last Resort Supply Payment ("LRSP") claim. Each DNO is then able to recover those costs via its DUoS charges in two year's time, which are levied across all suppliers. There is an exception, whereby DNOs can recover LRSP claims that breach the relevant materiality threshold set out in the distribution licence during the same regulatory year, instead of recovering it after a two year lag.

Subsequent to the interim period ended 30 September 2021, due to the global energy crises, there occurred a significant increase in the number of supplier failures, resulting in material SoLR claims. For material claims above the materiality threshold, Ofgem have provided a supplementary letter clearly stating that the liability for the DNOs does not crystallise until the relevant regulatory year at such time as the corresponding increase to the distribution use of system charges are invoiced by the licensee. Thus for all such LRSP claims that exceed the materiality threshold and become billable in 2022/23, the DNOs will recognise the cost of LRSP claims only at such a time as the related DUoS revenue becomes billable. This will ensure that there is no impact on the profit and loss or the liquidity of the Company. The claims that are below the materiality threshold and payable from March 2022 to February 2023, will be recovered through DUoS in two years' time. Thus there will be a mismatch between the cost and revenue recognition of these claims in the profit and loss of the Company. However the claims below materiliaty threshold are not expected to material.

Loan agreement with National Grid Plc
In December 2021, the Company entered into an uncommited two-way loan agreement with National Grid Plc. The loan agreement does not have a maturity date or a borrowing limit defined. It is an uncommited facility. The RCF balance drawn as at 30 September 2021, amounting to £110m, was repaid through funding under this loan agreement.

IR Williams
Finance Director

14 March 2022

Western Power Distribution (South West) plc
Avonbank
Feeder Road
Bristol BS2 0TB

Directors' responsibilities

The directors are responsible for preparing the interim condensed financial statements in accordance with applicable law and regulations. Under the company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors

The directors who served during the period and up to the date of signing the condensed interim financial statements were as follows:

P Swift, Chief Executive
IR Williams, Finance Director
AJ Sleightholm, Resources and External Affairs Director
G Halladay, Operations Director
LSS Barbrook, non-executive Director (appointed on 31 January 2022)
J Campbell, non-executive Director (appointed on 31 January 2022)
ME Fletcher, non-executive independent Director
AJ Cardew, non-executive independent Director

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the interim condensed financial statements, prepared in accordance with IAS 34 Interim Financial Reporting, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the interim management report includes a fair review of the development and performance of the business, the position of the Company and an indication of important events including their impact on the interim condensed financial statements, during the six months ended 30 September 2021, together with a description of the principal risks and uncertainties that they face; and
- the interim condensed financial statement, taken as a whole and when read in conjunction with the annual report for the year ended 31 March 2021, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors and is signed on its behalf by:

IR Williams
Finance Director
14 March 2022

Western Power Distribution (South West) plc
Avonbank
Feeder Road
Bristol
BS2 0TB

Interim condensed profit and loss account

For the six months ended 30 September

	2021	2020
	Unaudited	
	£m	£m
Turnover*	**190.6**	163.4
Operating expenses*	**(90.0)**	(84.2)
Operating profit	**100.6**	79.2
Income/(expense) from fixed asset investments	**0.9**	(1.8)
Profit on sale of fixed assets	**-**	0.1
Profit before interest and taxation	**101.5**	77.5
Interest receivable and similar income	**1.4**	1.5
Interest payable and similar charges	**(31.2)**	(23.9)
Net finance income relating to pensions and other post-retirement benefits	**0.2**	1.2
Profit before taxation	**71.9**	56.3
Tax on profit	**(66.7)**	(8.3)
Profit for the financial period	**5.2**	48.0

*Turnover has been adjusted to include the amortisation of customer contributions which was previously netted from operating expenses. The comparatives have also been adjusted to reflect this change. This reclassification is to align with the new ultimate parent company. Refer note 2 for detail (page 13).

Interim condensed statement of comprehensive income

For the six months ended 30 September

	2021	2020
	Unaudited	
	£m	£m
Profit for the period	**5.2**	48.0
Other comprehensive gain/(loss):		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Reclassification adjustments for losses on cash flow hedges included in profit or loss (finance costs)	**(0.1)**	(0.1)
Other comprehensive gain/(loss) not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains on defined benefit pension plan	**55.7**	-
Income tax effect	**(13.8)**	-
Income tax effect - tax rate change	**(1.2)**	-
Other comprehensive gain/(loss) for the period, net of tax	**40.6**	(0.1)
Total comprehensive income for the period, net of tax attributable to equity holders of the parent	**45.8**	47.9

Interim condensed statement of changes in equity

For the six months ended 30 September 2021

	Share capital £m	Share premium £m	Capital contribution £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2021	438.2	4.1	6.2	1.3	772.7	1,222.5
Profit for the period	-	-	-	-	5.2	5.2
Other comprehensive loss/(income)	-	-	-	(0.1)	40.7	40.6
Total comprehensive income for the period	**-**	**-**	**-**	**(0.1)**	**45.9**	**45.8**
At 30 September 2021	**438.2**	**4.1**	**6.2**	**1.2**	**818.6**	**1,268.3**

Interim condensed statement of changes in equity

For the six months ended 30 September 2020

	Share capital £m	Share premium £m	Capital contribution £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2020	438.2	4.1	6.2	1.5	733.2	1,183.2
Profit for the period	-	-	-	-	48.0	48.0
Other comprehensive loss	-	-	-	(0.1)	-	(0.1)
Total comprehensive income for the period	**-**	**-**	**-**	**(0.1)**	**48.0**	**47.9**
At 30 September 2020	**438.2**	**4.1**	**6.2**	**1.4**	**781.2**	**1,231.1**

Interim condensed balance sheet

As at

	Note	30 September 2021 Unaudited £m	31 March 2021 £m
Non-current assets			
Tangible fixed assets	3	**3,146.2**	3,072.3
Right-of-use asset		**1.1**	0.9
Intangible assets		**21.2**	19.9
Investments		**39.4**	38.5
Pension asset		**77.3**	19.6
Trade and other receivables		**0.8**	1.7
		3,286.0	3,152.9
Current assets			
Stocks		**11.7**	17.0
Trade and other receivables		**106.9**	95.8
Cash at bank and in hand*		**4.6**	4.0
		123.2	116.8
Creditors			
Amounts falling due within one year*		**(273.7)**	(274.4)
Lease liabilities		**(0.1)**	(0.1)
Net current liabilities		**(150.6)**	(157.7)
Total assets less current liabilities		**3,135.4**	2,995.2
Creditors			
Amounts falling due after more than one year		**(1,615.4)**	(1,592.1)
Lease liabilities		**(1.0)**	(0.9)
Provisions for liabilities			
Deferred tax		**(242.0)**	(167.9)
Other		**(8.7)**	(11.8)
Net assets		**1,268.3**	1,222.5
Capital and reserves			
Share capital		**438.2**	438.2
Share premium account		**4.1**	4.1
Capital redemption reserves		**6.2**	6.2
Hedging reserve		**1.2**	1.3
Profit and loss account		**818.6**	772.7
Equity shareholder's funds		**1,268.3**	1,222.5

* Cash at bank and in hand includes the balance for bank overdraft which was previously classified within creditors. This represents unpresented payments and has been reclassified in the current and prior period. This is to align presentation with the new ultimate parent company. Refer note 2 for detail (page 13).

The financial statements on pages 8 to 14 were approved and authorised for issue by the Board of Directors on 14 March 2022 and were signed on its behalf by:

I.R.Wi

IR Williams
Finance Director

Interim condensed cash flow statement

For the six months ended 30 September

	2021	2020
	Unaudited	
	£m	£m
Operating activities		
Profit for the period	**5.2**	48.0
Adjustments to reconcile profit for the period to net cash flow from operating activities:		
Tax expense	**66.7**	8.3
Interest payable	**31.2**	23.9
Interest receivable	**(1.6)**	(2.7)
Depreciation of tangible fixed assets	**28.3**	26.2
Amortisation of customer contributions	**(5.2)**	(4.9)
Amortisation of intangible assets	**2.1**	2.0
Gain on disposal of tangible fixed assets	**-**	(0.1)
Difference between pension contributions paid and amounts recognised in the profit and loss account	**(1.8)**	(23.5)
Decrease in provisions	**(3.1)**	(0.1)
Foreign exchange (gain)/loss on fixed asset investment	**(0.9)**	1.7
Working capital adjustments:		
Decrease/(increase) in inventories	**5.3**	(3.2)
Increase in trade and other receivables	**(10.1)**	(11.2)
(Decrease)/increase in trade and other payables	**(49.5)**	2.3
Interest paid	**(8.3)**	(9.4)
Interest received	**1.4**	1.5
Customers' contributions received	**19.3**	13.8
Income taxes paid	**(7.6)**	(4.8)
Net cash from operating activities	**71.4**	67.8
Investing activities		
Purchase of tangible fixed assets	**(102.4)**	(95.3)
Proceeds from sale of tangible fixed assets	**-**	0.1
Purchase of intangible assets	**(3.3)**	(1.3)
Net cash used in investing activities	**(105.7)**	(96.5)
Financing activities		
Net increase in short-term borrowings	**35.0**	5.0
Payment of lease liabilities	**(0.1)**	-
Net cash from financing activities	**34.9**	5.0
Net increase /(decrease) in cash at bank and in hand	**0.6**	(23.7)
Cash at bank and in hand at beginning of period	**4.0**	28.3
Cash at bank and in hand at end of period	**4.6**	4.6

Notes to the interim condensed financial statements

For the six months ended 30 September 2021

1. General information

The interim condensed financial statements of Western Power Distribution (South West) plc ("the Company") for the six months ended 30 September 2021 were authorised for issue by the Board of Directors on 14 March 2022. The Company is a public limited company incorporated and registered in England and Wales.

2. Significant accounting policies

Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of IFRS financial statements. These financial statements should be read in conjunction with the annual financial statements of the Company for the year to 31 March 2021. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements as at and for the year ended 31 March 2021.

The Company's financial statements are presented in Sterling as this is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

Except as noted in the note below, the interim financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual financial statements for the year to 31 March 2021.

Changes in accounting policies

On 14 June 2021, PPL completed the sale transaction of its UK investment in the Western Power Distribution Plc Group ('WPD Group'), which includes the Company, to National Grid Plc. On completion of the sale, the ultimate controlling parent is National Grid Plc, registered in England and Wales. As a result of the acquisition, some of the accounting policies of the WPD Group, including the Company, were amended to align with the ultimate parent. All such changes to accounting policies are

<u>*Customer contributions*</u>

Customer contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the profit and loss account over the estimated weighted life of the related assets of 69 years. For the year ended 31 March 2021, customer contributions were credited to the profit and loss account within the operating expenses. For the period ended 30 September 2021, as a result of alignment of the accounting policy with the parent, customer contributions amounting to £5.1m (2020: £4.9m) have been credited to the profit and loss within turnover instead of operating expenses.

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the change in accounting policy has been applied retrospectively. The comparatives have been adjusted to reflect this reclassification.

<u>*Bank Overdrafts*</u>

As at 31 March 2021, any unpresented payments were presented in the financial statements as bank overdraft within creditors. As a result of alignment of the accounting policy with the parent, as at 30 September 2021, unpresented payments amounting to £14.9m (31 March 2021: £22.6m) have been classified within Cash at bank and in hand instead of within creditors.

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the change in accounting policy has been applied retrospectively. The comparatives have been adjusted to reflect this reclassification.

Notes to the interim condensed financial statements

For the six months ended 30 September 2021

2. Significant accounting policies (continued)

Going concern

The directors have considered the appropriateness of adopting the going concern principle. This consideration included the availability of headroom under committed facilities, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of the Company, the existing and future forecasted covenant compliance of the Company, which includes the gearing ratio and the anticipated ability of the Company and the WPD Group to be able to raise additional long term debt in the future.

After consideration, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future.

3. Tangible fixed assets

	Non network land & buildings £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
Cost					
At 1 April 2021	11.9	4,037.2	57.9	39.2	4,146.2
Additions	-	103.2	4.5	0.7	108.4
Disposals and retirements	-	(0.3)	(1.3)	(0.7)	(2.3)
At 30 September 2021	11.9	4,140.1	61.1	39.2	4,252.3
Depreciation					
At 1 April 2021	2.1	1,025.3	25.8	20.7	1,073.9
Charge for the period	0.1	27.4	5.2	1.7	34.4
Disposals and retirements	-	(0.3)	(1.3)	(0.6)	(2.2)
At 30 September 2021	2.2	1,052.4	29.7	21.8	1,106.1
Net book value					
At 30 September 2021	**9.7**	**3,087.7**	**31.4**	**17.4**	**3,146.2**
At 1 April 2021	9.8	3,011.9	32.1	18.5	3,072.3