

Registered Number: 9223384

# **WESTERN POWER DISTRIBUTION PLC AND SUBSIDIARY UNDERTAKINGS**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 March 2022**



**WESTERN POWER**  
**DISTRIBUTION**  
*Serving the Midlands, South West and Wales*

## **Western Power Distribution plc**

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## Strategic report

For the year ended 31 March 2022

The directors present their annual report and the audited financial statements of Western Power Distribution plc ("WPD plc" or the "Company") and its subsidiary undertakings (the "WPD Group", "the Group" or "WPD") for the year ended 31 March 2022. These are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the UK.

### Group composition

WPD Group mainly comprises the four Distribution Network Operators ("DNOs"): Western Power Distribution (South West) plc ("WPD South West"), Western Power Distribution (South Wales) plc ("WPD South Wales"), Western Power Distribution (East Midlands) plc ("WPD East Midlands"), and Western Power Distribution (West Midlands) plc ("WPD West Midlands").

In addition to the DNOs, the Group also consists of a number of other smaller subsidiaries including WPD Telecoms Limited, Western Power Generation Limited and South Western Helicopters Limited. The primary purpose of these businesses is to support the DNOs and network related activities of the Group. The Group also owns property companies, to facilitate the management of non-network and investment properties of the Group.

### Ownership

The WPD Group is owned by Western Power Distribution Plc, which is a public limited company registered in England and Wales. On 14 June 2021, PPL Corporation ("PPL") completed the sale transaction of its UK investment in the WPD Group to National Grid Plc ("National Grid"). On completion of the sale, the ultimate controlling parent of the WPD Group is National Grid Plc, registered in England and Wales. National Grid is an energy company operating in the UK and United States of America.

### Business model

WPD is the electricity Distribution Network Operator for the Midlands, the South West and South Wales. Our combined network is the largest in the UK, with our four DNOs delivering electricity to approximately 8.0 million (2021: 7.9 million) homes and businesses and employing 6,632 (2021: 6,556) staff.

|                   | Customers<br>(million) | Area<br>(sq km) |
|-------------------|------------------------|-----------------|
| WPD South West    | 1.6                    | 14,400          |
| WPD South Wales   | 1.2                    | 11,800          |
| WPD East Midlands | 2.7                    | 16,000          |
| WPD West Midlands | 2.5                    | 13,300          |
|                   | <u>8.0</u>             | <u>55,500</u>   |

Our customers are registered with licensed electricity suppliers, who in turn pay the WPD Group for use of the network. Our costs are regulated and based on an agreed allowance by the Office of Gas and Electricity Markets ("Ofgem"); on average WPD customers pay £98.85 (2021: £95.81 per annum) for electricity distribution costs.



Our main responsibilities are:



**Keep the power flowing**

• Prevent and respond to distribution network outages



**Maintain equipment**

• Plan and execute network maintenance



**Fix the network**

• Repair equipment and damaged infrastructure



**Connect customers**

• Install and maintain new and existing customer connections



**Operate a smart system**

• Manage and optimise network assets and customer services

The Group's network comprises approximately 90,000km (2021: 90,000km) of overhead lines, 138,000km (2021: 137,000km) of underground cable and 190,000 (2021: 189,000) transformers. We maintain our network assets to ensure safe and reliable distribution of electricity to homes and businesses across our four regions.

We operate an efficient business model, with a flat and lean organisational structure that enables us to deliver excellent performance levels for our customers at an efficient cost. We believe that the use of in-house regional resources is crucial to cost effective and reliable delivery, which is why we use geographically based teams to serve each local area. Our staff know the local area, network, local developments and communities, enabling us to provide efficient, high quality customer service.

## Strategic report (continued)

For the year ended 31 March 2022

### Regulatory framework

The DNOs are natural monopolies and to ensure the provision of value for money services 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 WPD needs to deliver upon for its customers.

The regulatory framework is based on sustainable network regulation, known as the "RIIO" model where Revenues=Incentives + Innovation + Outputs. Under the RIIO model there is an emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers. A key feature of the RIIO model is that the expected outputs delivered by network companies is influenced by its stakeholders through extensive engagement.

Ofgem regulates how much revenue we can earn by setting an allowance over the price control period. 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 or not of targets in relation to these activities can result in rewards or penalties.

From 1 April 2015, Ofgem set an eight year electricity price control (known as RIIO-ED1). WPD submitted an outputs based Business Plan for the RIIO-ED1 period (2015-2023), which was accepted by Ofgem as "well justified" and could therefore "fast-track" all four WPD licensed areas; the only DNO Group to be fast tracked. WPD's modified licences took effect from 1 April 2015.

Our RIIO-ED1 business plan is available at the link below:

<https://yourpowerfuture.westernpower.co.uk/our-future-business-plan/our-riioed1-business-plan>

Looking to the future RIIO-ED2, covering the period April 2023 to March 2028, is the second price control to be set under the RIIO model. The first draft of our RIIO-ED2 business plan was submitted to Ofgem's challenge group on 1 July 2021 and the final submission was made on 1 December 2021. Ofgem's draft determinations were published in June 2022 with final determinations due in winter 2022. As a result of the Government legislating for net zero carbon by 2050, DNOs will be at the forefront of its delivery enabling the transition to a smart, flexible, low cost and low carbon energy system for all consumers and network users.

Our business plan was co-created with our stakeholders following an enhanced and robust approach to stakeholder engagement and outlines the network investment we propose to deliver for the 5 year period, how much it will cost and the benefits to customers and stakeholders. For details refer to the "Future developments" section below.

### Purpose, strategy and goals

Our purpose is to deliver exceptional service and support environmental and social well-being for the communities we serve through our commitment to deliver: "Power for life, Power for future generations".

We will deliver a safe and reliable electricity supply at an affordable cost for all our customers, using local staff to deliver local services.

Our strategic direction is essential to achieving our purpose and entails providing excellent network and customer service, delivering our RIIO-ED1 commitments by investing our allowances efficiently, adapting to stakeholder needs and laying the foundation for delivery of the outputs within RIIO-ED2. Our focus is to achieve the best possible positive outcomes for our customers by utilising innovative solutions and smarter working practices to drive efficiency in all we do.

Within the RIIO-ED1 business plan we have 76 commitments pertaining to safety, reliability, environment, connections, customer satisfaction and social obligations. Aligned directly to our stated business plan commitments are our six key goals that underpin our purpose.

### Safety

Safety is the single highest priority at WPD. Our objective is simple: zero accidents and no adverse impact on the public, employees or contractors. WPD continuously promotes safe working practices within the Group as well as engaging with stakeholder groups such as school children, land owners and construction operators through activities on safety awareness and education sessions as well as distributing safety related information.

We operate and maintain the electricity distribution network in line with strict policies in order to avoid our network posing a safety risk to the public and our staff. We hold ourselves and our contractors accountable for safe working behaviours and we work in partnership with our employees and trade unions to ensure an excellent safety culture within the Group. All staff participate in safety training programmes appropriate for the activities they carry out and health and safety is top of the agenda at team meetings. Staff are empowered to stop any job believed to be unsafe. Employee accidents and near misses are reported with prompt and thorough investigations to identify lessons learned in order to avoid repeated future incidents.

**Purpose, strategy and goals (continued)**

***Safety (continued)***

WPD's safety management system is compliant with ISO 45001 standard for management systems of occupational health and safety and has been externally accredited by National Quality Assurance ("NQA") in June 2021.

Our detailed safety policy can be found at:

<https://www.westernpower.co.uk/customers-and-community/health-safety>

***Network performance & reliability***

WPD is committed to providing a secure, reliable and continuous network connection to its customers. Our network is available 99.995% of the time. We not only look at the physical security aspects of the network but also at preventing any cyber breach incidents. WPD recognises that our information systems and electricity networks are critical and valuable assets that must be protected and thus are focused on maintaining a robust system of cyber security that enables business continuity, minimises operational risk and preserves individual data privacy. We are resilient, reliable and results-orientated, focusing on the long term, understanding that taking shortcuts for short term performance is counter-productive.

***Connections & customer satisfaction***

WPD strongly believe that excellent service for customers connecting to our network and customer satisfaction with the service we deliver daily is the key to the future success of the business. As demonstrated by our consistent Broad Measure of Customer Satisfaction ("BMCS") results (refer to page 10), we aim to provide the highest quality, safe and affordable service to all our customers, improving quality of life in the areas we serve. We provide our customers with a wide range of advice and tools to help them use energy wisely and we support those in fuel poverty. We are innovative and driven to find ways to improve our service and our business.

Our commitment to customer satisfaction is demonstrated by our continued accreditation to the Customer Service Excellence ("CSE") Standard. We have held the CSE standard (formerly charter mark) for the past 30 years - the only energy company in the UK to do so. The CSE assessor visits contact centres and local depots every year and stringently assesses our engagement activities, delivery, timeliness, customer communications, and professionalism and staff attitudes. 57 elements are assessed. We are compliant on all elements and 46/57 (2021: 45/57) elements are awarded 'compliance plus' level, demonstrating UK-wide best practice.

In enabling the UK to transition to a low carbon future, WPD is committed to incorporating the use of lower cost alternatives such as using flexibility services as an alternative to conventional reinforcement. Our flexible services help to manage constraints on the networks and ultimately save customers money. WPD continues to strive for greater efficiency with regard to operating costs seeking innovative ways to reduce both the time and cost to repair and replace assets. This approach aims to minimise the cost to the customer of running and maintaining the network.

In the current climate of rising energy costs, affordability for our customers is a key priority. We intend to keep the cost of our service delivery broadly flat in RIIO-ED2 by utilising innovative and digitalised solutions to enhance our operations. We have instilled a culture across our business that maximises every opportunity to innovate and work smarter for our customers. By adopting a 'flexibility first' approach to all load related investment decisions, we have committed that by 2028 we will avoid over £94 million of network reinforcement costs by operating the existing primary and secondary networks more efficiently through the use of flexible services.

***Environment***

WPD is dedicated to conducting its business as a responsible steward of the environment. During RIIO-ED1 we have committed to achieve various environmental improvements throughout our business such as a reduction in our carbon footprint and in the oil and gas leaks from our equipment. For RIIO-ED2, our stakeholders told us it is our fundamental responsibility to go further and help achieve the Government's net zero carbon target. During the current year WPD published its Environment strategy. The strategy established two core strategic focus areas, namely 'Becoming a Net Zero Organisation' and 'Being Environmentally Responsible'. The environment strategy and a separate environment action plan published in June 2021, details our commitments to ensure that environmental responsibility underpins all of our activities in RIIO-ED2 and beyond and provides WPD with an overarching pathway to become net zero by 2028 (excluding engineering network losses and scope 3 emissions) ahead of the Government's legislated target date of 2050. We are committed to environmental sustainability and achieving net zero and this strategy and the action plan will form the basis of our transition to a greener and more sustainable energy systems. The detailed environment strategy can be found at the link below:

<https://yourpowerfuture.westernpower.co.uk/RIIO-ED2-further-information#document-library>

Every member of staff is made aware of WPD's environmental commitment to abide by environmental laws, regulations and corporate environmental policies, and their responsibilities for reporting any concerns on potential environmental compliance issues so that appropriate action can be taken.

## **Strategic report (continued)**

For the year ended 31 March 2022

### **Purpose, strategy and goals (continued)**

#### ***Environment (continued)***

WPD continues to maintain accreditation to ISO14001:2015 environmental management standard.

More detailed information on our environmental goals can be found in our published report available at:

<https://www.westernpower.co.uk/customers-and-community/environment>

#### ***Social obligations***

Meeting the needs of our vulnerable customers is one of our key commitments. We recognise that we have to provide enhanced services for customers in vulnerable situations, especially those that would be impacted as a result of being without power and therefore we work with expert partners to improve our understanding of the needs of customers in vulnerable situations. We train our staff to recognise signs of vulnerability.

The details of customers in vulnerable situations are held on our Priority Services Register ("PSR"). During 2021/2022, the number of people on the PSR has reached 1.9 million and we have proactively contacted over 1 million of those customers this year. We set up 31 new PSR referral networks during 2021/22, taking the total to 149 organisations that we can refer PSR customers to for help and assistance.

We have achieved the British Standard Institution ("BSI") for Inclusive Service Provision ("BS18477") for the ninth year running, the longest period for any company in the UK. This standard specifies requirements for responding to customers in vulnerable situation. This accreditation demonstrates that our services are fair and accessible to all.

#### ***Stakeholder value & engagement***

The success of our business is critically dependent on the way we work with our customers and other key stakeholders. Our aim is to create value for our existing stakeholders every day and take account of our future stakeholders and their evolving needs. We regularly engage with key stakeholders to ensure that our goals and objectives are in line with their expectations. In addition to customers, our other key stakeholders are:

#### ***Employees***

Our business is built by our people. WPD is fully committed to an environment that drives and motivates our employees and provides them with long and rewarding careers. This includes ensuring the provision of adequate training, rewards and benefits. We regularly survey our staff to get their views on the business and we act on this feedback.

Equality of opportunity is key to WPD's approach to recruiting, training and promoting employees. WPD acknowledges the value that a diverse workforce brings to the organisation. We have an established Equality and Diversity policy demonstrating our clear commitment to empowering an inclusive workplace that offers equal treatment of all existing and future employees and is free from unfair and discriminatory behaviour. One of our core commitments within RIIO-ED2 is to achieve year-on-year improvements to the level of demographic diversity within the business and publish an annually updated Diversity, Equity and Inclusion Action Plan. For more details, refer to our "Workforce Resilience Strategy" at the link below:

<https://yourpowerfuture.westernpower.co.uk/RIIO-ED2-further-information#document-library>

Employees are selected and promoted according to their abilities and merits and to the requirements of the job. Applications for employment by people with disabilities are fully considered and in the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues by way of making adjustments to their role and/or working environment or through retraining arranged as appropriate. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### ***Suppliers***

We rely on quality, value for money goods and services from reputable suppliers and contractors in order to maintain the highest standards in network reliability and customer service. WPD maintains open and positive communication with all suppliers and contractors and treats them fairly, evenly and with honesty. To create lasting value for the Group we seek mutually beneficial relationships with a diverse group of high quality suppliers.

In April 2022, WPD signed up to the Prompt Payment Code ("PPC"). PPC is a voluntary code administered by the Office of the Small Business Commissioner ("SBC") on behalf of the Department of Business Energy and Industrial Strategy ("BEIS"). This demonstrates our commitment to the fair treatment of our suppliers. The PPC aims to improve cash flows to small businesses by requiring its signatories to pay 95% of all invoices within 60 days or for those suppliers with less than 50 employees within 30 days.

## Strategic report (continued)

For the year ended 31 March 2022

### Purpose and goals (continued)

#### Stakeholder value & engagement (continued)

##### Regulators

WPD has a helpful and transparent approach in its dealings with the industry regulator, Ofgem, on all matters guiding and impacting energy distribution in the UK.

WPD has a significant role to play in supporting the Government's move to deliver a net zero carbon economy by 2050. WPD has engaged with Ofgem at all stages to help develop a business plan for RIIO-ED2 which contains the right customer focused outputs and economic incentives to help deliver the Government's objective. Our core commitments within the RIIO-ED2 business plan align with Ofgem's output categories.

WPD continues to promote transparency of performance and returns. WPD's Regulatory Financial Performance Reporting ("RFPR") provides clarity on our financial and operational performance from a regulatory perspective, including WPD's performance against incentives under the RIIO price control arrangements. Our latest RFPR can be found on our website at the link below:

[WPD Your Power Future - Regulatory Financial Performance Reporting \(RFPR\) \(westernpower.co.uk\)](https://www.westernpower.co.uk/your-power-future-regulatory-financial-performance-reporting-rfpr)

WPD also strategically and operationally engages with the Health and Safety Executive ("HSE"). Steps taken in this regard are:

- WPD's Chief Executive and senior managers participate in national groups such as the National Health & Safety Committee ("HESAC"), of which the HSE is a member;
- WPD's Chief Executive and senior managers meet with key HSE staff throughout the year to discuss matters and where appropriate collaborate on strategic Health and Safety issues and initiatives; and
- WPD aligns its internal safety campaigns to the HSE 'Helping Great Britain Work Well' safety message and separately the HSE supported, National HESAC led 'Powering Improvement' H&S programme.

Additionally, WPD engages proactively with the Environment Agency ("EA") who monitors areas such as pollution prevention, habitat conservation and other matters relating to the protection and enhancement of the environment in England. WPD continuously works together with the EA to improve its environmental performance. Similarly, WPD also engages with National Resources Wales ("NRW"), as the environmental regulator for South Wales.

##### Shareholders

WPD is committed to providing its shareholder with long term, sustainable value.

For details in relation to our stakeholder engagement refer to our Corporate governance report on pages 36-39.

Looking beyond RIIO-ED1, we have combined our commitments into 3 core output categories for RIIO-ED2 as follows:

- Meeting the needs of consumers and network users;
- Maintaining a safe and resilient network; and
- Delivering an environmentally sustainable network.

## Strategic report (continued)

For the year ended 31 March 2022

### Business review

#### Highlights

WPD has continued to deliver excellent service for our 8.0 million customers, whilst addressing the challenges of decarbonisation and developing robust business plans for the next price control.

Progress against our plans and commitments in our RIIO-ED1 business plan is actively monitored and each year, a detailed report is published for our stakeholders which details our progress against the plan targets. We continue to be on track to outperform the majority of these targets as well as simultaneously responding to the changing requirements associated with a smarter, more flexible energy system. For instance we have continued to beat our targets for customer minutes lost and customer interruptions by 30% (2020/21: 29%) and 27% (2020/21: 25%), accident rates have reduced to 0.62 (2020/21: 0.68) accidents per 100 staff and our Business Carbon Footprint ("BCF") has reduced by 35% (2020/21: 36%) since 2014/15. We have also supported over 25,000 fuel poor customers, leading to an estimated annual saving of £14.6m for these customers. WPD's annual £1m Community Matters Fund delivered an estimated £2m cost saving for 29,000 people in our communities. Our hard work is reflected in our excellent performance against the Broad Measure of Customer Satisfaction ("BMCS") results scoring 9.03 (2020/21: 9.18) out of 10 overall.

A comprehensive view of our progress against the full range of commitments made within the RIIO-ED1 business plan, including expenditure, can be found on our website at the link below:

<https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1>

During the year, WPD became the first DNO to develop a social contract that sets out our ambitions to generate wider social and environmental impact. For further details in relation to this please refer to the link below:

<https://www.westernpower.co.uk/our-social-contract>

During the year WPD's approach to develop Distribution System Operator ("DSO") functions and to expand the scope of flexible services utilised on its network has continued to progress. WPD has run four 'Flexibility Services' webinars and two surgery days attracting over 50 interested flexibility providers active during 2021/22. WPD has also conducted a significant rollout of innovative flexibility initiatives, including the procurement of flexibility service via the Flexible Power brand which has awarded 270.4MW of new flexible services during 2021/22 impacting over 2.4 million customers and achieving £48.5m of avoided reinforcement.

During the current year, WPD invited all 130 local authorities ("LAs") within our network area to collaboratively build a joined up energy plan. Building on initial engagement in this area, feedback was sought on WPD's current assumptions and projections of the potential growth of new Low Carbon Technology ("LCT") connections. Over 10,000 new LA development records were processed, resulting in our most accurate and granular Distribution Future Energy Scenarios ("DFES") forecasts ever.

#### Operations

Storms challenged WPD hugely in the year 2021/22. Storm Arwen in November 2021 resulted in 25 days' worth of faults in just 48 hours. Strong north and north westerly winds and gales, combined with 6ft snow drifts in places, saw all regions affected and was one of the most significant storms to affect WPD for many years. During this period we dealt with 1,647 incidents and restored 243,930 properties while we also answered 98,745 customer calls. We were also able to send 130 WPD staff to assist other DNO's in restoring power to customers in Scotland and the North of England.

In February 2022 the effects of Storms Dudley, Eunice and Franklin were felt with unprecedented levels of incidents. A massive effort was required from WPD staff who worked tirelessly around the clock to restore customer supplies and support customers as quickly as possible. Between them Storms Eunice and Franklin caused around 2,800 incidents in four days across our network, with our engineers restoring supplies to over 530,000 customers. We would usually expect to deal with that number of incidents in two months rather than four days. Storm Eunice was the worst ever experienced in our South West region and was quickly followed by Storm Franklin.

During these storms we handled more than 220,000 customer calls and received 2.3 million website hits in four days. We issued forty social media updates, reaching 1 million people. We also issued 13 reports to Government (The Department for Business, Energy and Industrial Strategy) and contacted 240 MPs. Over 100 media and stakeholder updates and statements were issued, resulting in over 1,500 media references.

#### Organisational changes

As at 31 March 2022, WPD Smart Metering Limited ("WPDSM") is a wholly owned indirect subsidiary of WPD Plc providing meter operator and associated metering services. As at 1 June 2022, WPD concluded the sale of WPDSM to Stark Software International Ltd.

## Strategic report (continued)

For the year ended 31 March 2022

### Business review (continued)

#### ***Ofgem announcement – WPD Priority Services Register ("PSR")***

In February 2020, Ofgem opened an investigation in relation to the level of information, advice and services provided by WPD to customers on its PSR. As a result of the investigation, on 4 May 2022, Ofgem concluded that there were shortcomings with this service and thus the WPD Group agreed to pay £14.9m into the voluntary redress fund, £3.7m for each of its four DNOs. The health and safety of customers has always been of paramount importance to WPD and the business offers a significant programme of support for its customers in vulnerable situations. We have engaged thoroughly and promptly at all times with Ofgem to resolve those concerns. During the course of the investigation, following engagement with Ofgem, we made changes to our policies and processes to ensure we are fully complying with the expectations Ofgem has clarified in our licence.

Prior to the opening of these procedures we had been repeatedly recognised by Ofgem as the leading distribution network operator for engagement with, and support for, our vulnerable customers. Since 2015, we have contacted more than one million vulnerable customers each year to update their details and offer tailored wellbeing checks. Further details on our support for vulnerable customers can be found on pages 25-26.

#### ***Energy supplier failures***

Since the beginning of 2021, 31 energy companies have ceased trading, leaving over two million customers dependent on the safety net provided by the market regulator, Ofgem, to maintain their supplies and protect their credit balances while it moves them to a new supplier. Supplier failures impact the DNOs in the following two key areas:

#### ***Last Resort Supply Payment ("LRSP") claim***

When a supplier fails, Ofgem ensures continuity of supply to the failed supplier's customers 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 Distribution Network Operators ("DNOs") via a Last Resort Supply Payment ("LRSP") claim. Each DNO is then able to recover those costs via its Distribution Use of System ("DUoS") charges 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. Essentially these claims are a pass through cost for the DNOs.

The total industry impact of the LRSP claims as a result of recent supplier failures is approximately £1.84bn of which 55% (£1.01bn) pertains to the electricity sector and 45% (£0.84bn) to the gas sector. WPD Group's share of this is 26.4% which amounts to £266.8m.

For claims above the materiality threshold, amounting to £261.8m for the WPD Group, the DNOs will pay the LRSP claims only at such a time as the related DUoS revenue becomes billable i.e. April 2022-March 2023. This will ensure that there is no impact on the profit and loss or the liquidity of the Group.

The claims that are below the materiality threshold amount to £5m for the WPD Group and are payable from March 2022 to February 2023. These 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 Group.

#### ***Bad debts provision***

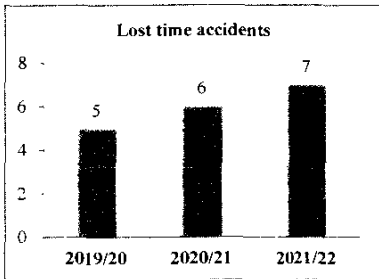
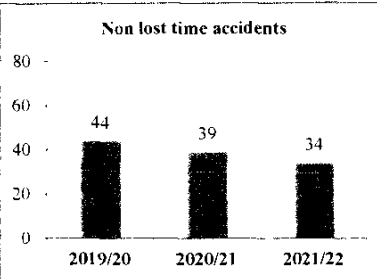
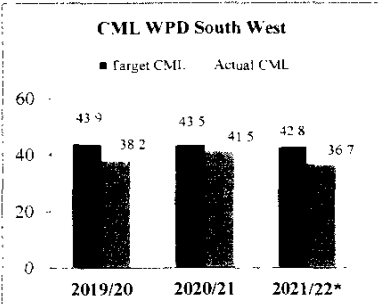
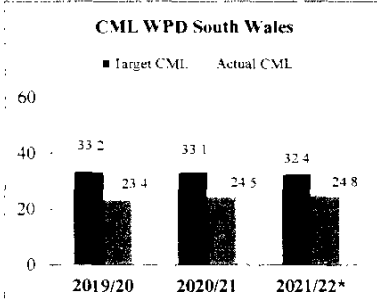
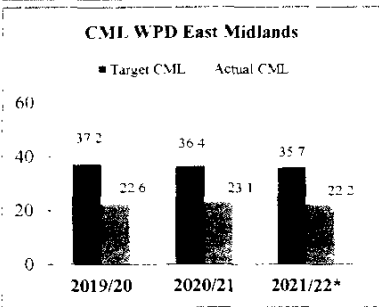
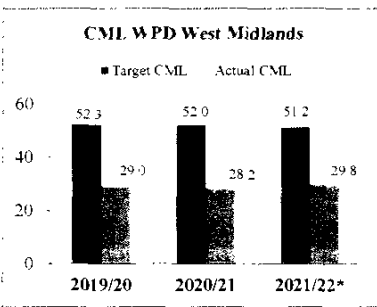
Another impact for the DNOs is bad debts incurred in relation to DUoS charges up to the date of supplier failure. Ofgem regulations allow for full recoverability of credit losses on DUoS debtors, provided certain credit management protocols are performed in accordance with industry standards as governed by the Distribution Connection and Use of System Agreements ("DCUSA"), thus minimising any potential credit risk to the Group. The recoverability for the Group occurs through an increase in DUoS charges in three years' time. As at 31 March 2022 the bad debts provision in relation to DUoS debtors amounts to £18.6m and the bad debt expense for the year ended 31 March 2022 is £23.3m (2020/21: £nil).

#### ***Financial performance***

The majority of our revenue is fixed over the price control period but year on year can vary through under or over recovery as actual energy demand varies against volume forecasts used to set tariffs, as well as other variables such as actual incentive revenues achieved. Our revenue for the year ended 31 March 2022 amounts to £1,886.0m (2020/21: £1,718.5m). When comparing to our allowed revenue for the year, we have an over recovery of £74.6m in the current year. This over recovery of revenue is a regulatory timing difference and will be paid back by the financial year ending 31 March 2024.

### Key performance indicators (KPIs)

WPD utilises KPIs to assess progress against our overall purpose and key goals.

|                                   | KPI                             | Performance and comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
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| Safety                            | Level of work related accidents | <div><div><div>Lost time accidents</div><table border="1"><thead><tr><th>Year</th><th>Lost time accidents</th></tr></thead><tbody><tr><td>2019/20</td><td>5</td></tr><tr><td>2020/21</td><td>6</td></tr><tr><td>2021/22</td><td>7</td></tr></tbody></table></div><div><div>Non lost time accidents</div><table border="1"><thead><tr><th>Year</th><th>Non lost time accidents</th></tr></thead><tbody><tr><td>2019/20</td><td>44</td></tr><tr><td>2020/21</td><td>39</td></tr><tr><td>2021/22</td><td>34</td></tr></tbody></table></div></div> <p>Electricity distribution carries inherent safety risks and the WPD directors are committed to the highest levels of safety in all areas. The WPD Group's rolling lost time accident frequency rate per 100 people as at 31 March 2022 was at 0.105 against a regulatory target of 0.145. The total number of accidents to staff across the WPD Group decreased from 45 in 2020/21 to 41 in 2021/22. All accidents are investigated and appropriate safety communications are conducted with the relevant teams.</p> <p>A new accident categorisation system has been introduced which focuses on actual or potential for harm, allowing WPD to be more effective in its investigation and root cause analysis of accidents. We ensure that all our planned safety inspection and maintenance programmes are completed during the year.</p> <p>In addition WPD monitors the overall rate of accidents per 100 employees (as reported to Ofgem). The accident rate for the WPD Group for 2021/22 is 0.62 (2020/21: 0.68) outperforming the RIIO-ED1 target of 1.61. Further details on our performance reporting to Ofgem regarding safety can be found at the link below:<br/><a href="https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1">https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1</a></p>                                                                                | Year       | Lost time accidents | 2019/20    | 5       | 2020/21 | 6    | 2021/22 | 7    | Year | Non lost time accidents | 2019/20 | 44   | 2020/21 | 39         | 2021/22    | 34      |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
|                                   | Year                            | Lost time accidents                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2019/20                           | 5                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2020/21                           | 6                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2021/22                           | 7                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| Year                              | Non lost time accidents         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2019/20                           | 44                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2020/21                           | 39                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2021/22                           | 34                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| Customer minutes lost ("CML")     |                                 | <div><div><div>CML WPD South West</div><table border="1"><thead><tr><th>Year</th><th>Target CML</th><th>Actual CML</th></tr></thead><tbody><tr><td>2019/20</td><td>43.9</td><td>38.2</td></tr><tr><td>2020/21</td><td>43.5</td><td>41.5</td></tr><tr><td>2021/22*</td><td>42.8</td><td>36.7</td></tr></tbody></table></div><div><div>CML WPD South Wales</div><table border="1"><thead><tr><th>Year</th><th>Target CML</th><th>Actual CML</th></tr></thead><tbody><tr><td>2019/20</td><td>33.2</td><td>23.4</td></tr><tr><td>2020/21</td><td>33.1</td><td>24.5</td></tr><tr><td>2021/22*</td><td>32.4</td><td>24.8</td></tr></tbody></table></div><div><div>CML WPD East Midlands</div><table border="1"><thead><tr><th>Year</th><th>Target CML</th><th>Actual CML</th></tr></thead><tbody><tr><td>2019/20</td><td>37.2</td><td>22.6</td></tr><tr><td>2020/21</td><td>36.4</td><td>23.1</td></tr><tr><td>2021/22*</td><td>35.7</td><td>22.2</td></tr></tbody></table></div><div><div>CML WPD West Midlands</div><table border="1"><thead><tr><th>Year</th><th>Target CML</th><th>Actual CML</th></tr></thead><tbody><tr><td>2019/20</td><td>52.3</td><td>29.0</td></tr><tr><td>2020/21</td><td>52.0</td><td>28.2</td></tr><tr><td>2021/22*</td><td>51.2</td><td>29.8</td></tr></tbody></table></div></div> <p>*The 2021/22 actuals are subject to Ofgem confirmation.</p> <p>CML represents the average time a customer is without power during the year. It is calculated by taking the sum of customer minutes lost for all incidents, excluding the allowed exceptional events, divided by customers connected. The targets are defined by Ofgem at each DNO level. Year on year WPD is outperforming its targets as we are focused on ensuring complete maximum reliability for our customers.</p> | Year       | Target CML          | Actual CML | 2019/20 | 43.9    | 38.2 | 2020/21 | 43.5 | 41.5 | 2021/22*                | 42.8    | 36.7 | Year    | Target CML | Actual CML | 2019/20 | 33.2 | 23.4 | 2020/21 | 33.1 | 24.5 | 2021/22* | 32.4 | 24.8 | Year | Target CML | Actual CML | 2019/20 | 37.2 | 22.6 | 2020/21 | 36.4 | 23.1 | 2021/22* | 35.7 | 22.2 | Year | Target CML | Actual CML | 2019/20 | 52.3 | 29.0 | 2020/21 | 52.0 | 28.2 | 2021/22* | 51.2 | 29.8 |
|                                   | Year                            | Target CML                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Actual CML |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2019/20                           | 43.9                            | 38.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2020/21                           | 43.5                            | 41.5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2021/22*                          | 42.8                            | 36.7                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| Year                              | Target CML                      | Actual CML                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2019/20                           | 33.2                            | 23.4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2020/21                           | 33.1                            | 24.5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2021/22*                          | 32.4                            | 24.8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| Year                              | Target CML                      | Actual CML                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2019/20                           | 37.2                            | 22.6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2020/21                           | 36.4                            | 23.1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2021/22*                          | 35.7                            | 22.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| Year                              | Target CML                      | Actual CML                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2019/20                           | 52.3                            | 29.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2020/21                           | 52.0                            | 28.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| 2021/22*                          | 51.2                            | 29.8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |
| Network performance & reliability |                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |            |                     |            |         |         |      |         |      |      |                         |         |      |         |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |      |            |            |         |      |      |         |      |      |          |      |      |

Key performance indicators (KPIs) (continued)

| Network performance & reliability | KPI                                     | Performance and comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |  |                      |  |
|-----------------------------------|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------------------|--|
|                                   | Number of customer interruptions ("CI") |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |  |                      |  |
|                                   |                                         | CI WPD South West                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |  | CI WPD South Wales   |  |
|                                   |                                         | CI WPD East Midlands                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  | CI WPD West Midlands |  |
|                                   |                                         | *The 2021/22 actuals are subject to Ofgem confirmation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |  |                      |  |
|                                   | Other measures                          | CI represents supply interruptions experienced by connected customers per 100 customers. Adjustment for exceptional one off events that are outside the control of DNOs is allowed by Ofgem. The targets are defined by Ofgem at each DNO level. Year on year WPD is performing better than its targets as we are focused on ensuring maximum network reliability for our customers.                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |                      |  |
|                                   |                                         | - In 2021/22 87.67% (2020/21 87.5%) of customers had their power restored within an hour of a high voltage fault, the target being 87.5%, which is the average of the target for 4 WPD licence areas.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |  |                      |  |
|                                   |                                         | - One of the guaranteed standards of performance ("GSOPs") set by Ofgem is the restoration of customers left without electricity for more than 12 hours. The number of customers without electricity for more than 12 hours was 1,879 (2020/21: 1,049), an improvement of over 97% on our 2012/13 benchmark performance. Unless an exclusion is applicable, such as due to access issues, customers are eligible for a set payment. In 2021/22 651 (2020/21: 155) customers received a set payment where we failed to achieve the GSOP. During 2021/22 all licence areas were impacted by severe weather, including Storms Arwen and Eunice, with Storm Eunice being the worst weather event experienced in 30 years. This has had an impact on the number of customers who were off supply for more than 12 hours, including payments made. |  |                      |  |

Key performance indicators (KPIs) (continued)

Connections & customer satisfactions

KPI

Overall customer satisfaction

Performance and comments

\* Customer satisfaction score out of 10

| Year    | Score |
|---------|-------|
| 2019/20 | 9.11  |
| 2020/21 | 9.18  |
| 2021/22 | 9.03  |

As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connection quotations and delivery, interruptions and general enquiries. The customer satisfaction score is given out of 10. For WPD's four licence areas around 21,000 customers are surveyed per year.

WPD continued to achieve over 9 out of 10 on our overall Broad Measure Customer Satisfaction Score. This was achieved despite a number of significant challenges to business performance during 2021/22, including Covid-19 restrictions and the severe weather experienced during Storm Arwen in November 2021 and Storm Eunice in February 2022, which was the worst storm WPD had experienced in over three decades.

In the current year WPD has an average speed of response of 16.56 seconds as compared to an average speed of response below 5.33 seconds last year. This decline in response time is due to the unprecedented storms hitting our regions in the current year. Without this weather impact WPD's response time would be at an average of 4.5 seconds.

Connections (time to quote)

Time to quote - working days  
WPD South West

■ Target ■ Actual

| Year    | Target | Actual |
|---------|--------|--------|
| 2019/20 | 6.3    | 3.4    |
| 2020/21 | 6.3    | 3.2    |
| 2021/22 | 6.3    | 3.7    |

Time to quote - working days  
WPD South Wales

■ Target ■ Actual

| Year    | Target | Actual |
|---------|--------|--------|
| 2019/20 | 6.3    | 2.8    |
| 2020/21 | 6.3    | 1.7    |
| 2021/22 | 6.3    | 1.9    |

Time to quote - working days  
WPD East Midlands

■ Target ■ Actual

| Year    | Target | Actual |
|---------|--------|--------|
| 2019/20 | 6.3    | 2.8    |
| 2020/21 | 6.3    | 2.2    |
| 2021/22 | 6.3    | 2.6    |

Time to quote - working days  
WPD West Midlands

■ Target ■ Actual

| Year    | Target | Actual |
|---------|--------|--------|
| 2019/20 | 6.3    | 2.5    |
| 2020/21 | 6.3    | 1.6    |
| 2021/22 | 6.3    | 2.2    |

Ofgem sets the targets for the overall "time to quote" and "time to connect" for single domestic connections and small commercial connections. LVSSA customers are those seeking single domestic connections requiring no mains work at low voltage. LVSSB customers are those seeking two to four domestic connections or one-off commercial connections at low voltage requiring no network reinforcement work. The above target is an average of the Ofgem target for LVSSA and LVSSB.

Key performance indicators (KPIs) (continued)

|                                      | KPI                                             | Performance and comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
|--------------------------------------|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|---------------------------|---------------------------|---------|--------|---------|---------|--------|---------|---------|---------|---------|---------|---------|---------|---------|--------|---------|---------|--------|---------|---------|--------|---------|---------|--------|---------|---------|--------|---------|---------|--------|---------|---------|------|------|------|--------|--------|---------|------|------|---------|------|------|---------|------|------|
| Connections & customer satisfactions | <p><b>Connections (time to quote)</b></p>       | <div data-bbox="624 338 1007 663"> <p><b>Time to connect - working days WPD South West</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Target</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>2019/20</td> <td>43.6</td> <td>29.7</td> </tr> <tr> <td>2020/21</td> <td>43.6</td> <td>41.2</td> </tr> <tr> <td>2021/22</td> <td>43.6</td> <td>43.6</td> </tr> </tbody> </table> </div> <div data-bbox="1031 338 1422 663"> <p><b>Time to connect - working days WPD South Wales</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Target</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>2019/20</td> <td>43.6</td> <td>27.5</td> </tr> <tr> <td>2020/21</td> <td>43.6</td> <td>34.6</td> </tr> <tr> <td>2021/22</td> <td>43.6</td> <td>36.4</td> </tr> </tbody> </table> </div> <div data-bbox="624 685 1007 987"> <p><b>Time to connect - working days WPD East Midlands</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Target</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>2019/20</td> <td>43.6</td> <td>30.8</td> </tr> <tr> <td>2020/21</td> <td>43.6</td> <td>34.6</td> </tr> <tr> <td>2021/22</td> <td>43.6</td> <td>35.2</td> </tr> </tbody> </table> </div> <div data-bbox="1031 685 1422 987"> <p><b>Time to connect - working days WPD West Midlands</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Target</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>2019/20</td> <td>43.6</td> <td>31.7</td> </tr> <tr> <td>2020/21</td> <td>43.6</td> <td>35.0</td> </tr> <tr> <td>2021/22</td> <td>43.6</td> <td>36.1</td> </tr> </tbody> </table> </div> <p>Ofgem sets the targets for the overall "time to quote" and "time to connect" for single domestic connections and small commercial connections. LVSSA customers are those seeking single domestic connections requiring no mains work at low voltage. LVSSB customers are those seeking two to four domestic connections or one-off commercial connections at low voltage requiring no network reinforcement work. The above target is an average of the Ofgem target for LVSSA and LVSSB.</p>                   | Year | Target                    | Actual                    | 2019/20 | 43.6   | 29.7    | 2020/21 | 43.6   | 41.2    | 2021/22 | 43.6    | 43.6    | Year    | Target  | Actual  | 2019/20 | 43.6   | 27.5    | 2020/21 | 43.6   | 34.6    | 2021/22 | 43.6   | 36.4    | Year    | Target | Actual  | 2019/20 | 43.6   | 30.8    | 2020/21 | 43.6   | 34.6    | 2021/22 | 43.6 | 35.2 | Year | Target | Actual | 2019/20 | 43.6 | 31.7 | 2020/21 | 43.6 | 35.0 | 2021/22 | 43.6 | 36.1 |
| Year                                 | Target                                          | Actual                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2019/20                              | 43.6                                            | 29.7                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2020/21                              | 43.6                                            | 41.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2021/22                              | 43.6                                            | 43.6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| Year                                 | Target                                          | Actual                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2019/20                              | 43.6                                            | 27.5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2020/21                              | 43.6                                            | 34.6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2021/22                              | 43.6                                            | 36.4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| Year                                 | Target                                          | Actual                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2019/20                              | 43.6                                            | 30.8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2020/21                              | 43.6                                            | 34.6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2021/22                              | 43.6                                            | 35.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| Year                                 | Target                                          | Actual                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2019/20                              | 43.6                                            | 31.7                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2020/21                              | 43.6                                            | 35.0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2021/22                              | 43.6                                            | 36.1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| Environment                          | <p><b>Business carbon footprint ("BCF")</b></p> | <div data-bbox="632 1211 1430 1536"> <p><b>BCF</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Actual tCO<sub>2</sub>e</th> <th>Target tCO<sub>2</sub>e</th> </tr> </thead> <tbody> <tr> <td>2012/13</td> <td>89,377</td> <td>101,978</td> </tr> <tr> <td>2013/14</td> <td>95,211</td> <td>101,978</td> </tr> <tr> <td>2014/15</td> <td>101,978</td> <td>101,978</td> </tr> <tr> <td>2015/16</td> <td>103,229</td> <td>101,978</td> </tr> <tr> <td>2016/17</td> <td>90,762</td> <td>101,978</td> </tr> <tr> <td>2017/18</td> <td>83,529</td> <td>101,978</td> </tr> <tr> <td>2018/19</td> <td>79,764</td> <td>101,978</td> </tr> <tr> <td>2019/20</td> <td>77,914</td> <td>101,978</td> </tr> <tr> <td>2020/21</td> <td>65,074</td> <td>101,978</td> </tr> <tr> <td>2021/22</td> <td>65,987</td> <td>101,978</td> </tr> </tbody> </table> </div> <p>Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO<sub>2</sub>") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO<sub>2</sub>e"). We currently report a number of scope 3 emissions including contractor emissions and business mileage (road rail, air). WPD follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") carbon reporting guidance, the 2020 UK Government GHG Conversion Factors for company reporting and ISO14064-3.</p> <p>WPD's current target is a 5% reduction over the RII0-ED1 period based on the baseline year of 2012/13. At 2021/22 WPD Group is outperforming the target. Our Business Carbon Footprint ("BCF") has reduced by 35% (2020/21: 36%) reduction since 2014/15.</p> <p>For further details on the various elements that make up our BCF refer to our detailed environment report at the link below:</p> <p><a href="https://www.westernpower.co.uk/customers-and-community/environment">https://www.westernpower.co.uk/customers-and-community/environment</a></p> <p>For details on the methodology for the calculation of our BCF refer to page 48.</p> | Year | Actual tCO <sub>2</sub> e | Target tCO <sub>2</sub> e | 2012/13 | 89,377 | 101,978 | 2013/14 | 95,211 | 101,978 | 2014/15 | 101,978 | 101,978 | 2015/16 | 103,229 | 101,978 | 2016/17 | 90,762 | 101,978 | 2017/18 | 83,529 | 101,978 | 2018/19 | 79,764 | 101,978 | 2019/20 | 77,914 | 101,978 | 2020/21 | 65,074 | 101,978 | 2021/22 | 65,987 | 101,978 |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| Year                                 | Actual tCO <sub>2</sub> e                       | Target tCO <sub>2</sub> e                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2012/13                              | 89,377                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2013/14                              | 95,211                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2014/15                              | 101,978                                         | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2015/16                              | 103,229                                         | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2016/17                              | 90,762                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2017/18                              | 83,529                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2018/19                              | 79,764                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2019/20                              | 77,914                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2020/21                              | 65,074                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |
| 2021/22                              | 65,987                                          | 101,978                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |      |                           |                           |         |        |         |         |        |         |         |         |         |         |         |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |        |         |         |      |      |      |        |        |         |      |      |         |      |      |         |      |      |

Key performance indicators (KPIs) (continued)

Environment

KPI

Performance and comments

### SF6 emissions (emissions as % of SF6 bank)

SF6 gas is used throughout our industry as an insulating medium in switchgear. Although it provides many benefits it is a potent greenhouse gas. There are currently no viable alternatives to SF6. Therefore we continuously monitor our SF6 emissions. The amount of SF6 emitted is expressed as a percentage of the overall 'bank' of SF6 contained within our switchgear, as this will vary over the period of RIIO-ED1. The target is based on an average of emissions between 2009/10 and 2010/11.

**SF6 % Leakage**

| Year    | Manufacturers return | Scrap | Top ups | Target Top ups % leakage |
|---------|----------------------|-------|---------|--------------------------|
| 2014/15 | 0.54%                |       |         |                          |
| 2015/16 | 0.93%                |       |         |                          |
| 2016/17 | 0.58%                |       |         |                          |
| 2017/18 | 0.60%                |       |         |                          |
| 2018/19 | 0.56%                |       |         |                          |
| 2019/20 | 0.44%                |       |         |                          |
| 2020/21 | 0.42%                |       |         |                          |
| 2021/22 | 0.41%                |       |         |                          |

Overall the level of leakage is reducing over time as older units are replaced with new units which also contain lower levels of SF6. The WPD's Group's current target is a 17% reduction over the RIIO-ED1 period. The target was set at the start of RIIO-ED1 and relates only to top ups % leakage as the scrap and manufacturers return data was not compiled at that time. When replacing switchgear we give priority to the switchgear with the highest leak rates. Within RIIO-ED1 we have committed to replacing any 11kV distribution assets that show signs of leakage and any higher voltage assets that have leaked three times. When a leak becomes apparent we locate its source so that a strategy can be developed to manage the situation taking into account the potential for repairs and the lead times for replacement switchgear.

### Fluid cable losses

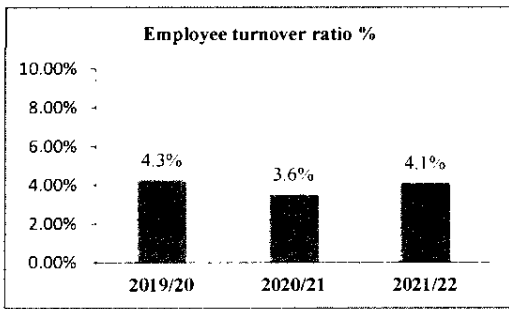
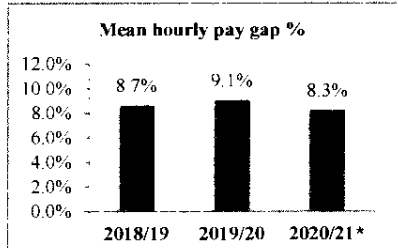
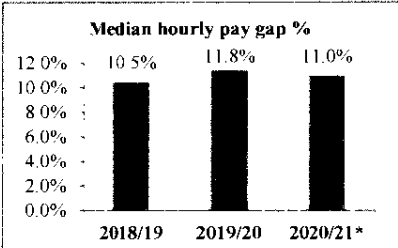
The design of very high voltage underground cables has evolved over many years and our new cables all use a solid plastic-like insulation. Old designs of 33kV and higher voltage cables used an insulating oil in ducts inside the cable. Whilst these cables are normally very reliable, in the event of a fault or damage by third parties, this oil may leak out. In common with other DNOs WPD works to an operating code agreed with the Environment Agency and assesses both the condition and the environmental risk posed by the fluid filled cables which the WPD Group owns.

**Oil loss in litres**

| Year     | Actual Losses | Target losses |
|----------|---------------|---------------|
| 2014/15  | 30,950        |               |
| 2015/16  | 17,291        |               |
| 2016/17  | 17,251        |               |
| 2017/18  | 23,358        |               |
| *2018/19 | 43,317        |               |
| 2019/20  | 18,313        |               |
| 2020/21  | 18,411        |               |
| 2021/22  | 35,233        |               |

The WPD Group's current target is a 75% reduction over the RIIO-ED1 period. The losses from WPD's fluid filled cables can vary from year to year generally dependent on the number of small leaks at disparate locations. However in the current year unusually high losses were reported due to a small number of isolated incidents. The most significant one being Plymouth BSP/Milehouse No.2 circuit - losing 13,975 litres. The Environment Agency ("EA") and Natural Resources Wales have been kept fully informed of the oil losses, and we continue to operate under the EA Fluid Filled Cable Operating Code of Practice.

Key performance indicators (KPIs) (continued)

| KPI                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Performance and comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------|---------|---------|------|---------|------|----------|------|------|-------|---------|-------|---------|-------|----------|-------|
| Environment                    | ISO accreditation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <u>Environmental management standard</u><br>WPD continues to maintain accreditation to ISO14001:2015 environmental management standard. A routine surveillance visit in March 2022 was successfully completed with no non-conformances raised.                                                                                                                                                                                                                                                                                                   |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
|                                | Crisis packs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | WPD committed to distributing 10,000 crisis packs during RII0-ED1. During 2021/22 we distributed 950 packs (2020/21: 576 packs), with cumulative total so far for the RII0-ED1 period of 8,652 packs.<br>Crisis packs include items such as flask, a torch, gloves, a hat, socks and information leaflets. Digital phones reliant upon mains power may not work during a power cut so we also provide analogue telephones to vulnerable customers who need them.                                                                                 |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| Social obligations             | Fuel poverty*                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Some of our customers find it difficult to cover their overall energy costs. We have an extensive programme of support schemes, working with expert agencies including Citizens Advice and the Energy Saving Trust, to provide practical support for customers living in fuel poverty. This includes help with switching energy tariffs and arranging funds for enduring energy efficiency measures. In the year 2021/22, our range of programmes helped 25,928 (2021: 21,840) customers who saved over £14.6m (2021: £10m).                     |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
|                                | * Defined by the Government as a household in a property with a fuel poverty energy efficiency rating of Band D or below in a home that cannot be kept warm at a reasonable cost without bringing their residual income below the poverty threshold.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| Stakeholder value & engagement | Employee turnover ratio                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <div>Employee turnover ratio %</div>  <table><thead><tr><th>Year</th><th>Ratio %</th></tr></thead><tbody><tr><td>2019/20</td><td>4.3%</td></tr><tr><td>2020/21</td><td>3.6%</td></tr><tr><td>2021/22</td><td>4.1%</td></tr></tbody></table> <p>There has been a slight increase in the year on year turnover ratio. This is due to a combination of retirements and resignations during the current year. Overall the rate of staff turnover is very low.</p> |  | Year | Ratio % | 2019/20 | 4.3% | 2020/21 | 3.6% | 2021/22  | 4.1% |      |       |         |       |         |       |          |       |
|                                | Year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Ratio %                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2019/20                        | 4.3%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2020/21                        | 3.6%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2021/22                        | 4.1%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| Employee gender pay gap        | <div>Mean hourly pay gap %</div>  <table><thead><tr><th>Year</th><th>Gap %</th></tr></thead><tbody><tr><td>2018/19</td><td>8.7%</td></tr><tr><td>2019/20</td><td>9.1%</td></tr><tr><td>2020/21*</td><td>8.3%</td></tr></tbody></table> <div>Median hourly pay gap %</div>  <table><thead><tr><th>Year</th><th>Gap %</th></tr></thead><tbody><tr><td>2018/19</td><td>10.5%</td></tr><tr><td>2019/20</td><td>11.8%</td></tr><tr><td>2020/21*</td><td>11.0%</td></tr></tbody></table> <p>*2020/21 are the latest available results and is for data on snapshot date of 05 April 2021. The report for snapshot date of April 2022 will be available by April 2023.</p> <p>WPD's median gender pay gap for April 2020 - April 2021 is 11.0%. This is 4.4% below the national gender gap and 13.0% below its industry gender pay gap. Therefore, in relative terms, WPD's gender pay gap is positioned positively compared to its UK-wide industry segment. These comparisons are based on the latest available data. Our median bonus pay gap is 28.7% (2020: 2.3%) and our mean bonus pay gap is 51.5% (2020: 20.6%). Our bonus pay gap has increased significantly, this is attributed to more women joining the organisation and receiving a lower service-related entitlement. For the first time, since gender pay gap requirements were introduced, we observed proportionally more women (7.5%) receiving a bonus relative to men (6.2%).</p> <p>Further information about the WPD gender pay gap could be found at:<br/><a href="https://www.westernpower.co.uk/about-us">https://www.westernpower.co.uk/about-us</a></p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  | Year | Gap %   | 2018/19 | 8.7% | 2019/20 | 9.1% | 2020/21* | 8.3% | Year | Gap % | 2018/19 | 10.5% | 2019/20 | 11.8% | 2020/21* | 11.0% |
| Year                           | Gap %                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2018/19                        | 8.7%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2019/20                        | 9.1%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2020/21*                       | 8.3%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| Year                           | Gap %                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2018/19                        | 10.5%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2019/20                        | 11.8%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |
| 2020/21*                       | 11.0%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |      |         |         |      |         |      |          |      |      |       |         |       |         |       |          |       |

Key performance indicators (KPIs) (continued)

## KPI

## Performance and comments

### Stakeholder Value & Engagement

#### Supplier payment performance

Average no of payment days

• Mar 21 ■ Sep 21 ■ Mar 22

| Region        | Mar 21 | Sep 21 | Mar 22 |
|---------------|--------|--------|--------|
| South West    | 15     | 16     | 16     |
| South Wales   | 16     | 16     | 17     |
| East Midlands | 17     | 17     | 17     |
| West Midlands | 17     | 17     | 18     |

WPD at a DNO level reports on its supplier payment performance every six months. One of the key measures is the average days within which WPD makes a payment. The average number of days within which WPD makes payments is 18 or less.

### Financial KPIs

#### Revenue

| 2021/22 | 2020/21 |
|---------|---------|
| (£m)    | (£m)    |
| 1,886.0 | 1,718.5 |

The majority of WPD's revenue is fixed across the current 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 fixed revenue that a DNO can earn there are incentive measures including customer service outputs, network outputs and innovation which constitute allowed revenue.

#### Profit before taxation ("PBT")

| 2021/22 | 2020/21 |
|---------|---------|
| (£m)    | (£m)    |
| 746.9   | 692.5   |

As part of the regulatory process Ofgem sets the allowed rate of return within each price control which for RIIO-ED1 is set at 6.4%. As evident from the level of capital expenditure below, WPD invests excess of profits back into the networks to ensure that we continue to provide an efficient, reliable and secure service to our customers.

#### Fixed asset additions

| 2021/22 | 2020/21 |
|---------|---------|
| (£m)    | (£m)    |
| 1,061.1 | 996.8   |

#### Tangible fixed asset additions

WPD operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure, as is evident from the overall extent of our capital expenditure and increase during the year. Due to the age of the network and technological advancements significant investment is required in capital related activities. During the RIIO-ED1 period to date we have invested £6.9bn in capital related activities. Planned investment in the network for the remainder of the RIIO-ED1 period (until March 2023) is £1.1bn.

Key Performance Indicators (KPIs) (continued)

|                | KPI                                                                                                                                                                                                             |                                                  | Performance and comments                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                |                                                                                                                                                                                                                 |                                                  |                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Financial KPIs | <b>Regulatory asset value ("RAV")</b>                                                                                                                                                                           | <b>2021/22*</b><br><b>(£m)</b><br><b>9,407.1</b> | <b>2020/21</b><br><b>(£m)</b><br><b>8,330.5</b> | RAV is a regulatory concept to represent assets with a long term life. It is essentially equivalent to the net book value of the fixed assets of the business only calculated in regulatory terms using methodology provided by Ofgem. It is an important measure for all DNOs as the allowed revenue in any year includes a return on RAV and amortisation of RAV as determined by Ofgem. Other important measures, such as gearing ratios and recoverable amounts of DNOs with respect to impairment calculations, are calculated using RAV. |
|                | * Because of timing, the 2021/22 RAV used in these calculations is the latest draft and not the finalised value. As directed by Ofgem, the RAV is calculated using an average of March 2022 and April 2022 RPI. |                                                  |                                                 | Because of timing the RAV used in these calculations is the latest draft and not the finalised value.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                |                                                                                                                                                                                                                 |                                                  |                                                 | Movement in RAV is largely driven by additions to our RAV during the year which are based on 80% of our total expenditure ("Totex") calculated in accordance with methodology provided by Ofgem and after application of the Totex Incentive.                                                                                                                                                                                                                                                                                                  |
|                |                                                                                                                                                                                                                 |                                                  |                                                 | It is not possible to perform a reconciliation between RAV and IFRS. The differences between IFRS and regulatory rules have built up over many years and cannot be reconciled.                                                                                                                                                                                                                                                                                                                                                                 |
|                | <b>Gearing ratio</b>                                                                                                                                                                                            | <b>2021/22</b><br><b>(£m)</b>                    | <b>2020/21</b><br><b>(£m)</b>                   | Gearing for WPD is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the revolving credit facility covenants for several of the WPD companies and is used as a key internal measure. To comply with bank covenants as well as the internal KPI, the gearing ratio for the WPD Group does not exceed 85%.                                                                                                                                                                                               |
|                | Net debt*                                                                                                                                                                                                       | 6,502.6                                          | 6,399.3                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | RAV                                                                                                                                                                                                             | 9,407.1                                          | 8,330.5                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | * Refer to note 23 on page 107 for the calculation of net debt                                                                                                                                                  | 69%                                              | 77%                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | <b>Interest cover</b>                                                                                                                                                                                           | <b>2021/22</b><br><b>(£m)</b>                    | <b>2020/21</b><br><b>(£m)</b>                   | A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for several of the WPD companies. It is also used as a key internal indicator of the financial health of the DNOs. In order to comply with bank covenants the interest cover ratio can not fall below 3:1; our interest cover ratio is at an acceptable level and shows a sufficient level of earnings to cover interest payments.                                                     |
|                | PBT                                                                                                                                                                                                             | 746.9                                            | 692.5                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | Finance cost                                                                                                                                                                                                    | 318.3                                            | 288.7                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | Depreciation                                                                                                                                                                                                    | 271.0                                            | 251.4                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | Amortisation - intangible assets                                                                                                                                                                                | 3.1                                              | 8.9                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | Earnings before interest, taxation, depreciation, and amortisation ("EBITDA")                                                                                                                                   | 1,339.3                                          | 1,241.5                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | Interest payable                                                                                                                                                                                                | 318.3                                            | 288.7                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                | <b>Interest cover</b>                                                                                                                                                                                           | <b>4.2</b>                                       | <b>4.3</b>                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

## **Future developments**

### ***Transition to Distribution System Operator ("DSO")***

WPD is a DNO with DSO capabilities. Through our DSO we will develop and operate a smarter and more flexible electricity system. To deliver benefits from this smarter approach it requires not only investment in data, systems and processes to enable this capability but also for this capability to be exploited.

We believe DNOs are well placed to become DSOs. However transitioning from a network based on passive operation enabled inherently through its design into one in which demand and generation is balanced locally by a mixture of enhanced sensing with active technical and commercial mechanisms will require a significant change in our traditional role. To build the required abilities we have undertaken several critical steps and the enhanced capabilities we are developing will develop markets to give our customers the freedom to access other opportunities within the developing energy system.

*The DSO is responsible for accurately sizing the investment in new capacity required to serve current and future needs. It is responsible for doing this efficiently through the use of flexibility, which may be provided by third parties or the DNO's own smart grid network. It will also direct traditional reinforcement where this is most efficient.*

Our Flexible Power product has been adopted by four other DNOs and is now a national platform for flexibility. Network Operators requiring flexibility and customers who can offer flexibility are brought together on our platform. We have developed our plans for data and have aligned them with the expectations of the Energy Data Taskforce Report. To further our digitalisation commitments we have also published a comprehensive digitalisation strategy which demonstrates how we make best use of new and existing data to manage our networks. We continue to test and deploy innovative equipment to be used on the electricity infrastructure itself. These include devices such as battery storage and electronic power based equipment (for example Flexible Power links, flexible AC transmission systems and fault current limiters).

To facilitate neutral markets we have identified functions and activities which are specifically related to DSO and functionally separated them within our business to avoid any potential for conflict between system operator and network owner. With WPD as a DSO managing the coordination of services at a local level the complexity and risk can be reduced for the Electricity System Operator ("ESO") resulting in a more efficient and cost effective whole system.

The DSO's key focus is to make decisions which enable capacity to be provided efficiently and economically, through creating competition in how that capacity is provided. The DNO is responsible for providing accurate data and information on its asset capability and current or historical network loading. The DNO's key focus is to invest in the data and smart grid technology which can be used by the DSO. Data and its exchange will be a significant enabler in the relationship between DNO and DSO and during RIIO-ED2 this needs to be codified. WPD will take a lead in this development.

As the WPD Group adds DSO roles to existing DNO roles, we will carry out existing functions and take on some new ones so as to:

- develop and maintain an efficient, co-ordinated and economical system of electricity distribution;
- facilitate competition in electricity supply, electricity generation and flexibility services;
- improve the resilience and security of the electricity system at a local level;
- facilitate neutral markets for more efficient whole system outcomes;
- drive competition and efficiency across all aspects of the system; and
- promote innovation, flexibility and non-network solutions.

The latest update to our DSO strategy can be found at the link below:

<https://www.westernpower.co.uk/smarter-networks/network-strategy/dso-strategy>

## Strategic report (continued)

For the year ended 31 March 2022

## Future developments (continued)

### RIIO-ED2

The RIIO-ED2 price control period is set to be a five year period from April 2023 to March 2028. On 1 July 2021 the first full Business Plan submission was submitted to Ofgem's Challenge Group with the final submission to Ofgem on 1 December 2021. Following open hearings in March 2022, Ofgem published its RIIO-ED2 draft determination in June 2022. We are working through the detail of these draft determinations and as we move towards the final determination due in winter 2022, we will work hard with Ofgem to ensure we agree a price control that meets the outcomes our customers have asked of us, including resilient and reliable networks, as well as enabling the transition to net zero.

In our forward-looking business plan submitted to Ofgem, we have surpassed the commitments made for the current price control RIIO-ED1. We demonstrate that we are both adaptable and agile in the face of change. We have dealt promptly with developments, including the surge in solar photovoltaic installations, and have developed DSO capability including the UK's largest flexibility programme to unlock considerable capacity from the existing network. We have delivered these additional outcomes at no extra cost to customers. Our Business Plan for RIIO ED2 sets out how we will continue to improve on our already industry leading standards while adapting to the changing needs of our customers and the environment in which we operate. We will continue to provide the reliable, quick and reactive service our customers expect as well as deliver against ambitious environmental commitments. The plan allows us to further improve network performance, safety and resilience, support our most vulnerable customers and make sure everyone can access the services they require.

As our customers pay for everything we do, our business plan was created with them and is for them. It contains 42 ambitious core commitments and more than 400 wider commitments, all designed to achieve four crucial outcomes for customers:

**Affordability:** We will continue to deliver the highest standards of safety, reliability and customer service that customers have come to expect from us. Power cuts will be at their lowest ever levels and customer satisfaction will be at its highest at over 93%. Crucially we will achieve all of this while keeping our portion of the average domestic customer bill broadly flat, around the current average level of 28p a day.

**Sustainability:** We will support the UK's ambitions to achieve net zero carbon emissions by 2050, driving crucial changes in energy usage and customer green behaviour. We will set the benchmark by achieving net zero in our own operations by 2028 (excluding engineering network losses and scope 3 emissions) and we will ensure the network is ready to enable local authorities to achieve similar ambitions in their regions.

**Connectability:** A lack of network capacity should not be a barrier for our customers. We will ensure that the network can cater for at least 1.5 million additional electric vehicles, 600,000 heat pumps and a significant increase in renewable generation over the next five years.

**Vulnerability:** We will deliver a first class programme of inclusive support. This will include offering 600,000 smart energy action plans for vulnerable customers each year, ensuring no one is left behind in a smart future. We will also more than double our ground breaking fuel poverty support to deliver over £60 million of savings for 113,000 fuel poor customers over the course of RIIO-ED2.

We have developed a suite of wide ranging, dynamic, ambitious and interconnected strategies that will be implemented in RIIO-ED2. Each one is designed to contribute towards the delivery of our above mentioned four overarching strategic outcomes we intend to achieve for our customers over the course of RIIO-ED2. Some of the key strategies developed by the Group in this regard are: Climate Resilience strategy, Digitalisation strategy and action plan, Net Zero Communities' strategy, Environment strategy and action plan, Workforce Resilience strategy, DSO strategy and Customer Vulnerability strategy. Each of our strategies is embedded across our operations, having cross business impact.

Our final submitted RIIO-ED2 business plan can be found on our website at the link below:

<https://yourpowertofuture.westernpower.co.uk/riioed2-business-plan>

## **Strategic report (continued)**

For the year ended 31 March 2022

### **Future developments (continued)**

#### ***Green Recovery initiative***

Under this initiative Ofgem has agreed to allow DNOs to unlock investment funding for targeted areas. We have established plans and work programmes to build a 'green recovery' from the effects of Covid-19 and will be investing up to £59m in the electricity grid across the Midlands, South West England and South Wales to boost green growth and jobs across our region, increasing available network capacity for demand growth by 617MW – equivalent to connecting 171,000 heat pumps or 385,000 domestic electric vehicle chargers. Up to £44m of this will be invested before RII0-ED2 commences.

The nationwide call for evidence to support network investment projects to boost the post-pandemic green recovery saw WPD receive feedback from more than 200 stakeholders. This helped WPD to target the network investment to the areas that would see the most benefit. Each of the Group's 73 projects have met the Ofgem-backed initiative's criteria of enabling net zero and providing a wider social benefit. The successful projects, which will be completed during 2022 and 2023, range from installing new substations to reinforcing existing parts of the network.

This initiative will help drive our **stakeholders'** transition towards net zero and transform our network for the future. We will support our customers with the connection of electric vehicle charging points, heat pumps and more localised renewable generation on a huge scale. In total, 55% of the projects relate to customers wanting to connect public Electrical Vehicle ("EV") charging hubs in some form and WPD estimates that customers could connect up to 50% more ultra-rapid EV chargers as a result of these investments, many at motorway service areas.

#### ***Network innovation***

WPD, through Ofgem's Network Innovation Funding Incentives, is developing innovative projects which aim to help make the energy networks smarter, accelerate the development of a net zero carbon energy sector as well as deliver financial benefits to consumers. The projects help develop crucial knowledge and expertise which is being shared across the industry.

The RII0-ED1 innovation mechanisms introduced the Network Innovation Competition ("NIC") and Network Innovation Allowance ("NIA"). NIC is an annual opportunity for the DNOs to compete for funding for the development and demonstration of new technologies, operating and commercial arrangements. The NIC is expected to focus on funding larger scale and greater value innovation projects. In addition to the larger projects, WPD is continuing to deliver a portfolio of smaller low carbon projects through the NIA.

WPD has registered various network innovation projects covering a broad range of topics. Our Innovation project portfolio has been expanded to new areas enabling us to work with industries we have never worked with before. Driven by our ambition to meet net zero and recognising that this cannot be delivered if we don't collaborate with other key industries, we have focused on increasing our collaboration with crucial sectors such as utilities, transport and construction, that need to decarbonise to enable the UK to meet its net zero targets. We have created and are delivering NIA projects in collaboration with water utilities, environmental management experts and leaders in climate change adaptation. We are proud to have started our largest NIA project focusing on consumer vulnerability called Vulnerability and Energy Networks, Identification and Consumption Evaluation ("VENICE"). VENICE is developing ways to predict consumer vulnerability, measuring the impact the pandemic had on the networks and using a community energy scheme to find the right approaches needed to engage with the fuel poor in the energy transition.

We continued leading our work on electric vehicles ("EVs") and vehicle to grid ("V2G") by delivering our Electric Nation Powered Up project which is trialling V2G and strengthening our relationship with the transport industry.

Our work on the electrification of heat is now increasing significantly in scale through our NIC project, Equinox. Equinox's focus is to make heat flexibility accessible to DNOs and beneficial to customers by running the UK's largest heat flexibility trial.

Further details on our NIC and NIA projects can be found at the link below:

<https://www.westernpower.co.uk/innovation/projects>

## Strategic report (continued)

For the year ended 31 March 2022

### Risk management and controls

The WPD Board is responsible for the oversight of risk management and internal controls across the WPD group. An Emerging and Ongoing Significant Risk register process is used by the Directors to keep them informed about the most significant risks and plan mitigations.

WPD's business process owners are responsible for maintaining systems of internal controls that mitigate or manage the risks relevant to their business activity. Controls and compliance requirements applicable to the whole business are set out within company policies. There is an established framework for ensuring company policies are consistent and up to date.

Operating within the parameters of the internal controls framework, WPD aims to empower qualified and competent employees to manage risk and contribute to the effective internal control environment. This approach contributes to the development of the talent pool which is critical to the long term success of our business.

WPD utilises an Internal Audit team to provide independent review of internal controls and risk management. Following the acquisition by National Grid, the WPD Head of Audit reports to the National Grid Head of Corporate Audit and provides audit programme updates and results directly to the WPD Board.

WPD continues to operate a Sarbanes-Oxley compliance programme that is aligned to the needs of the parent company. WPD's management undertake an annual assessment of internal controls over financial reporting. This includes ensuring all key financial processes have been documented with specific details on the controls in place. Also a self-certification process is in place whereby senior managers affirm quarterly that disclosure controls are operating effectively and that all material information is disclosed in the financial reports. Key controls are reviewed and tested by the WPD Internal Audit team.

The Board is satisfied that there is an appropriate approach to risk management and adequate and effective controls are in operation. As WPD endeavours to achieve its goals, it considers the following risk categories most significant:

| Goal          | Risk                                                                                                                                      | Mitigating actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Safety</b> | <b>On site accidents:</b><br>Due to the nature of the business there is an inherent safety risk associated with unsafe working practices. | <ul style="list-style-type: none"><li>- WPD has robust safety policies and procedures in place to ensure a safe working environment. There is a system for reporting near misses and incidents with policies being reviewed and amended accordingly to avoid any future recurrence.</li><li>- The safety team actively supports managers with their safety responsibilities and provides assistance to enable them to maintain a clear focus on safety. During the year, on a monthly basis, the safety team have provided information for managers to use in their team meetings with their staff which supports the 4 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 .</li><li>- Causes of accidents are published in the staff incident bulletin so that team managers can adequately brief their teams.</li><li>- Regular safety site visits are undertaken to ensure that all safety policies and procedures are being followed and implemented. Site safety visits undertaken during the year were 11,245 (2021: 10,313) versus a target of 6,312 (2021: 6,348).</li></ul> |

Risk management and controls (continued)

| Goal                              | Risk                                                                                                                                                                                                                                                                                                                                                                                | Mitigating actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| Network performance & reliability | <p><b>Network disruptions:</b><br/>Events such as weather conditions or third party damage 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.</p> | <ul style="list-style-type: none"> <li>- WPD 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 maintains a presence on a number of national industry working groups, along with Government Departments such as the Department of Business Energy and Industrial Strategy ("BEIS") and the regulator, Ofgem, which plan and prepare for such events. These groups ensure a consistent approach to resilience and a swift response to network emergencies across the industry.</li> <li>- WPD is committed to regular training sessions with its Network Control Centre Engineers to exercise a response to a System Emergency. To supplement this, general awareness sessions have been delivered to staff from the wider business. This ensures everyone is aware of the potential impacts and aids business continuity planning across a range of departments.</li> <li>- Local operational teams undertake desktop exercises to ensure resilience and business continuity plans remain appropriate. All learning is shared across the business.</li> <li>- Established restoration plans are in place and reviewed with National Grid and contracted power stations.</li> <li>- 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.</li> <li>- Flood resilience plans are in place for major substations and other critical sites.</li> <li>- WPD has a resilient IT infrastructure with multi-sites running fault tolerant/mirrored systems with the ability to cope with home working as well.</li> <li>- Diligent and extensive routine maintenance for network assets including tree cutting costs is conducted. Assets are managed to an accredited asset management standard, ISO55001, to support the right decision making with respect to asset maintenance and replacement.</li> <li>- In addition to normal equipment stocks, WPD also keeps a small number of additional strategic spares as well as being part of the National Grid strategic spares group. Throughout the pandemic, WPD also procured additional PPE materials and vehicles to ensure the business remains able to respond and assist to the nation's power needs.</li> <li>- There are reciprocal arrangements in place with other network operators for backup support through the North East West South Area Consortium ("NEWSAC"). This allows for the sharing of physical labour, materials and/or plant amongst the industry when required.</li> <li>- In order to better support customers impacted by network events WPD has arrangements in place with the British Red Cross to provide emotional and physical support and a contract with National Caterers Association ("NCASS") in order to provide hot food provision for communities impacted for longer durations.</li> </ul> |

Risk management and controls (continued)

| Goal                              | Risk                                                                                        | Mitigating actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Network performance & reliability | <p><b>Cyber breach threat:</b><br/>Unauthorised access to our key networks and systems.</p> | <ul style="list-style-type: none"> <li>- Stringent policies and procedures are in place to provide controls around network security, proactive threat intelligence gathering, asset management, data backups and incident response.</li> <li>- A dedicated and qualified team is in place, that continually reviews and monitors our cyber security position and reporting capabilities.</li> <li>- WPD limits direct connection of WPD's corporate network to the internet, direct cloud based services and personal devices.</li> <li>- Data considered to be 'in transit' is secured where possible using a variety of methods and techniques including use of various file transfer protocols.</li> <li>- Regular security drills are performed involving the Information Resources department and other teams.</li> <li>- 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.</li> <li>- Extra measures have been put in place due to the heightened risk from COVID-19 relating to a high number of employees working from home. Users have been advised of security measures to follow when using WPD assets from home along with guidance to ensure the safe use of video conference facilities. Extra monitoring controls have been implemented around the Group's externally facing systems and the Group's remote access connections. We have also conducted additional penetration tests and vulnerability scans to ensure our external connections remain secure and reviewed our incident response procedures relating to our internet infrastructure.</li> <li>- Network segmentation of sensitive environments is either in place or currently being introduced to prevent unauthorised access.</li> <li>- 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.</li> <li>- We have conducted several incident response exercises to test our readiness in relation to our incident response processes.</li> <li>- A proactive approach is being taken to penetration testing and vulnerability management to identify and introduce mitigations to reduce the cyber risk of WPD systems.</li> <li>- Following the Russian invasion of Ukraine, we have enhanced our cyber security in relation to email traffic from conflicted areas and also engaged closely with trusted third parties regarding threat intelligence related to the conflict.</li> </ul> |

Risk management and controls (continued)

| Goal                                | Risk                                                                                                                                                                                                                                                                                                                           | Mitigating actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Connections & customer satisfaction | <p><b>Customer dissatisfaction:</b><br/>Failure to meet the required level of customer satisfaction performance.</p>                                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>- WPD's Customer Panel ("CP") meets quarterly and expert members represent a wide range of customers and other key stakeholder groups. The 28 members, who represent our customer base and have interest areas including connections, business customers, consumer vulnerability and the needs of rural customers, met virtually throughout 2021/22. 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.</li> <li>- As part of RIIO-ED2's enhanced engagement, our Customer Engagement Group ("CEG") was established to scrutinise our business plan. WPD followed a robust, independent and transparent process to appoint all 14 members of the CEG and was the first DNO to set up the CEG. The CEG reflects the needs and preferences of existing and future consumers and promotes good value customer outcomes, with a focus on affordability, the protection of vulnerable consumers, the environment, sustainability and the transition to a low carbon energy system. The Board members have actively engaged with the CEG and are confident that there has been a constructive working relationship between the CEG and the WPD group management team.</li> <li>- Annually WPD hosts an array of workshops, webinars and surgeries to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. During the year ended 31 March 2022 WPD held a week of topic specific workshops for stakeholders from a range of different backgrounds (including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors) as well as specific events for those interested in connections, heat pumps, community energy and local investment plans for example. This year we introduced hybrid events, which allowed stakeholders to choose between attending in-person or remotely. Events still included breakout 'rooms' for stakeholders from a range of different backgrounds to share their views in a dynamic round table format.</li> </ul> |
|                                     | <p><b>Regulatory changes:</b><br/>Changes in legislation relating to environmental and other matters are not adopted by WPD.</p> <p><b>Negative impact of network assets on the environment:</b><br/>Due to the nature of the equipment used in the industry, network assets may have a harmful impact on the environment.</p> | <ul style="list-style-type: none"> <li>- WPD has a dedicated regulation and compliance department with skilled personnel that track regulatory changes and provides advice in relation to interpretation and compliance of, and with, changes.</li> <li>- 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.</li> <li>- 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, reduces the effect on the total annual fluid losses.</li> <li>- 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 carefully monitors its SF6 equipment and employs the Energy Networks Association ("ENA") engineering recommendations for the reporting of SF6 banks, emissions and recoveries.</li> <li>- Following best practices and complying with various guidelines in connection with environmental practices such as: <ul style="list-style-type: none"> <li>a) G92/1 Guidelines for best practice in relation to Electric and Magnetic Fields ("EMFs") in the Design and Management of Low Voltage Distribution Network.</li> <li>b) BEIS Code of Practice on the Optimal Phasing of High Voltage Double Circuit Power.</li> <li>c) WPD complies with the public exposure recommendations contained within the 1989 ICNIRP (International Commission on Non-ionising Radiation Protection) Guidelines on Extremely Low Frequency Electromagnetic Fields.</li> <li>d) Occupational exposure requirements specified within the Control of Electromagnetic Fields of Work Regulations 2016.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

Risk management and controls (continued)

| Goal                           | Risk                                                                                                                                                                                                                                                                                                    | Mitigating actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stakeholder value & engagement | <p><b>Lack of skilled employees:</b><br/>Failure to attract, retain and develop our employees.</p>                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>- WPD maintains good practices and safe working conditions.</li> <li>- WPD's employees have access to pension schemes (Defined Contribution Scheme for the new members).</li> <li>- WPD has benchmarked terms and conditions for all employees.</li> <li>- Employees are kept informed of WPD'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'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.</li> <li>- Employee surveys are conducted to seek feedback and to ensure engagement across workforce.</li> <li>- Various training programmes are offered under the Trainee Development Scheme and Technical Apprentice Scheme.</li> <li>- Succession plans are in place for key roles within the organisation.</li> <li>- WPD has five in-house training centres.</li> <li>- For the last 20 years WPD has been recruiting approximately 100 new apprentices each year.</li> </ul> |
|                                | <p><b>Reliance on suppliers:</b><br/>WPD relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery.</p>                                                                                                                     | <ul style="list-style-type: none"> <li>- 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's ability to operate the network.</li> <li>- All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                                | <p><b>Regulatory risk:</b><br/>WPD's revenue is regulated and is subject to a review at the end of each price control period. Thus WPD 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.</p> | <ul style="list-style-type: none"> <li>- WPD deploys significant resources in engaging with Ofgem on all new consultations and decisions.</li> <li>- WPD is actively involved in the RIIO-ED2 consultations.</li> <li>- WPD's RIIO-ED2 business plan has evolved based on guidance from Ofgem and the core commitments within WPD's draft business plan have been driven by Ofgem's output categories.</li> <li>- WPD actively engages with Ofgem in relation to all industry initiatives such as the Green Recovery Initiative which involved unlocking investment for green projects.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

Risk management and controls (continued)

| Goal            | Risk                                                                                                                                                                                                                                  | Mitigating actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial risks | <b>Interest rate risk:</b><br>WPD has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, which exposes it to interest rate risk.                                               | <ul style="list-style-type: none"> <li>- WPD's interest rate risk management policy seeks to achieve the lowest possible cost of debt financing whilst 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.</li> <li>- An element of the long-term debt is index linked which creates a natural hedge against WPD's regulated income which is also index linked.</li> <li>- WPD also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for any future planned issuance of debt.</li> </ul>                                                                                                                                                                                                                                             |
|                 | <b>Credit risk:</b><br>A customer or counterparty to a financial instrument will fail to perform and pay the amount due causing financial loss to the WPD Group.                                                                      | <ul style="list-style-type: none"> <li>- WPD 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").</li> <li>- In relation to any other debtors, such as customer contributions in relation to any capital work undertaken, in most cases, standard payment terms require payment in advance. However, some larger schemes may have phased payment milestones. To minimise credit risk on such debtors, 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.</li> </ul> |
|                 | <b>Exchange rate risk:</b><br>Negative currency fluctuations on foreign currency denominated debt.                                                                                                                                    | Where long-term debt is denominated in a currency which is not sterling, the WPD Group's policy is to hedge exposure to fluctuations in exchange rates through cross-currency swaps.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                 | <b>Inflation risk:</b><br>Impact of changes in the UK RPI on revenues and costs. The WPD Group'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. | <ul style="list-style-type: none"> <li>-For RIIO-ED1, DNO allowed revenue is linked to the Retail Prices Index ("RPI"), as published by the Office for National Statistics to provide protection against economy-wide inflation. Thus, if costs increase due to inflation, for most part, there is a natural hedge for the Group as a result of operating in a regulated industry.</li> <li>- As WPD's RAV is linked to RPI, due to the price setting mechanism imposed by the regulator, by matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                              |

Other current risks

Supplier chain disruptions

Multiple factors such as an increase in demand, raw material shortages, shipping costs, energy costs, inflation costs, COVID-19 and the Ukraine crisis have collectively added complexity to procured inventory. The volatility of the global supply chain has led to enhanced strategic planning with suppliers and the business, amending forecasting regimes, work programmes and in some cases inventory profiling.

In addition, post Brexit, some shipping delays have been noted in receipt of inventory items from the European Union ("EU"). However there has been no operational disruption within the Group due to these delays. Our EU sourced inventory has returned to business as usual levels, factoring in extended lead times to smooth the supply chain where required.

The multi sourcing of strategic contracts remains key to protect our operations from a single point of supply failure. Our purchasing team continues to work closely with suppliers to ensure long range forecasting is a priority with an increased number of contract performance reviews to identify potential shortcomings earlier and to consider alternative opportunities. Our experience and feedback of working with our global suppliers recognises that early coordination and communication with these suppliers is key to minimising disruption.

## Strategic report (continued)

For the year ended 31 March 2022

### Risk management and controls (continued)

#### Other current risks (continued)

##### Energy supplier failures

Due to the ongoing global energy crisis, further impacted by the Russian invasion of Ukraine, there is a risk of further energy supplier failures. This impacts us directly in terms of the LRSP claims and bad debts. As explained in the “Business review” section above, these are pass through costs for us and recoverable through future DUoS charges. However, the time lag between incurring these costs and recovery of these costs through our regulatory framework can pose a cash flow risk for the DNOs. WPD manages this risk by active engagement with the regulator, Ofgem and the industry as a whole. Active engagement with Ofgem ensures that all the relevant concerns for the DNOs are voiced and highlighted appropriately.

With regards to LRSP, for all claims above the materiality threshold as defined in the regulatory licence, the DNOs have the option of giving notice to the authority for increasing DUoS in the same regulatory year instead of with a two years’ lag. This minimises the cash flow risk in relation to LRSP claims to amounts below the materiality threshold only.

Further, the Group currently does have sufficient headroom under its existing facilities. Refer to the “Liquidity and going concern” note on pages 45-46.

### Corporate and social responsibility

We are committed to being a good corporate citizen delivering social and environmental value for our employees, customers and wider society. We care about our customers and our communities, the way we engage and interact with our stakeholders and how we take responsibility within the communities we serve.

#### *Social and community*

Working with our communities is important in creating shared value for us as a business, the people we serve and the communities we operate in. WPD is the first DNO to develop a social contract. It will ensure we deliver enduring, long-term support to our communities and further embed consumer vulnerability across our operations. Created in collaboration with stakeholders, the Social Contract sets out our ambitions to generate wider social and environmental impact, drive a green recovery from the Covid-19 pandemic and facilitate a fair and inclusive transition to achieve net zero carbon emissions as soon as possible. While our RIIO-ED2 Business Plan sets out what we will do over the next five-year regulatory period, our Social Contract outlines how WPD will act in pursuit of our purpose. The Social Contract therefore simultaneously underpins, and builds on, what we set out in our Business Plan, by outlining the purpose that guides our actions, as well as initiatives that go over and above to generate wider social impact. For details on this refer to our Social Contract document on our website at:

<https://www.westernpower.co.uk/our-social-contract>

In the year to 31 March 2022, WPD assisted 128 (2021: 90) separate charitable and non-charitable organisations as part of a £199,000 (2021: £83,000) commitment. This included:

- Greenpower challenge – A project that sees teams of school children (aged 11-16) design, build and eventually race electric kit cars with the assistance of WPD STEM ambassadors. The initiative focuses on renewable energy, recycled materials and a pathway into understanding the various roles available in engineering. By ensuring that the teams have a 50/50 gender split the project offers an opportunity to encourage more females to try their hand at engineering.
- Support for a Cardiff Community Group to deliver specialist educational health and wellness service for people of working age with chronic conditions, serious illnesses, disabilities and long Covid.
- Planting and maintenance of 2,000 trees at Saltwells Nature Reserve in Birmingham.
- Two projects to plant wildflowers and low growing plants to improve biodiversity in Nottinghamshire and Lincolnshire.

Our annual £1m Community Matters Fund supported 79 grassroots organisations and local authorities, delivering an estimated £2m cost saving for 29,000 people in our communities. As part of this fund, £500,000 fund pertained to help those in fuel poverty through the 2021/22 winter period.

#### *- Vulnerable customers*

We currently support 1.9 million customers on our Priority Service Register (“PSR”) that records details about vulnerable customers so that additional tailored support can be provided when the customer contacts WPD or when their supply is interrupted. WPD has established a dedicated team of people to proactively contact customers and check the details held about them. This is a process that will be repeated every two years to ensure that the register remains up to date. WPD continues to work with industry partners to develop processes to share data with other service centred organisations that hold information about vulnerable customers, in line with data protection laws. WPD already sends PSR data monthly to six water companies and receives data from two of them. Links have been established with many organisations who act as ‘referral partners’ such as the British Red Cross to improve the understanding of the needs of vulnerable customers. These 149 referral partners include charities, local authorities and health organisations who sign customers up to the Priority Services Register and work with WPD to improve the services that are provided.

**Corporate and social responsibility (continued)**

***Social and community (continued)***

***- Fuel poverty and energy affordability***

It is WPD's key objective to keep our proportion of the customers' bills as low as possible and minimise the requirement for load-related reinforcement by adopting a 'flexibility first' approach in order to maximise the utilisation of the existing network. WPD will adopt a 'flexibility first' approach to resolve network constraints. We have established innovative processes for procuring and using flexibility services as an alternative to conventional network reinforcement which allows customers to connect more quickly and at a lower cost. Where constraints are identified we use signposting and forecasting processes to give flexibility providers a clear picture of requirements. These processes are carried out before conventional reinforcement would need to start and therefore help to identify whether there is sufficient flexibility available to resolve a network constraint. This approach ensures that we consider a flexible alternative for every network constraint. We will use digitalisation to continually refine the process and identify innovative ways to encourage more third parties to consider providing flexibility services.

Due to our track record of innovation development and rollout, we have already embedded £723m of efficiency savings into our RIIO-ED2 business plan. Without this, required investment in RIIO-ED2 would have been £7.4 billion, which would have resulted in increases to customer bills. Instead, by working smarter and embracing a culture of continual innovation, we will deliver our RIIO-ED2 commitments with a budget of £6.7 billion and keep bills broadly flat.

As energy prices continue to rise steeply it is more important than ever that we keep customers updated on ways to save energy and manage their use more effectively. Some customers on low incomes cannot afford to effectively heat their properties – and those who were previously 'just about managing' may have been tipped in to fuel poverty by soaring energy prices and inflation. We work with over 130 partner agencies to provide fuel poverty support and advice.

WPD continues to partner with four charitable organisations, one in each of our licence areas, to deliver the 'Power Up' fuel poverty scheme. The project helps customers by offering income and energy efficiency advice, such as benefits and tariffs advice and energy saving schemes. Customers are offered free, independent, confidential and impartial advice on a full range of interventions. The project works by partner organisations such as Citizens Advice taking referrals directly from WPD. Every customer contacted as part of WPD's PSR data cleanse is given the opportunity to be referred to a partner organisation, such as Citizens Advice and the Centre for Sustainable Energy, for support.

In addition, WPD continues to partner with four charitable organisations, one in each of our licence areas, to deliver an 'Affordable Warmth' fuel poverty scheme. Customers receive the same assistance and support as those referred to a Power Up partner but these customers are self-generated by Affordable Warmth partners and then are signed up to the PSR as part of the support package.

We work closely with partners and our Customer Panel to improve services and identify innovative ways to support customers. We held a best practice workshop in the current year in light of the pandemic and energy price rises and our £90,000 Energy Affordability Fund ("EAF") has enabled six new projects to find new ways of supporting customers in 2022, focusing in particular on digital exclusion.

In the year 2021/22, WPD's EAF, Power Up and Affordable Warmth schemes contributed to the total 25,928 (2021: 21,840) customers who saved over £14.6m (2021: £10m), an average customer saving of £562 (2021: £470). Our fuel poverty and support is the largest programme of any UK network company and has already provided support to 118,000 customers, helping them to save over £51 million over the course of RIIO-ED1.

***- Deaf awareness chartermark***

WPD holds the RNID 'Louder Than Words' charter mark accreditation which assesses and endorses the accessibility of WPD's services for deaf and hard of hearing people. We have held the accreditation for eight and ten years respectively for WPD South Wales/WPD South West and WPD East Midlands/WPD West Midlands. We are the first DNO in the UK to have launched the "InterpreterNow" service. This enables deaf customers to contact us in British Sign Language ("BSL") via an online interpreter by downloading a free app. In addition, we now provide a series of customer information videos in BSL.

***Taxation***

As part of the National Grid Group, WPD adopts a responsible approach to taxation aiming to comply with applicable tax legislation. Details of the approach are included in the National Grid tax strategy that is published annually and covers all businesses within the group. The tax strategy can be found on the National Grid website or using the link below:

<https://www.westernpower.co.uk/about-us/financial-information>

For details of the WPD Group's effective tax rate see note 10.

## Strategic report (continued)

For the year ended 31 March 2022

### Corporate and social responsibility (continued)

#### Human rights

WPD is dedicated to conducting its business with honesty, integrity and fairness. In support of these principles it is WPD's policy to observe all domestic and applicable foreign laws and regulations including the Human Rights Act 1998, Equality Act 2010 and Modern Slavery Act 2015. Training of all employees is conducted in relation to these laws and regulations which has led to an understanding within the Group of issues associated with these statutes. The outcome of our policies and procedures is that there have been no known instances of any form of discrimination, slavery or human rights violation.

For our Modern Slavery Act 2015 statements refer to the link below:

<https://www.westernpower.co.uk/modern-slavery-act>

#### Anti-corruption and anti-bribery

WPD has robust policies on anti-corruption and anti-bribery. These policies apply to all employees of the Group and form part of the employee Code of Conduct. Other individuals performing functions for the Group, such as agency workers and contractors, are also required to adhere to our anti-bribery and anti-corruption policies. Through our policies and procedures we have been able to foster an environment of zero tolerance towards bribery and corruption. As a result there has been no known violation of applicable laws and policies.

### Climate change

#### Our environmental impact

WPD is committed to environmental sustainability and achieving net zero. Net zero means achieving a balance between the greenhouse gases put in to the atmosphere and those taken out. When the amount of greenhouse gas (tCO<sub>2</sub>e) we add is no more than what we take away, we have achieved net zero, also referred to as carbon neutral.

We aim to be a net zero carbon business (excluding network losses and scope 3 emissions) by 2028 and aim to achieve net zero, including network losses by 2043. Furthermore, we commit to reporting on a wider range of our scope 3 (indirect emissions) over the course of the RIIO-ED2 period.

Our BCF details the impact that our operational activities have on the environment in terms of associated CO<sub>2</sub> emissions and takes account of the energy usage from offices and substations, transport emissions (both operational and business), fuel combustion and the release of greenhouse gases ("SF<sub>6</sub>") into the atmosphere. The reported data for operational transport (road) and fuel combustion also takes account of a number of our larger contractor emissions. All of our published BCF data is compliant with international business carbon footprint standards, the Greenhouse Gas ("GHG") reporting protocol and ISO14064-1. Refer to page 47 in the Directors' report for our BCF data.

We passionately believe in minimising our impact on the environment and are striving to reduce our own BCF. We embrace our social responsibility to respect and protect the environment and believe we should be a role model, inspiring others to follow our lead. During RIIO-ED1, we have driven a more proactive, performance driven approach to environmental stewardship, achieving a 35% reduction of our BCF since 2014/15. In 2021/22, only 7.21% of waste from our operations is being sent to landfill as compared to 42% in 2014/15. We have also achieved a reduction of SF<sub>6</sub> gas leaks outperforming our 17% reduction RIIO-ED1 target for top ups based on like for like data and replacement of 33km of overhead lines in National Parks and Areas of Outstanding Natural Beauty, meaning we are on track to achieve our target of 55km by the end of RIIO-ED1.

Some of the initiatives that we have in place to improve our overall BCF performance are:

- We continue to remain committed to investigating and finding alternatives to SF<sub>6</sub> and use four infrared SF<sub>6</sub> detection cameras which enable us to quickly pinpoint the source of leaks.
- We continue to install low energy lighting and energy efficient heating/cooling systems throughout our property portfolio as well as undertaking energy efficiency reviews at many of our non-operational and operational sites.
- To improve emissions associated with our operational transport activities we will continue to replace older vehicles with more fuel efficient alternatives and improve awareness of the impacts of driver style on fuel efficiency and vehicle emissions through roll-out of our group wide Driver Behavioural Systems ("DBS"). Furthermore, we have continued to introduce electric vehicles as part of our operational road transport fleet which will have a significant impact on our business carbon footprint for years to come.

**Climate change (continued)**

***Our environmental impact (continued)***

In addition to the above initiatives already commenced, some of our other ambitions for RHO-ED2 are as follows:

- Install LCT generation at all suitable depots and offices to produce electricity to meet operational demand.
- Purchase all building energy from a renewable source and account for this in our reported BCF.
- Reduce energy use in our buildings.
- Ensure that all new WPD offices and depot buildings achieve an "Excellent" Building Research Establishment Environment Assessment Method ("BREEAM") rating.
- Replace a minimum of 89% of our operational fleet with electric vehicles by 2028.
- Cut carbon emissions from our operational fleet by 50%.
- Install electric vehicle charging infrastructure at all our operational sites and key substations sites.
- Include only non-carbon technology cars in our company car scheme by 2025.
- Reduce business travel by encouraging more remote working and virtual meetings.

Further details on our ambitious environmental targets and our path to net zero can be found in our published strategies listed below:

- Environment Strategy;
- Environmental Action Plan;
- Electric Vehicles Strategy; and
- Heat Pumps Strategy.

All the above documents are available on our website at the link below:

<https://yourpowerfuture.westernpower.co.uk/RHO-ED2-further-information/document-library>

***Impact of climate change on the Group***

WPD is focused on tackling climate change, having first introduced our robust Climate Resilience Strategy ("CRS") alongside the 2008 Climate Change Act. During the year ended 2021/22 our CRS has been updated and sets out strategies to minimise the impact of environmental change on our operations ensuring we can continue to provide a safe and reliable power supply to all our customers.

Our customers want us to ensure climate change has minimal impact upon their electricity supply and that our networks remain fit for purpose even if the environment in which we operate changes.

WPD's climate resilience strategy is based on five pillars:

***Improve our understanding of the likely environmental effects of climate change, including the development of a cross-industry climate resilience working group.***

We will continue to consult scientific and industry publications to determine the potential environmental effects of climate change and their likely severity. For example, to date, WPD has considered a number of climate change projections through involvement in the Adaptation to Climate Change Task Group which makes use of the Met Office UK Climate Projection 2018 ("UKCP18"). We have considered the Paris Agreement's 'central aim to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2°C above pre-industrial levels' and the additional focus by government in the National Infrastructure Strategy regarding flooding and the decarbonisation of heat and transport. WPD will also continue to liaise with local authorities to ensure future planning decisions and development are factored into our adaptation strategies. WPD will continue to assess a range of valid publications to account for the greatest possible range of projections.

***Continue to assess implemented mitigation solutions, risks and impacts to our network associated with climate change.***

Understanding how the common risks will affect WPD's assets and the identification of our specific risks has led us to prioritise and implement adaptation for three issues i.e. extreme events, temperature increase impact on overhead lines and major substation sites at risk from fluvial or sea breach flooding. Electricity networks' assets in general are well maintained and monitored and as such have very long lives, typically 40 to 80 years, with assets situated in the same location. However it is important that WPD considers the predicted climate change impacts when planning new installations or safeguarding existing key equipment. As an example, flood protection currently being provided is designed to be resilient to the end of this century based upon current environmental forecasting models (WPD will continue to monitor forecasting to ensure changes to these models are considered in our business planning programmes for future years).

**Climate change (continued)**

***Impact of climate change on the Group (continued)***

***Further develop our adaptation pathways to represent short, medium and long term climate change projections and challenges across WPD's four licence areas.***

The aim of these adaptation pathways is to identify the key areas of focus to which potential strategies can be applied for climate change mitigation based on certain criteria being met within the short, medium and long term. Short term adaptation challenges are considered relevant over the RIIO-ED2 regulatory price period, medium term adaptation challenges are considered up to 2035 and long term adaptation challenges are considered up to 2050 and beyond. This is to coincide with the Government's net zero target and consider any shifts in global climate change predictions due to global actions taken. A decision can be made once criteria are met that changes the area of focus giving flexibility in a long term strategy. Temperature increase, increased precipitation (flooding), lightning and vegetation management are the existing pathways on which WPD has completed actions and is now monitoring signals that will cause a change to policy direction or strategic action. For the existing pathways we have already made changes that we expect to meet the UKCP18 worst case forecast to our specifications for overhead lines design and vegetation management processes. For flooding we also have programmes of work through RIIO-ED1 and new sites identified for protection within RIIO-ED2. WPD monitors signals from the Met Office, Environment Agency and other energy companies to manage the day to day risks of flooding but just as importantly to instigate a review of the longer term strategy to ensure long term management and mitigation of the flooding risk.

***Develop and implement cost effective and impactful climate resilience initiatives in conjunction with other business activities and investment plans.***

To date WPD has carried out a number of climate resilience initiatives evidenced through the 'adaptation to climate change' series of reports to The Department for Environment, Food and Rural Affairs ("DEFRA"), the third of which was published in 2021:

- Improving resilience to extreme weather through monitoring and improving storm response efforts and specifying lightning protection for pole mounted transformers.
- Completing flood risk assessments and implementing flood defences for 'at risk' major and strategic substations. This includes developing emergency flood response capability.
- Designing new overhead lines to a higher temperature rating through specifying taller poles to allow for more conductor sag whilst maintaining compliance with Electricity Safety, Quality and Continuity Regulations ("ESQCR") clearance requirements.
- Studying the possible effects of climate change on earth conditions, such as earth resistance, to forecast effects to earthing systems.

***Regularly review our ambitious climate resilience initiatives, to ensure good progress is being made, and value for customers is being delivered.***

A complete review of our resilience initiatives will take place at least annually, with more regular interventions alongside new information or events. This robust approach to evaluation will help us measure the effectiveness of our work and ensure we are delivering the most value for our customers.

Our Climate Resilience Strategy can be found on our website at the link below:

<https://yourpowerfuture.westernpower.co.uk/RIIO-ED2-further-information/document-library>

**Strategic report (continued)**

For the year ended 31 March 2022

**Non-financial information statement**

In accordance with section 414CB of the Companies Act 2006 we have reported on various non financial information as follows:

- Business model

Refer to page 1.

- Environment

Refer to pages 3 and 27-29 for details on our policy regarding the environment.

Refer to pages 11-13 for details of the impact of our activities on the environment and our performance in this area.

Refer to page 22 for our principal risks in relation to the environment and our actions to mitigate those risks.

- Employees

Refer to page 4 for details on our policies regarding employees.

Refer to page 13 for our performance in relation to employee satisfaction.

Refer to page 23 for our principal risk in relation to employees and our actions to mitigate that risk.

- Social matters

Refer to pages 25-26.

- Human rights

Refer to page 27.

- Anti-corruption and anti-bribery matters

Refer to page 27.

**Section 172 Statement**

Refer to pages 40-44 for our Section 172 statement.

Approved and authorised for issue by the Board and signed on its behalf by:



P Swift

Chief Executive

22 July 2022

**Western Power Distribution plc**

Avonbank

Feeder Road

Bristol BS2 0TB

## Corporate governance statement

For the year ended 31 March 2022

For the year ended 31 March 2022, under The Companies (Miscellaneous Reporting) Regulations 2018, Western Power Distribution (“WPD”) has adopted the Wates Corporate Governance Principles for Large Private Companies.

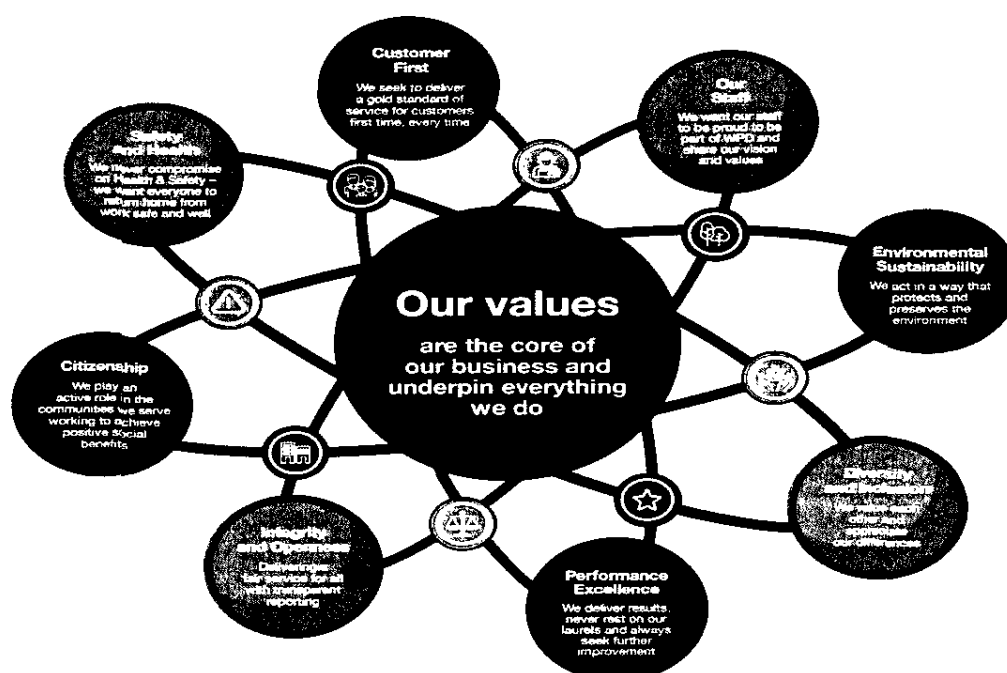
The principles below have been applied throughout the year ended 31 March 2022.

### Purpose and leadership

Our purpose and values are the long term fundamentals of our business, they are what motivate us and drive how we behave.

Our purpose is to deliver exceptional service and support environmental and social well-being for the communities we serve through our commitment to deliver: “Power for life. Power for future generations”. This perfectly aligns our business practices with our purpose.

The Board has defined our values in a Values matrix (see below) which drive the attitudes and behaviours of our workforce. These values and behaviours are intrinsically linked to WPD’s culture which in turn enables us to deliver our purpose. Our purpose is supported by our policies, processes and procedures throughout the company so that they are aligned to our values to create a unified shared culture.



Our purpose and values are essential to the effective and efficient operation of our core business to provide safe and reliable electricity supplies to our customers who rely on us each and every day. The service we provide is critical to the lives and livelihoods of the communities that we serve. In order to fulfil our purpose of delivering the needs of our customers and communities, we listen to our stakeholders and have an extensive stakeholder engagement programme that is explained in more detail in the 'Stakeholder relations and engagement' section below. The Board is confident that they have defined and articulated the purpose and values that goes to the heart of WPD in that we are a purpose led Group with our values developed in conjunction with our workforce and other stakeholders over many years.

The Board is determined to ensure that the Group’s culture is aligned with our purpose and values. As a step towards this, one of the initiatives launched during the year was the launch of the Social Contract. WPD was the first DNO to develop a Social Contract as a vehicle for delivering social and environmental value for our employees, customers and wider society. Co-created with stakeholders, the Social Contract sets out our ambitions to maximise the positive impact of everything we do as a Group, with an action plan containing commitments in three strategic areas: ‘Empowered Communities’, ‘Employer of Choice’ and ‘Environmental Steward’. We have always been clear that WPD has a ‘Social Contract’ with our communities and employees in the form of our purpose. As a Group we have been delivering on this principle for many years. However the document launched this year is the first time we have consolidated and formalised our efforts within a single document. The Social Contract document will provide a framework for ongoing responsible business practice that enables WPD to demonstrate the delivery of our purpose.

## **Corporate governance statement (continued)**

For the year ended 31 March 2022

### **Purpose and leadership (continued)**

Our operational workforce consists of geographically based teams responsible for all activities in that area, complemented by a range of support staff. We operate a flat management structure, which makes decision making and problem solving much quicker and empowers employees to act within an agreed framework of authority. The Board recognises the important contribution made by all employees in delivering our purpose. Our values are constantly reinforced to employees through various internal communications such as our in-house magazine, regular news updates and direct emails from the Chief Executive and other executive directors of the Group and from the Chief Executive of the parent.

During the year the Chief Executive has visited various workforce groups throughout the Group. The other directors have also actively engaged with the workforce through casual and formal methods. This engagement has enabled the Board to get invaluable insights into the culture of the Group and how it is developing. Our senior leadership conferences, presented by the Chief Executive and other executive directors to the senior management, help strengthen our values and support open dialogue between the executives and the senior management team. This is an effective way of strengthening the feedback from senior managers and cascading key messages by the executive directors throughout the organisation and ensuring all colleagues can contribute to delivering WPD's purpose.

The insight gained from the engagement with all stakeholders allows the directors to monitor the values through their attitudes, behaviours and the culture of the Group. This guides the Board to make decisions which are in the interests of all stakeholders.

### **Board composition**

#### ***Balance and diversity***

The WPD plc Board comprises four executive directors and two non-executive directors. The non-executive directors are part of the senior management team of the WPD Group shareholder, National Grid.

The designation of the executive director roles are Chief Executive, Operations Director, Finance Director and Resources & External Affairs Director. All the executive directors are experienced in their respective roles and responsibilities.

Key functions of the business are reflected within the organisational structure of the Group and fall within three broad areas i.e. Operations/Logistics, Resources & External Affairs and Finance/IT. The size of the Board is aligned to the organisational structure of the Group with each executive director responsible for the oversight of its relevant area under the overall leadership of the Chief Executive.

Oversight responsibilities lie with the non-executive directors. The non-executive directors fulfil their responsibility in offering constructive challenge by regularly attending the board meetings of the Company. Outside of formal meetings, the non-executive directors are provided with timely information and given access to relevant updates, including invitations to meetings, where they are encouraged to offer constructive feedback.

The non-executive directors possess the necessary skills and experience of the utility sector and wider business sectors to provide oversight of the Company. To fulfil their duties, they have access to the Company Secretary and to legal advisors funded by the WPD Group. As with all Board members, the non-executive directors have the authority to request Board meetings.

During the current year, two female directors were appointed to the Board of the WPD Plc non-executive directors. This increased the ratio of female directors on the board to 50%. The Hampton-Alexander review, an independent voluntary and business led initiative supported by the Government to increase the representation of women in senior leadership positions and on Boards, set a target of 33% women representation on FTSE 350 Boards and FTSE 350 senior leadership teams by end of 2020 which although the Company is not required to do so, has exceeded this target.

A detailed profile of our Board can be found on our website at the link below:

<https://www.westernpower.co.uk/about-us/meet-our-executive-team>

All directors have equal voting rights when making Board decisions, with the Chair of the meeting having a casting vote.

## **Corporate governance statement (continued)**

For the year ended 31 March 2022

### **Board composition (continued)**

#### ***Chair***

Although there is no permanent appointment of the Board's Chair it is usual practice for the Chief Executive to be appointed the Chair at each Board Meeting. The Chief Executive is the President of Electricity Distribution within the National Grid management organisation and as such has extensive engagement with the shareholder. Through this engagement he is well placed to identify and facilitate the views of the ultimate shareholder. The Board believes this is a valuable part of the overall corporate governance framework which is appropriate for a subsidiary company that is part of a larger group and provides greater benefits than separating the roles of the Chair and Chief Executive.

#### ***Appointments***

The Chief Executive is appointed by the Group shareholder, National Grid. The appointment of the Chief Executive and the other directors follows the National Grid policy on the "Appointment of Directors of Subsidiary Companies Procedure" (the "Appointments Procedure"). This is to ensure that appointments and changes to the composition of the boards of directors of subsidiary companies within the National Grid Group are fully evaluated in a consistent manner that can be reviewed for compliance with statutory requirements. It also ensures an appropriate level of representation and the provision of the right skills and experience on relevant company boards.

Other executive directors and non-executive director appointments are recommended and approved with the support of the Chief Executive in line with the Appointments Procedure. The process followed for the nomination of these directors involves the consideration of the relevant skills, expertise, experience, professional background and various other personal attributes. The Executive Council, consisting of the Chief Executive plus the other executive directors, is responsible for the succession planning within WPD.

Newly appointed directors undertake an induction programme which is tailored to their specific needs.

The Board ensures their knowledge is current and relevant through a variety of means such as attending training programmes and appropriate industry conferences, holding memberships of relevant institutes, completing technical training updates and attending meetings with various industry participants e.g. regulators, investors and banks. The executive directors adopt a hands on leadership style and regularly meet with their management teams to ensure that they are updated on the latest business developments and have immediate access to the current information.

### **Directors' responsibilities**

#### ***Accountability and discharge of responsibilities***

There are well-defined policies, as approved by the Board, clearly establishing the overall duties and liabilities of the directors, the areas of responsibility and accountability for each director, the process for delegation of authority by the Board and the matters reserved for the Board. Policies have been established that define the framework within which we expect managers and employees to operate. These policies represent one of the means through which decisions on stakeholder interests are enacted and there is a robust process in place for the regular review and update of policies and processes to ensure they remain relevant and fit for purpose.

There are four principal Board meetings each year. The DNO Boards have held additional meetings throughout the year to solely discuss and focus on the key decision relating to the RIIO – ED2 Business Plan. The Board has been fully involved in developing the Business Plan and has provided review and challenge at key milestones to ensure the evidence and assurance demonstrate that the Business Plan is of high quality. The Board has been actively involved in defining the nature and approach of the assurance carried out on the plan in reviewing the findings.

If the need arises, the directors can call additional meetings at any time, organised through the Company Secretary. The Board receives and is updated on all key and important business information by the executive directors at the Board meetings.

Overall operational responsibility of the WPD Group lies with the Chief Executive. The Chief Executive fulfils this responsibility in conjunction with and through oversight of the other executive directors. Regular formal meetings, known as the Executive Council, consist of the Chief Executive plus the other executive directors. This acts as a forum for the discussion of business performance, strategic considerations and identification of matters to be considered by the Board. Other senior management may attend the meetings for the purpose of providing updates to the directors. Any key items are circulated and communicated to the Board in a timely manner.

## **Corporate governance statement (continued)**

For the year ended 31 March 2022

### **Directors' responsibilities (continued)**

#### ***Accountability and discharge of responsibilities (continued)***

Ensuring we are prepared for and are taking account of future changes and market conditions is a key factor in delivering our long term strategy and delivering long term stakeholder value. For this purpose, the Executive Council convenes an annual strategic review where strategic direction and forward looking plans for the WPD Group are discussed.

The executive directors are responsible for the organisational performance of their directorate and are accountable to the Chief Executive and the Board. Executive directors regularly meet with their respective senior management teams to discuss matters impacting the Group. KPI monitoring is delegated to the senior managers who report directly to their respective executive director. In order to operate efficiently and to give the right level of attention and consideration to relevant matters, while maintaining complete oversight of their area of accountability, the executive directors empower senior management to take operational decisions, apply their knowledge and utilise their industry experience in the daily management of the business.

The directors are conscious of the changing reporting and governance landscape and are committed to fulfilling their responsibilities effectively by ensuring that their skills and knowledge are refreshed and updated regularly. There is an established code of ethics policy of the Group which is adhered to by all the employees including the executive directors.

The executive directors understand the importance of leading with integrity. Group policy sets out potential conflicts of interest and at each Board meeting the directors disclose any potential conflicts of interest in any of the Group transactions or arrangements. In addition the Company Secretary administers an annual process, whereby the directors disclose any interests in related parties or any related party transactions.

The Board is supported by the Company Secretary who is available to all members to provide guidance as required on all governance matters.

During the year the DNO Boards established a Corporate Governance Committee.

#### ***Integrity of information***

At the quarterly Board meetings, the Board receives information on all key aspects of the business including safety, environmental matters, risks (including cyber security threat) and opportunities, financial performance, strategic and regulatory matters, operational matters, market conditions, changes in the political landscape and updates on relevant technological developments. Board information is prepared by a centralised team and is subject to detailed review procedures at various levels of senior management prior to submission to the Board.

Key financial information is taken from the Group's financial systems. Our finance team is appropriately qualified to ensure the integrity of this information and necessary training is provided to keep them up to date with statutory, regulatory and financial reporting requirements. WPD continues to operate a Sarbanes-Oxley ("the Act") compliance programme that is aligned to the needs of the parent company. In accordance with the requirements of the Act, our management team undertakes an annual assessment of internal controls over financial reporting. This includes ensuring all key financial processes have been documented with specific details on the controls in place. Key controls over financial reporting are periodically reviewed and tested by our Internal Audit team.

Key regulatory information is prepared annually for submission to the regulator, Ofgem. We have extensive internal data assurance and governance procedures and established policies for ensuring data integrity in respect of information submitted. Data is compiled from source systems that have appropriate validation checks and is prepared, reviewed and approved by WPD's experienced personnel.

KPI information is available to management via the use of dashboards. This system interfaces directly with source systems and data, and was implemented following extensive testing procedures on data accuracy.

The Board's review of the information in relation to various areas of business allows the directors to assess that systems, processes and procedures continue to operate effectively and assists in identifying and strengthening governance arrangements.

## Corporate governance statement (continued)

For the year ended 31 March 2022

### Opportunity and risk

#### Opportunity

We strive to create and preserve value over the long term by consistently providing outstanding customer service at an efficient cost by combining technical excellence and innovation within a clear organisational structure. Within the parameters of operating within a regulated environment, the Board identifies and evaluates relevant opportunities to create long term value for the WPD Group and its stakeholders.

The Board has overseen the development of WPD's RIIO-ED2 business plan and ensured the plan is constructed to take full account of the UK Government's published plans to achieve Net Zero Carbon Emissions by 2050 with phased targets for 2030 and 2040. It is based on detailed and extensive consultation with over 25,000 stakeholders at over 280 events. WPD's skill and wide experience of adapting to change and investing in innovation has demonstrated our ability to adopt new technologies to create an ever more cost-effective electricity network. WPD will continue to make full use of that experience and expertise as we provide consumers with the network strength to cope with a range of increased new demand and accommodate increased input from green power generation.

To enable stakeholders to achieve net zero our Business Plan for 2023 –2028 outlines how we will create a smart, flexible energy grid and facilitate the mass connection of LCTs including electric vehicle charging points, heat pumps and more locally sourced renewable generation. Many of these LCTs will be connected at lower voltages making it vital to ensure that there is sufficient capacity for the LCTs to connect. WPD will proactively identify parts of the network that are heavily loaded and provide more capacity. We will use smart meter data, increased amounts of network monitoring and enhanced analysis to identify where network reinforcement is required. We will also look at ways in which the LCT loads can be managed to make greatest use of existing network capacity, which may involve steps including controlling when EVs are charged. Together these proactive actions will enable more LCTs to connect overall, in shorter timescales and at lower cost than if conventional reinforcement was required.

Our business plan also actively supports the creation and expansion of community energy schemes, helping local communities to connect to green, renewable energy generation to help them decarbonise and lower their bills. Among our 42 core RIIO-ED2 Business Plan commitments we have pledged to speed up the adoption of EVs, heat pumps and other LCTs, by supporting initiatives such as the creation of robust and challenging Local Area Energy Plans as well as appointing four dedicated WPD Community Energy Engineers.

Our own commitment to sustainability includes leading by example and reducing our own Business Carbon Footprint to net zero by 2028 (excluding network losses and scope 3 emissions). This will be delivered by reducing the amount of waste we send to landfill, adopting electric vehicles across our transport fleet to reduce emissions, significantly reducing harmful gas and oil leaks from our equipment and ensuring we actually enhance the local environment by delivering a net gain in biodiversity for new major projects and at selected primary substations. Based on feedback from our stakeholders, small scale UK based offsetting will also be used. Our intention for RIIO-ED2 is to develop a broad portfolio of UK based offsetting including habitat creation, for example tree planting, peatland and sea grass restoration, as well as local community based offsetting schemes such as solar for schools. All of our offsetting schemes will be UK based within our licence areas and therefore bring direct and tangible benefit to our customers and the communities which we serve.

Affordability is one of four key priority areas highlighted in our Business Plan together with sustainability, connectivity, and vulnerability. We are proposing to spend £6.7 billion across the five years of RIIO-ED2, which is an increase of £1.4 billion from current levels in RIIO-ED1. While investment will increase by 30% from RIIO-ED1, the directors are committing to ensuring that we deliver our RIIO-ED2 commitments while keeping our average domestic bills broadly flat. The directors aim to achieve this through insistence on absolute efficiency, driven largely by our industry-leading innovation and digitisation programmes and by instilling a culture across our business that maximises every opportunity to innovate and work smarter for our customers.

With a view of furthering these exciting transformations across the energy sector, in November 2021 WPD set a Science Based Target ("SBT") which has been validated and accepted by the UN Science Based Target initiative ("SBTi"). By following the target WPD ensures that its activities limit the impact on global climate change to no more than a 1.5°C increase. WPD's SBT accounts for scope 1 and 2 carbon emissions (including losses). Scope 3 emissions are not currently included as they have consistently accounted for less than 40% of WPD's total emissions. For scope 3 emissions, during RIIO-ED2, we will aim to broaden our understanding of the impact which our scope 3 indirect emissions (Products, Goods and Services) have on our broader BCF and look to measure these.

As the COVID-19 pandemic accelerated the global migration to digital operations, utilities continued to advance their digital capabilities. Customers are benefiting from more access to digital information to support their decision making and more digital ways of engaging. Some of the initiatives undertaken by the Group during the year are:

## **Corporate governance statement (continued)**

For the year ended 31 March 2022

### **Opportunity and risk (continued)**

#### ***Opportunity (continued)***

- WPD launched the Connected Data Portal which enabled WPD to become the first UK DNO to provide all customers and stakeholders open access to a range of its data on energy consumption, generation, network loads etc., further digitalising its customer interactions in areas such as applications for new connections and flexibility service provision.
- WPD developed and implemented a new low voltage planning tool, ConnectLV, supporting the digitalisation of connections for LCT through automation of planning to meet current and projected LCT connection volumes.
- The year 2021/22 saw WPD implement an established digital data architecture for the ingest of low voltage monitoring devices' data to enable real-time and historic network data to be used to optimise decisions in operational and planning timescales.

#### ***Risk***

The WPD Board is responsible for the oversight of risk management and internal controls across the WPD group. The responsibility for internal controls cascades from the Chief Executive and the executive directors to senior management teams responsible for risk assessment and the implementation of appropriate mitigation. Managers are responsible for the identification of risks and the deployment of appropriate controls within their areas of responsibility. Policies are established, reviewed regularly and made available on the Group intranet to assist the managers with establishing an appropriate control environment. We consider the involvement of qualified and competent employees with the appropriate level of expertise throughout the business a key factor for implementing an effective internal control environment.

Risk management is embedded into the organisational structure with specialist teams established to manage certain key risk areas. Specifically, we have long established teams reporting to senior managers responsible for health and safety, regulatory compliance, employee relations, cyber security, financial reporting and legal compliance.

An Enterprise Risk Management process is in operation with a focus on recognising emerging and significant risks. Consideration of significant and emerging risks and related decisions are undertaken by the Executive Council. The Executive Council exercises suitable judgement as to any control decisions that merit Board attention. Emerging and significant risks are regularly reported to the Board facilitating the oversight of the risk management process of the Group. Pages 19 to 25 of the Strategic report outline the key risks and the related mitigating actions for the WPD Group.

We have an established Corporate Audit function reporting directly to the parent company Group Head of Audit. The Head of Corporate Audit attends and reports directly to the WPD Group Board members at their quarterly meetings.

#### **Remuneration**

Executive remuneration is controlled by the ultimate parent company, National Grid. Further information on this is available within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 108-131.

The remuneration policy applicable to the role of Chief Executive was set by the ultimate parent company, PPL Corporation until 13 June 2021 and is set by National Grid from 14 June 2021. The level of remuneration of the other executive director roles is the responsibility of the WPD Chief Executive in consultation with the ultimate shareholder. Elements of directors' remuneration and further information on this is available from National Grid within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 108-131.

The remuneration of the non-executive directors is determined by the shareholder, National Grid.

The pay of the majority of WPD's wider workforce is consulted and agreed upon with the recognised trade unions, with the aim to ensure that the terms and conditions are aligned to current industry practices and benchmarked against appropriate energy and comparator groups.

#### **Stakeholder relations and engagement**

The Board believes that the overall success of the business is dependent upon the way we work with our stakeholders and is fully committed to fostering effective stakeholder relationships that are aligned to the Group's purpose and strategy.

Our key stakeholders are customers, other network users, employees, regulators, suppliers and our shareholder. The Board actively promotes engagement and transparency with all these stakeholder groups and the executive directors ensure that a fair and balanced view of the Group's position is communicated to the relevant stakeholders. This is evident from the stakeholder engagement that is conducted for all our key initiatives and business commitments, the most significant being the stakeholder engagement conducted in producing our RII0-ED2 business plan before final submission to Ofgem on 1 December 2021. Using a co-creation approach we have developed the Business Plan from a blank sheet of paper, ensuring it is prepared with our customers, for our customers and contains ambitious, impactful commitments. Refer to pages 43-44 in the S172 statement for more detail on how our RII0-ED2 business plan was created.

## Corporate governance statement (continued)

For the year ended 31 March 2022

### Stakeholder relations and engagement (continued)

Details of engagement with each our key stakeholder are as follows:

#### **Customers**

The Board strives to deliver the class leading service that our customers expect and is keen on continuing to support all our customers including our vulnerable customers. We have an established customer panel that meets quarterly and expert members represent a wide range of customers and other key stakeholder groups. The panel is attended by the Chief Executive and other directors and through the panel they seek honest and challenging customer views about the way we operate and our future plans. This level of engagement plays an important role in helping WPD achieve its purpose of delivering good value and quality service for its customers. This year improvements to the panel have included topic-specific surgeries between meetings on workforce resilience and ICTs, for example.

Annually WPD hosts an array of workshops, webinars and surgeries to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. During the year ended 31 March 2022, WPD held a week of topic specific workshops for stakeholders from a range of different backgrounds (including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors) as well as specific events for those interested in connections, heat pumps, community energy and local investment plans, for example.

The Connection Customers Steering Group ("CCSG") is held three times a year to help inform and guide our strategic objectives and future plans for connections services. The CCSG is chaired by one of our Directors and is attended by connection stakeholders representing a cross-section of sectors. The CCSG covers a broad range of connections related topics and feeds into the development of our Incentive Connections Engagement ("ICE") plan for Ofgem's RIIO-ED1 incentive.

To address the challenges of engaging with end customers, who often have little prior knowledge of WPD, we have adopted an innovative tailored approach by developing customer knowledge over a prolonged period of research exercises and deliberative discussions. An enduring cohort of 96 customers have undergone a programme of research and focus groups over a number of months, enriching their understanding and ability to offer informed scrutiny of our plans.

The directors' commitment, and in turn that of senior management and the wider workforce, of being proactive in customer engagement is evident from external assessment of customer service and engagement under the CSE Standard and BSI Standard for Inclusive Service Provision (BSI8477). For CSE, WPD has achieved an impressive total of 46 out of 57 'Compliance Plus' ratings. WPD was the first network group to achieve the BSI and has achieved 9 years of full compliance. Far from providing just validation, accreditations such as the CSE Standard and the BSI Standard continue to provide a level of independent scrutiny and perspective that pushes their impact way beyond - giving stakeholders the peace of mind that we are credible, responsible and demonstrably compliant.

For details on engagement with vulnerable customers refer to page 25 of the Strategic report.

#### **Employees**

Senior leadership conferences conducted by the executive directors and our internal communications through our in-house magazine, news bulletins and direct email updates from the executive directors are effective tools in engaging all employees. Through these communications, employees are kept informed about WPD's goals, objectives, performance, plans and importantly how individuals are able to contribute towards WPD's purpose and strategy.

In multiple recent internal publications and emails, engagement from employees on RIIO-ED2 was invited, a demonstration that the directors are proactively seeking employees' views on key business areas. In the leadership conferences, the directors provided the senior management team with a detailed update on the proposed RIIO-ED2 plan and openly invited feedback and comments.

The directors recognise and acknowledge how important our staff is to our business performance and are keen to understand how colleagues feel and how best we can support and develop staff to ensure a happy and healthy workforce. This is evident from our RIIO-ED2 commitment to achieve an Investors in People ("IIP") accreditation. As part of the accreditation process, IIP will contact employees to find out what they think WPD does well and where improvements are required.

The Board utilises staff opinion surveys as a key tool for assessing the effectiveness of communication and engagement across the workforce. Results of employee surveys are discussed at Board level and actions plans communicated to staff. During the current year, WPD employees participated in the National Grid's annual engagement survey. This survey provided employees an opportunity to share their views on their experience of working in WPD. Each business unit and function will dive into the results and share results with the relevant employees. Relevant managers will have their own results dashboard which will enable them to take more meaningful action relevant to their respective team.

## **Corporate governance statement (continued)**

For the year ended 31 March 2022

### **Stakeholder relations and engagement (continued)**

#### ***Employees (continued)***

During the year, the Chief Executive met up with small groups of staff within the Group to hear their views on WPD. The sessions were attended by the staff across various roles and the staff were encouraged to be open and bring forward their suggestions to drive an overall performance improvement within the organisation. This direct feedback from the staff will be crucial in coming up with ideas, innovations and solutions to the many challenges and opportunities that we will have in the business going forward. In addition to this, as WPD continues to integrate with National Grid, direct emails from the Chief Executive have kept the workforce informed about all key decisions and milestones in relation to the integration process.

Further, as the COVID-19 situation continued to develop during the year, the Chief Executive engaged with all employees keeping them informed and updated and encouraged the employees to contact him directly with any questions, concerns or suggestions.

The Board acknowledges its responsibility towards its existing, as well as its retired, employees and thus WPD operates defined benefit pension schemes for its employees who joined the schemes prior to them being closed for new members, and defined contribution schemes for all other employees. A representative Board of trustees is established for the pension schemes comprising representatives of the employer and plan participants. Assets held in trust are governed by UK regulations and practice and the schemes' investment strategy is decided by the Trustees in consultation with the employer. The Board is committed to the best interests of its employees, including past employees, and thus actively monitors the performance of its pension schemes. Relevant information is presented to the Board of Directors.

Newly introduced 'Ask the Expert' sessions provide a platform for WPD employees to engage with colleagues and ask questions on key topics of interest, such as smart meters and electric vehicles. Building the knowledge of all employees ensures we can lead the way in supporting our customers in the transition to net zero.

#### ***Regulators***

The executive directors are actively involved in ensuring open and transparent communication with industry regulators, most notably Ofgem and the Health and Safety Executive ("HSE").

The directors engage Ofgem with the overall aim of developing a regulatory price control framework that contains the right balance of customer focused outputs and economic incentives, which help to deliver the Government's energy objectives and decarbonisation targets. All key communications and engagements with Ofgem are discussed at Board meetings.

Following the impact of COVID-19, WPD and the other DNOs worked with Ofgem to develop a collaborative model to build a 'green recovery' from the effects of COVID-19 and to assist the Government objectives of "Build back stronger". As part of this review DNOs identified "shovel ready projects" which could be brought forward and delivered under the existing price control for the sector. WPD conducted a nationwide call for evidence to identify appropriate investment projects to boost the post-pandemic green recovery and received feedback from more than 200 stakeholders. This helped WPD to target the network investment to the areas that see the most benefit. We used the three main criteria (deliverability, value for money and utilisation) in the selection of schemes and all of our 73 projects have been given the go-ahead. They all met the Ofgem-backed initiative's criteria of enabling net zero and providing a wider social benefit such as providing capacity for LCTs which supports communities to establish green jobs and stimulates a green recovery.

During the current energy crisis due to increasing wholesale prices and resultant supplier failures, we, along with the other industry members, proactively engaged with Ofgem to review and arrive at the best possible method of honouring the LRSP claims to the SoLRs. We fully acknowledged the pressure placed upon the industry as a result of these significant supplier failures and recognising our role in assisting the industry, we ensured that we explored all possible options with Ofgem, keeping in mind the best interests of our customers. Putting in place a mechanism through which all LRSP claims can be paid in a timely manner, required extensive time and effort and collaboration with Ofgem and the Energy Network Association ("ENA") members.

The Chief Executive is a member of the National Health & Safety Committee ("HESAC"), (of which the HSE is a member), and either personally attends the committee meetings, or delegates a member of senior management to attend on his behalf. The goal is to align the WPD Group's internal safety campaigns to HSE safety initiatives and to HSE supported programmes. The Chief Executive is a director of the industry trade association, the ENA and the chair of the ENA Electricity Network and Futures Group.

Annually the Chief Executive or nominated members of the senior management team attend the UK's National Safety, Health and Environmental Committee for Energy.

## **Corporate governance statement (continued)**

For the year ended 31 March 2022

### **Stakeholder relations and engagement (continued)**

#### ***Suppliers***

Defined policies are in place for procurement of goods and services and associated supply chain management and engagement. We have a dedicated purchasing team that assists with engagement with suppliers. The Operations Director has oversight responsibility for logistics, including the supply chain function. Key issues related to supply chain matters are reported and discussed at the Executive Council.

We carry out payment performance reporting for suppliers, details of which can be found on page 14 of the Strategic report. On average we pay our suppliers in 17 days (2020/21: 16 days).

#### ***Shareholder***

The Board actively engages with our single shareholder, National Grid, on all key matters. As stated above, the non-executive board members of the Company are members of National Grid's senior management team. National Grid's Executive Directors and senior management has regular contact and dialogue with WPD's executive directors and senior management and all key information is fed back to the National Grid Board on a timely basis. There is a suite of financial and regulatory reporting presented to National Grid on established timelines and regular financial and regulatory update meetings are conducted with National Grid's management team to provide updates on any key accounting, business, and legal issues. Additionally WPD's financial plan is presented to the National Grid Board for detailed review and approval on an annual basis. The Board meeting of National Grid and any senior leadership events at National Grid are attended by the WPD Chief Executive and other executive board members.

#### ***Our Communities and Environment***

The Board believes in minimising the impact we have on the environment and hence continually strives to reduce our BCF. We work with various organisations to ensure we don't adversely affect the ecology and protected species such as bats, badgers and great crested newts. We work closely with Natural England regarding the Sites of Specific Scientific Interests ("SSSIs") and with organisations responsible for Areas of Natural Outstanding Beauty ("AONBs") within our area.

For the benefit of all our stakeholders, we aim to reduce our BCF by reducing energy losses, diverting waste from landfill, reducing emissions from our fleet and reducing our own energy usage. In the current year, WPD has worked collaboratively with its waste management partners to significantly reduce the amount of waste disposed of to landfill. Three of WPD's four licence areas routinely report zero waste to landfill on a monthly basis.

Further, WPD has established a methodology to assess and measure the embodied carbon associated with its new projects. The methodology incorporates procedures to determine the embodied carbon of purchased standard plant equipment, network installation activities, equipment operation and end of life processes.

The Board actively monitors impact on our communities and on the environment through monitoring of our KPIs. For details on WPD's environmental KPI performance as well as various actions to mitigate any key environment risks refer to pages 11-13 and 22 of the Strategic report.

We utilise innovation to develop Smart Technology to drive the low carbon transition. We are an adaptable organisation ready to respond quickly to new challenges associated with the emergence and development of low carbon technologies. During 2021/22, WPD centralised its process for domestic LCTs and developed a fast-track acceptance process to allow domestic customers to connect all domestic EV chargers and most domestic Heat Pumps immediately on notification to us: we respond on the same or the next day.

Our RII0-ED2 business plan reflects our ambitions for the future of electricity in the UK, specifically in relation to the Government's net zero targets and can be found at link below:

<https://yourpowerfuture.westernpower.co.uk/rii0ed2-business-plan>

## Section 172 Statement

For the year ended 31 March 2022

The Board ensures that the directors have acted both individually and collectively in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs (a) to (f) of section 172. Details on this are set out below:

### **The likely consequence of any decision in the long term**

Our long term success is intrinsically linked to our purpose and our values as defined on page 31 of the Corporate governance statement, clearly reflects that the Board is focused on promoting the success of the business by ensuring that WPD makes the provision of exceptional service to our customers and the communities we serve an absolute priority, at the same time ensuring that we support their environmental and social well-being.

Our six key goals underpin our purpose and our strategic direction: Safety, Network performance & reliability, Connections & customer satisfaction, Environment, Social obligations and Stakeholder value & engagement. These goals form the basis of all of the Board's key decisions and the risk management framework of the Group is linked to the achievement of these goals. The key goals are monitored by the Board through established key performance indicators ("KPIs"), as detailed in the Strategic report on pages 8 to 15.

By receiving regular updates on business programmes and objectives, the Board monitors that management is acting in accordance with the agreed purpose. Processes are in place to ensure that the Board receives all relevant information to enable it to make well-informed decisions in support of the Company's long-term success.

The Board has oversight responsibility for risk management across the WPD Group. For the purposes of business resilience, the Board satisfies itself that there is an appropriate risk management approach and that reasonable mitigations are in place for the key risks of the Group. For details on the Group's risk management approach refer to page 36 of the Corporate governance statement.

### **The interests of the Company's employees**

Our staff are critical to our success and WPD is committed to keeping its employees motivated and fully involved in all aspects of the business including delivery of our RII0-ED2 business plan. At WPD we work collaboratively with our trade union colleagues to provide a working environment that allows employees to develop, be motivated to succeed, and progress within a team structured organisation where empowered employees can and do have the opportunity to flourish. One example of this is the development of a permanent home working policy in response to employee feedback received in a staff survey conducted during the current year. The survey sought to seek the view of employees in relation to their experience of and benefits of working from home. The results of the home working staff survey suggested that most employees found the experience of working from home positive, citing benefits such as greater flexibility. The new hybrid working policy will give employees an opportunity to make homeworking a part of their enduring working arrangements, suitable for their individual needs, in line with the nature of their role and business requirements.

Our aim is to provide a fair and balanced reward framework that is competitive within the market. It is underpinned by our values as a company and a strategic objective to ensure that WPD is the 'employer of choice' with diversity, equity and inclusion being key pillars of our workforce strategy. The salaries and conditions of WPD's wider workforce are agreed with the recognised trade unions ensuring that the terms and conditions are aligned to current industry practices and benchmarked against appropriate energy and comparator groups.

As WPD and National Grid continue to integrate, the work our employees do contributes to our collective success, helping us achieve our vision to be at the heart of a clean, fair and affordable energy future. The directors acknowledge that our staff play a key role in our success, and therefore wants them to be able to share in it. Keeping this in mind, the WPD staff have been provided the opportunity to join in the National Grid's annual Sharesave plan – where employees can save a portion of their salary each month for a set period of time, which can then be used to purchase shares in National Grid.

We do not have a false sense of security that everyone is happy all of the time. We continue to use our employee satisfaction survey and the feedback this provides to review our culture, along with employee feedback through team meetings, annual performance and development reviews, exit interviews, local and company level trade union meetings and we take steps to act on the feedback we receive.

For additional details relating to employee engagement refer to pages 37-38 of our Corporate governance statement.

## Section 172 Statement (continued)

For the year ended 31 March 2022

### **The need to foster the Company's business relationships with suppliers, customers and others**

The Board regularly reviews the relationships that the Group maintains with its key stakeholders that are identified in the Corporate governance statement on pages 37 to 39. The Board receives detailed reports on the engagement with our stakeholders and the feedback they receive on our business plans, in relation to both the reporting of our RIIO-ED1 commitments and in the development of our RIIO-ED2 priorities. Engagement on strategic areas and long term energy scenarios such as DSO, electric vehicle strategy and green recovery is also conducted. This demonstrates our commitment to dynamic business planning built on stakeholder feedback, all of which the Board is kept regularly updated on so they are able to consider the views of our stakeholders when making decisions. Our stakeholder engagement strategy is approved by the Executive Council annually.

During the year the directors directly, and indirectly through the senior management team, engaged with over 44,000 (2021: 37,000) stakeholders via a range of methods and delivered 384 (2021: 356) improvement actions based on feedback received. These actions cover a variety of stakeholder groups including the important areas of vulnerable customers and smart networks, including engagement with all 130 local authorities in our region on local area energy plans and engagement for the RIIO-ED2 business plan.

One example of how directors use stakeholder engagement to promote the success of the Company and to further the purposes and goals of the Group is the annual publication of the reports for each local authority as part of the Distribution Future Energy Scenarios ("DFES") process. The reports outline the expected uptake of different demand and generation technologies at a decentralised level as the UK transitions towards a net zero future. The reports are used to assist local stakeholders with local area energy planning and for WPD to identify areas of strategic investment in the distribution network.

WPD invited all 130 local authorities within our network area to collaboratively build a joined up energy plan. Building on initial engagement in this area, feedback was sought on WPD's current assumptions and projections of the potential growth of new LCT connections. Over 10,000 new local authority development records were processed, resulting in our most accurate and granular DFES forecasts ever. This level of engagement is a testimony to the fact that the directors are keen on actively utilising stakeholder engagement for the benefit of the Company, its customers and for the industry as a whole. By building a clearer picture of stakeholders' own energy plans, we can map out possible future energy scenarios to help inform our strategic network planning and investment, ensuring that the investment best serves customers' future needs and supports decarbonisation.

Refer to the 'key decisions' section below on pages 43-44, which highlights the initiatives undertaken by the Board to ensure that stakeholder engagement is a key cornerstone in determining the strategic direction of the Group.

### **The impact of the Company's operations on the community and the environment**

The service we provide is critical to our communities and impacts the businesses and homes we serve on a daily basis. The directors believe that working closely with our communities is important in creating shared value for the business, the people we serve and the communities we operate in. Benchmarking has been conducted to establish best practice regarding Environmental, Social and Governance ("ESG"), with WPD's prime ESG rating demonstrating our best in class performance. This rating by the Institutional Shareholder Services ("ISS") is only given to companies with an ESG performance above the ambitious threshold for the sector set by ISS. The rating reflects the Board's commitment to incorporating sustainability and wider environmental and social considerations into our decision making, as we carry out our work to keep the power flowing and to meet the energy challenges of the future.

Looking to the future, we face exciting challenges as the UK works towards achieving the Government's de-carbonisation target of net-zero carbon emissions by 2050. We have long recognised the role that the electricity sector plays in contributing to the UK's ambitions towards carbon reduction and one of our commitments within RIIO-ED2 is reducing our internal carbon footprint to net zero by 2028 (excluding engineering network losses and scope 3 emissions), 22 years ahead of the Government's UK-wide target. The directors are also focused on ensuring the net zero transition is inclusive and fair for all. When we refer to 'no one left behind in a smart future', we mean ensuring they are not adversely affected, unable to 'keep up' with the pace of change or denied access to the positive opportunities decarbonisation can deliver.

We have a number of innovative delivery projects already underway to drive a fair energy transition for all. In the year 2021/22, WPD re-launched its Energy Affordability Fund to work with community partners to deliver new innovative project trials with a specific focus on designing and delivering interventions to widen participation in the smart energy transition and address digital exclusion. WPD has awarded £91,000 of funding to six projects which ran from November 2021 to April 2022.

In RIIO-ED2 we will build on these foundations to ensure customers are able to connect low carbon technologies quickly and easily with the network being ready to support at least an additional 1.5 million electric vehicles and 600,000 heat pumps by 2028. Our RIIO-ED2 business plan includes core commitments which are targets to ensuring that vulnerable customers do not miss the benefits associated with the shift to a smart energy system. This includes offering 600,000 Priority Service Register customers a bespoke smart energy action plan, supporting local communities via a 'Community Matters' social initiative, building decarbonised communities and local energy schemes to install solar PV on schools in areas of high economic deprivation.

## **Section 172 Statement (continued)**

For the year ended 31 March 2022

### **The impact of the Company's operations on the community and the environment (continued)**

Community Energy remains a key priority for our stakeholders and therefore a key focus point for the Board. Our Net Zero Communities strategy originally published in 2020/21 is renewed and updated annually. The renewal of the strategy in 2021/22 provides an update on the work done by us since our first publication of the strategy, and outlines our commitments for the year ahead and shape how we will support community energy as we move towards RIIO-ED2. The strategy includes detail such as guidance for community groups to be able to trade their locally produced energy with local customers. We are not directly involved in this process, but recognise our unique position to support community energy groups, who play a key role in local decarbonisation. In 2021/22, we appointed our first Community Energy Engineer, a trailblazer for the quota of four such engineers incorporated within our RIIO-ED2 business plan submission.

### **The desirability of the Company maintaining a reputation for high standards of business conduct**

The directors aspire to develop a culture where the management and workforce is motivated to be successful for its shareholder by creating long term value and at the same time is committed to satisfying customer needs. The directors also aim for us to be a valued member of the community, which includes acting as a responsible steward of the environment. We conduct our business in a responsible manner, considering the needs of present and future generations. We are committed to being an exemplary corporate citizen, seeking to improve the quality of life in the communities in which we do business. The Board ensures that the purpose, values and goals of the Group support this. Our engagement with all stakeholder groups reflects that this aim is embedded across the business and impacts the decisions taken throughout the organisation.

Regular internal communications and senior leadership conferences are instrumental in driving a customer and results focused culture within each level of the organisation.

The directors are committed to an inclusive, respectful and diverse workplace that rewards performance, enables professional development and encourages employee engagement. We value inclusiveness and diversity as essential components of our identity and long-term success. During the year, WPD has signed up to participate in the 10,000 Black Interns programme, which aims to help transform the prospects of young black people in the UK by offering 10,000 internships to black students over five years across 700 plus companies. The programme offers paid work experience providing training and development opportunities plus mentorship and sponsorship for the black community. In the year 2021/22, WPD has made offers to two interns under the programme for an 8 week internship, commencing July 2022.

We strive hard to get things right first time but sometimes things can go wrong. When we receive complaints we treat them with urgency and aim to deal with them to the customer's full satisfaction as quickly as possible. We resolved 84% of complaints within one day, beating the RIIO-ED1 target of 70%. We resolved 98% of complaints within 31 days and there have been no repeat complaints across all of our licence areas.

WPD's employees have access to the National Grid's internal ethics helpline at all times. The contact information is publicised to all colleagues so that concerns can be reported anonymously. We will support and protect whistle blowers.

Our dedication to conducting our business to the highest standards is also demonstrated by the emphasis placed by the directors on the safety environment within the organisation. Safety and training videos are available to all staff to view and a programme of bulletins is provided on screens in offices to keep staff aware of key safety information. Safety conferences and presentations are held each year to ensure that a safe working environment is a key priority throughout the organisation. There is a diligent system for reporting near misses and incidents to avoid future recurrences. Safety is a crucial KPI for the Board that is monitored stringently and the Board is focused on developing a fair culture of accountability as apposed to a 'perceived culture of blame', when an accident happens.

Our hard work in conducting our business with highest standards is reflected in WPD winning the Disruptor Award at the Utility Week Awards 2021 for our Flexible Power initiative, while also being shortlisted for the Community Investor category for our support of vulnerable customers and the Innovation category for our helicopter unit upgrade.

### **The need to act fairly as between members of the Company**

The Company's ultimate shareholder is National Grid. The Board has developed a robust corporate governance framework which allows the directors to understand the views of the shareholder. This allows the directors to both effectively and constructively engage with and report to the shareholder.

## Section 172 Statement (continued)

For the year ended 31 March 2022

### Key decisions during the year

We deliver an essential service and operate in a regulated environment. Key decisions are made within the parameters of the regulatory framework and the relevant price control period under which we are licensed to operate. The current RIIO-ED1 price control period commenced in April 2015 and runs through to March 2023. Examples of key decisions taken during the period to date include:

### *RIIO-ED2 business plan (2023-2028)*

To shape the commitments we will deliver in RIIO-ED2, we have undertaken our most comprehensive and inclusive stakeholder engagement programme ever, with more than 25,000 stakeholders at over 280 events shaping our plan via a rigorous co-creation programme. In our engagement, we have considered the widest possible definition of 'stakeholder', striving to engage with anyone who has an interest in, or is impacted by, our operations. This is therefore inclusive of bill paying customers – a key group whose voices we represented robustly throughout our engagement programme – but also stretches beyond this to any individuals, organisations, representative bodies or businesses that are affected by WPD, or can influence/affect our operations and/or performance.

Amongst many others, some of the main types of stakeholders involved in the engagement were government departments and industry bodies such as the ENA, local authorities, utilities including transmission companies and gas distribution networks, charities, community energy groups, businesses, highways agencies, , universities and research institutions, customers including vulnerable customers, environmental groups, flexibility service provider groups, supply chain and contractors, developers, WPD employees, trade unions and our shareholder.

As the only DNO to publish three draft Business Plans for consultation with stakeholders in January, March and July 2021, the Board proactively sought to share decision making power in a collaborative way at every stage of the process. This reflects an unparalleled transparency by the directors, providing stakeholders with maximum opportunity to have their say. Throughout the process, the Board has been actively engaged in the development of our plan to ensure that the needs of our stakeholders are recognised and addressed. This has included:

- Overseeing that suitable arrangements and resources were in place to develop our plan;
- Monitoring progress against key milestones;
- Ensuring that there was an appropriate assurance plan in place;
- Challenging draft versions of our plan, its output commitments and how key risks are being managed.

Every stage of our business planning and decision-making process for RIIO-ED2 has been scrutinised by an independent challenge body, the CEG. Over 166 meetings were held with the CEG and its seven sub-groups throughout the engagement process to review our plan in specific areas and provide rigour and challenge to the WPD staff directly responsible for developing our plans. The Board ensured that all feedback provided by the CEG has been addressed and as a result the CEG was instrumental in the design of our engagement plan, encouraging us to continue to be highly ambitious and industry leading in our approach.

In leadership conferences, the executive directors provided the senior management team with detailed updates on the proposed RIIO-ED2 business plan and invited open and honest feedback. RIIO-ED2 staff workshops have been conducted to provide employees an opportunity to understand our business plan commitments and to help shape them. Since our employees are crucial to the delivery of our commitments, the staff workshops also aimed to discuss any concerns or opportunities in relation to the delivery of the plan. Detailed responses to Q&A sessions within the workshops were provided and circulated throughout the organisation. At each stage of the planning process, through email communications and news bulletins, employees were encouraged to participate in consultations on the business plan, contribute by filling the specific 'have your say' form made available on the intranet or to otherwise provide feedback in relation to it.

Our Business Plan has evolved based on the feedback from this extensive engagement with our stakeholders, the CEG and Ofgem's Challenge Group. The most notable changes have been a reduction of core commitments and clearer demonstration that they are all well justified, an increase to the ex-ante load related expenditure to reflect our best view of LCT take-up and additional strategies including the Business Innovation and Efficiency strategy which clearly demonstrate how WPD will offer best value for our customers.

Electricity users are quite rightly concerned by the price increases caused by events outside the control of their suppliers. Stakeholders have been very clear from the outset of the process of developing our business plan for 2023-2028 that they want us to balance the challenges of bills, reliability and increased investment required for net zero. Keeping this in mind, our submitted RIIO-ED2 business plan delivers on our commitments in the key areas of reliability and net zero but will keep our portion of bills affordable and broadly flat. For an average domestic customer this means our service costs amount to 28 pence per day. We will achieve this through insistence on absolute efficiency, driven largely by our industry-leading innovation and digitisation programmes.

## **Section 172 Statement (continued)**

For the year ended 31 March 2022

### **Key decisions during the year (continued)**

#### ***RIO-ED2 business plan (2023-2028) (continued)***

Within each stakeholder type however, we always sought to account for the behavioural differences amongst stakeholders by ensuring a full balance of perspectives were achieved within each research sample, in respect to gender, geography (urban vs rural), age, socioeconomic background and ethnicity. An example of conflicts within stakeholder feedback that WPD managed under the guidance of the directors, was in relation to fuel poverty. Within specialist stakeholder discussions, such as WPD's customer vulnerability conferences, WPD was urged to play a central role in addressing fuel poverty in RIO-ED2.

While the majority of wider stakeholders echoed this sentiment, business customers, developers and commercial industry disagreed, suggesting that fuel poverty should not be WPD's responsibility and should instead be addressed by energy suppliers, charities and local government. In managing the conflict, we presented the views of customer vulnerability representatives to this broader audience to explain their justifications for seeking action from WPD in this area. We then sought views from wider stakeholders on how, if we were to retain a focus on fuel poverty, we would scope and refine it in a way that they were more comfortable with. They acknowledged the importance of this priority to others and position ultimately agreed was for us to commit to establish a broad network of existing outreach organisations that we will work in partnership with to deliver fuel poverty support to customers, rather than seeking to deliver these services directly ourselves. Key to this is that WPD leverage in other sources of funding and facilitates customer access to these support services.

The entire engagement process has enabled stakeholders to shape our priorities, drive our level of ambition and refine our approaches, culminating in 42 ambitious core commitments that meet the needs of our network today and deliver a low carbon future for our customers. The iterative process, through which our business plan has been developed, highlights the Board's commitment to create value for the shareholder and to promote the interests of the Group in a manner that is aligned with the needs and priorities of all our stakeholder groups. All stakeholder views have been listened to and where appropriate suitable enhancements to our decision making process have been made.

For further details on our stakeholder engagement in relation to RIO-ED2 business plan, refer the link below on our website:

<https://ourpowerfuture.westernpower.co.uk/downloads/42132>

#### ***Declaration of dividend***

During the year the Board has declared dividends of £140.2m (2021: £221.2m). In considering capital distributions, the Board is mindful of stakeholders' views and takes account of our latest financial position, the long-term sustainability for the WPD Group in addition to the allowed rate of return and any incentive rewards received. In its capacity of providing oversight for the operational performance of the business, the Board also takes account of the prevailing performance against customer performance targets, other RIO-ED1 output commitments and future requirements such as DSO, to assess investment requirements.

As part of the regulatory process, Ofgem sets the allowed rate of return within each price control period; Ofgem set WPD's cost of equity at 6.4% for RIO-ED1. As is evident from the levels of our annual capital expenditure (see page 14 of the Strategic report), we reinvest in excess of our profits back into the network to ensure an efficient, reliable and environmentally sustainable network. The Board ensures that it understands and takes account of the views of our shareholder in order to preserve positive investor relations. The Board acts in the shareholder's best interests by proposing an amount of dividend in accordance with the financial parameters of our regulatory allowance whilst maintaining strong financial health metrics.

## Directors' report

For the year ended 31 March 2022

The directors present their annual report on the affairs of the WPD group, together with financial statements and auditor's report, for the year ended 31 March 2022.

## Results and dividends

The WPD Group reports a profit for the financial year of £373.3m (2021: £571.4m). Profit before tax is £746.9m (2021: £692.5m).

The WPD Group also reports other comprehensive profit, which was posted directly to capital and reserves, of £743.9m (2021: £256.8m loss). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

Dividends of £140.2m (2021: £221.20m) have been paid during the year. No dividend has been paid subsequent to the year end. All dividend payments are made out of the distributable reserves of the Company.

## Political affiliations, donations and expenditure

WPD is a politically neutral organisation and, during the year, made no political donations.

WPD does not engage in any lobbying activities with the Government. As part of the RIIO-ED2 business planning process, WPD has engaged with a wide range of stakeholders to seek their input on the business plan which has driven the outputs that the Group has committed to deliver. WPD is a member of the industry trade association, the ENA, which provides a strategic focus and channel of communication for the industry.

## Financial assistance from the Government

WPD has not received any financial assistance from the Government during the year, including COVID-19 pandemic support. The Group can potentially access an additional 10% of its Apprenticeship Levy payments in order to fund approved training programmes for apprentices; however, for the year ended 31 March 2022, the payments into the fund by the Group were in excess of the funding the Group reclaimed.

## Financial risk management objectives and policies

WPD does not undertake transactions in financial derivative instruments for speculative purposes. For further details of risks in relation to treasury operations, see the "Risk management and controls" section of the Strategic report.

## Liquidity and going concern

The following credit facilities were in place at 31 March 2022, in respect of which all conditions present had been met at that date.

|                                                | Expiration date | Capacity<br>£m | Borrowed<br>£m | Letters of<br>credit issued<br>£m | Unused<br>capacity<br>£m |
|------------------------------------------------|-----------------|----------------|----------------|-----------------------------------|--------------------------|
| WPD South West - Syndicated Credit Facility    | May 2025        | 220.0          | -              | -                                 | 220.0                    |
| WPD East Midlands - Syndicated Credit Facility | May 2025        | 250.0          | -              | -                                 | 250.0                    |
| WPD West Midlands - Syndicated Credit Facility | May 2025        | 250.0          | -              | -                                 | 250.0                    |
| WPD South Wales - Syndicated Credit Facility   | May 2025        | 125.0          | -              | -                                 | 125.0                    |
| Uncommitted Credit Facilities                  |                 | 26.0           | -              | 4.1                               | 21.9                     |
| Total Credit Facilities                        |                 | 871.0          | -              | 4.1                               | 866.9                    |

In addition to the above facilities, the WPD Group also has uncommitted two-way loan agreements with its ultimate parent, National Grid Plc, of which £662.6m is drawn as at 31 March 2022. The loan from the parent company is repayable on demand.

WPD Group debt balances, cash and short term deposits as at 31 March 2022 and 31 March 2021 are as follows:

|                                | External debt                   |            |                                   |            | Cash and short term deposits (excluding restricted cash) |            |
|--------------------------------|---------------------------------|------------|-----------------------------------|------------|----------------------------------------------------------|------------|
|                                | Long-term (due after 12 months) |            | Short-term (due within 12 months) |            |                                                          |            |
|                                | 2022<br>£m                      | 2021<br>£m | 2022<br>£m                        | 2021<br>£m | 2022<br>£m                                               | 2021<br>£m |
| WPD South West                 | 1,051.80                        | 1,025.20   | 146.9                             | 97.6       | 5.8                                                      | 26.6       |
| WPD South Wales                | 762.2                           | 755.1      | -                                 | -          | 13.8                                                     | 18.1       |
| WPD East Midlands              | 989.7                           | 1,659.5    | 700.3                             | -          | 81.0                                                     | 48.2       |
| WPD West Midlands              | 1,478.1                         | 1,474.8    | 58.0                              | 60.0       | 1.2                                                      | 2.7        |
| Western Power Distribution plc | 994.6                           | 1,035.1    | 476.6                             | 433.0      | 0.2                                                      | 4.5        |
| Other subsidiaries             | -                               | -          | -                                 | -          | 34.4                                                     | 25.9       |
|                                | 5,276.4                         | 5,949.7    | 1,381.8                           | 590.6      | 136.4                                                    | 126.0      |

**Directors' report (continued)**

For the year ended 31 March 2022

**Financial risk management objectives and policies (continued)***Liquidity and going concern (continued)*

Short term deposits are considered corporate assets and can be accessed by any entity within the Group.

The Group has net current liabilities of £1,589.0m (2021: £744.1m). The increase in the net current liability during the year is primarily due to amounts drawn under two-way loan agreement with National Grid Plc which amounts to £662.6m. This was partially used to pay a short-term loan of £350m due in August 2021. In addition to this the current portion of a long term loan due in January 2023 amounts to £700.3m.

The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing facilities including the two way loan with the parent company and issuances of long-term debt. The Group can access either short or long term borrowings in order to finance repayment of the loan due within the next 12 months. The Group has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Group's ability to raise debt, to indicate that the Group will be successfully able to raise debt to finance repayments as needed. Confirmation has also been obtained from a parent undertaking that it will provide financial support to the Group for not less than 12 months from the date of approval 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 Group 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. 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, the Group does not consider that there is material uncertainty over the entity's ability to continue as a going concern.

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 WPD, the existing and future forecasted covenant compliance of the Group, which includes the gearing ratio, the anticipated ability of the WPD Group to be able to raise additional long term debt in the future and the ability of the parent undertaking to provide financial support. The Directors have also assessed the principal risks discussed in the Strategic report (pages 19 to 25) in arriving at the going concern assumption for the preparation of the financial statements.

Thus, the Directors have concluded that the WPD Group has sufficient resources available to enable it to continue in existence for the foreseeable future and for a period of at least 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements.

**Corporate governance statement**

The Group's Corporate governance statement is detailed on pages 31 to 39.

**Employee engagement statement**

Details of the directors' engagement during the year with employees and consideration of employees' interests can be found in the Corporate governance statement on pages 37-38.

**Business relationships statement**

The Group's key business relations are with its customers, suppliers and regulators. Details of how the directors foster the Group's business relationships and have regard to their interests have been stated in our Strategic report, Corporate governance statement and Section 172 statement.

**Directors' report (continued)**

For the year ended 31 March 2022

**Business relationships statement (continued)***Customers*

- Strategic report - see pages 3, 10, 11 and 22;
- Corporate governance statement - see page 37; and
- Section 172 statement - Key decisions in relation to RIIO-ED2 business plan strategy outlines how customer interests have been considered at each step. See pages 43-44.

*Suppliers*

- Strategic report - see pages 4, and 14; and
- Corporate governance statement - see page 39.

*Regulators*

- Strategic report - see page 5 and 23; and
- Corporate governance statement - see page 38.

**Strategic report**

The following information required in the Directors' report has been included in the Strategic report:

- an indication of future developments in the business - see pages 16-18;
- an indication of activities of the Group in the field of research and development - see page 18;
- a statement on the policy for disabled employees - see page 4; and
- employee policies - see page 4.

**Streamline energy and carbon reporting ('SECR')**

*Total annual quantity of emissions using equivalent tonnes of carbon dioxide ("tCO<sub>2</sub>e") - including own use*

|                                                 | <b>tCO<sub>2</sub>e</b> |             | <b>tCO<sub>2</sub>e per employee</b> |             |
|-------------------------------------------------|-------------------------|-------------|--------------------------------------|-------------|
|                                                 | <b>2022</b>             | <b>2021</b> | <b>2022</b>                          | <b>2021</b> |
| <b>Scope 1 (direct emissions)</b>               |                         |             |                                      |             |
| Operational transport                           | <b>18,433</b>           | 18,041      | <b>2.78</b>                          | 2.75        |
| SF6 gas                                         | <b>9,209</b>            | 8,678       | <b>1.39</b>                          | 1.32        |
| Fuel combustion (diesel / gas oil)              | <b>3,212</b>            | 2,750       | <b>0.48</b>                          | 0.42        |
| Buildings                                       | <b>388</b>              | 216         | <b>0.06</b>                          | 0.03        |
|                                                 | <b>31,242</b>           | 29,685      | <b>4.71</b>                          | 4.52        |
| <b>Scope 2 (energy indirect emissions)</b>      |                         |             |                                      |             |
| Buildings electricity                           | <b>4,130</b>            | 4,575       | <b>0.62</b>                          | 0.70        |
| Substation electricity                          | <b>11,559</b>           | 14,198      | <b>1.74</b>                          | 2.17        |
| WPD Telecoms                                    | <b>525</b>              | 575         | <b>0.08</b>                          | 0.09        |
|                                                 | <b>16,214</b>           | 19,348      | <b>2.44</b>                          | 2.96        |
| <b>Total scope 1 &amp; 2</b>                    | <b>47,456</b>           | 49,033      | <b>7.15</b>                          | 7.48        |
| <b>Scope 3 (other indirect emissions)</b>       |                         |             |                                      |             |
| Business transport                              | <b>1,954</b>            | 1,558       | <b>0.29</b>                          | 0.24        |
| Operational transport (contractors)             | <b>8,657</b>            | 8,427       | <b>1.31</b>                          | 1.29        |
| Fuel combustion (diesel / gas oil) (contractor) | <b>7,920</b>            | 6,056       | <b>1.19</b>                          | 0.92        |
| <b>Total scope 1, 2 &amp; 3</b>                 | <b>65,987</b>           | 65,074      | <b>9.94</b>                          | 9.93        |

The Group's chosen intensity measurement is tonnes of carbon dioxide equivalent per employee.

*Aggregate in kWh of annual quantity of energy consumed for business activities and own use*

Electricity energy consumed for the year to 31 March 2022 is 21,920,879 kWh (2021: 22,093,087 kWh).

Gas energy consumed for the year to 31 March 2022 is 2,115,692 kWh (2021: 1,177,215 kWh).

Energy consumed for helicopters for the year to 31 March 2022 is 6,469,237 kWh (2021: 4,181,588 kWh).

**Directors' report (continued)**  
*For the year ended 31 March 2022*

**Streamline energy and carbon reporting ('SECR') (continued)**

*Methodologies used in calculating energy and carbon reporting data*

Our BCF details the impact that our operational activities have on the environment in terms of tonnes of equivalent carbon dioxide ("tCO<sub>2</sub>e") emissions and takes account of our energy usage from offices, transport emissions (operational and business), fuel combustion and the release of greenhouse gases (SF<sub>6</sub>). The reported data for operational transport (road) and fuel combustion also takes account of a number of our larger contractor emissions as required under the Ofgem reporting requirements.

The data compiled and reported by the WPD Group follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") carbon reporting guidance as provided by BEIS / DEFRA, the 2020 UK Government GHG Conversion Factors for company reporting and ISO14064-3. The emission-releasing activities are categorised into three groups known as scopes. Each activity is listed as either Scope 1, Scope 2 or Scope 3.

- Scope 1 (direct emissions) emissions are those from activities owned or controlled by the Group. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, generators and vehicles; and releases of fugitive emissions, for example SF<sub>6</sub>.
- Scope 2 (energy indirect) emissions are those released into the atmosphere that are associated with consumption of purchased electricity, heat, steam and cooling. These indirect emissions are a consequence of the Group's energy use, but occur at sources that the Group do not own or control. Network losses are identified by Ofgem as being Scope 2 emissions (pending clarification from Ofgem).
- Scope 3 (other indirect) emissions are a consequence of the Group's activities that occur at sources that are not controlled by the Group and are not classed as Scope 2 emissions. Examples of Scope 3 emissions include business travel by means not owned or controlled by the Group, water supply and materials / services that the Group purchases.

For further details on our methodology please refer to the link below:

<https://www.nationalgrid.com/document/146704/download>

*Measures for increasing the Group's efficiency during the year*

During 2021/22, the Company has implemented the following energy efficiency measures:

- replacement of older operational fleet vehicles with more fuel efficient alternatives and improving awareness of the impacts of driving style on fuel efficiency and vehicle emissions;
- the purchase and roll-out of electric operational fleet vehicles;
- installation of electric vehicle charging points at many of our non-operational depot sites for both fleet and employee owned electric vehicles;
- improvements to the reporting of SF<sub>6</sub> gas leaks from our installed equipment and fully utilising the infrared SF<sub>6</sub> detection cameras enabling us to quickly pinpoint the source of leaks;
- ensuring that all newly built WPD depots achieve the BREEAM standard of 'Excellent' as a minimum and that refurbished existing depots achieve the 'Very Good' standard; and
- the on-going replacement with more modern and energy efficient heating and cooling systems throughout our property portfolio plus undertaking an energy efficiency review at many of our non-operational and operational sites including employee energy awareness campaigns.

**Subsequent events**

Subsequent to the year-end no dividend was paid by the Company.

On 1 June 2022, the WPD Group concluded the sale of WPD Smart Metering Limited, a subsidiary business of the Group. The investment in WPD Smart Metering Limited is not accounted for as assets held for sale as at 31 March 2022 since there was no committed plan to sell the assets as at that date.

**Directors' report (continued)**

For the year ended 31 March 2022

**Directors and their interests**

The directors who served during the year and subsequently were as follows:

P Swift, Chief Executive  
GR Halladay, Operations Director  
IR Williams, Finance Director  
AJ Sleightholm, Resources and External Affairs Director  
LSS Barbrook, Non-executive Director (appointed on 31 January 2022)  
J Campbell, Non-executive Director (appointed on 31 January 2022)  
V Sorgi, Non-executive Director, PPL (resigned 14 June 2021)  
GN Dudkin, Non-executive Director, PPL (resigned 14 June 2021)  
JH Raphael, Non-executive Director, PPL (resigned 31 May 2021)  
JP Bergstein Jr, Non-executive Director, PPL (resigned 14 June 2021)  
AW Elmore, Non-executive Director, PPL (resigned 14 June 2021)

The non-executive directors employed by PPL resigned as directors following the acquisition of the Group by National Grid on 14 June 2021.

During and at the end of the financial year, no director was interested in any contract of significance in relation to the WPD Group's business other than service contracts.

Insurance in respect of directors and officers is third party qualifying insurance and is maintained by the WPD Group's ultimate parent, National Grid plc. The insurance is subject to the conditions set out in the Companies Acts and remains in force at the date of signing the Directors' report.

**Statement of disclosure to independent auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, of which the auditor is unaware. Each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**Independent auditor**

Deloitte LLP have expressed their willingness to continue in office and their reappointment as auditors for the WPD Group was approved by the shareholders of National Grid Plc on 11 July 2022.

Approved and authorised for issue by the Board and signed on its behalf by:



P Swift  
Chief Executive

22 July 2022

**Western Power Distribution plc**  
Avonbank  
Feeder Road  
Bristol  
BS2 0TB

Registered Number: 09223384

### **Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and Financial Statements, including the WPD Group financial statements and the Company financial statements, the Strategic report and the Directors' report in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the WPD Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard ("FRS") 101 "Reduced Disclosure Framework".

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 Group and the parent Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 on a consolidated and individual basis, and to enable them to ensure that the individual and consolidated financial statements comply with the Companies Act 2006 and, with regard to the Group financial statements, article 4 of the IAS regulation. They are also responsible for the system of internal control, for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of 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. Information published on the Company's website is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Directors' responsibility statement**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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 uncertainties that they face; and
- the annual report and financial statements, taken as a whole, 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 and authorised for issue by the board of directors and is signed on its behalf by:



P Swift  
Chief Executive Officer  
22 July 2022

**Independent auditor's report  
to the members of Western Power Distribution plc**

**Report on the audit of the financial statements**

**1. Opinion**

**In our opinion:**

- **the financial statements of Western Power Distribution Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2022 and of the Group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB");**
- **the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheets;
- the consolidated and parent Company statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

**2. 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 Group and the parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**3. Summary of our audit approach**

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Key audit matters</b>                   | <p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"><li>▪ Capitalisation of overheads</li><li>▪ Impairment of goodwill</li></ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"><li>• Newly identified</li><li>• Increased level of risk</li><li>• Similar level of risk</li><li>• Decreased level of risk</li></ul> |
| <b>Materiality</b>                         | The materiality that we used for the Group financial statements was £38m which was determined on the basis of profit before tax.                                                                                                                                                                                                                                                                                                        |
| <b>Scoping</b>                             | Based on our assessment, we focused our Group audit work on five components which were subject to a full scope audit of their financial information. Our full scope audit covered substantially all of the Group's revenue, profit before tax and net assets.                                                                                                                                                                           |
| <b>Significant changes in our approach</b> | We have identified one new key audit matter in the current year related to impairment of goodwill.                                                                                                                                                                                                                                                                                                                                      |

**Independent auditor's report  
to the members of Western Power Distribution plc (continued)**

**4. 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 **group's** and **parent company's** ability to continue to adopt the going concern basis of accounting included:

- Assessing the financing facilities including the nature of facilities, repayment terms and covenant compliance;
- Assessing the assumptions used in the forecasts;
- Testing the mechanical accuracy of those forecasts;
- Assessing the historical accuracy of forecasts prepared by management; and
- Evaluating whether the **Group's** disclosures in respect of going concern within the financial statements meet the requirements of IAS 1.

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 **group's** and **parent 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.

**5. Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the current year, we have identified two key audit matters, being capitalisation of overheads and impairment of goodwill. Capitalisation of overheads is consistent with the prior year, although in the current year we have not identified a fraud risk in relation to the matter. Impairment of goodwill is a newly identified key audit matter. This is due to the increased complexity and judgement involved in the valuation of goodwill in the current year, with the group using discounted cash flows methodology to perform their impairment review for the year ended 31 March 2022. In the prior year, goodwill was valued on a fair value less costs to sell basis due to the acquisition of the Group by National Grid and therefore the associated judgement and complexity was determined to be lower.

*5.1. Capitalisation of overheads*

Key audit matter description

*Amounts capitalised as network assets include indirect costs associated with overhead costs. The costs are capitalised based on management's assessment of the costs incurred that are directly attributable to the capital work performed.*

*A key audit matter has been identified in respect of the key assumptions relating to the capitalisation of corporate overheads.*

*There is a judgement in relation to the nature of costs included within each cost classification; and a management estimate in relation to the appropriate percentage of costs to capitalise.*

*Capitalisation of corporate overheads has not been assessed as a fraud risk in the year. Whilst the area continues to be an area of management judgement, and therefore continues to be a key audit matter, in the current year we have assessed the risk to be lower in comparison to the prior year based on our understanding of this balance and the degree of complexity involved.*

*Total corporate overheads are £148.1m in the year (2021: £127.1m), of which £88.1m (2021: £75.4m) has been capitalised to fixed assets.*

*Refer to note 1 'significant accounting policies', note 2 'critical accounting judgements and key sources of estimation uncertainty' and note 12 'property plant and equipment' in the financial statements for further discussion of the Group's policy and judgements in capitalisation of overheads.*

**Independent auditor's report  
to the members of Western Power Distribution plc (continued)**

**5. Key audit matters (continued)**

*5.1. Capitalisation of overheads (continued)*

How the scope of our audit responded to the key audit matter

We tested the relevant controls related to the estimate of corporate overhead costs and those that are directly associated with capital projects and capitalisation rates.

We evaluated the appropriateness of the accounting treatment for capitalising overheads by reference to the requirements of IAS 16 Property, Plant and Equipment and evaluated the policies, procedures and assumptions used in estimating the value of overheads that are directly attributable to capital projects.

We tested a sample of overhead costs capitalised, agreeing them to appropriate audit evidence, to test that they have been recorded accurately. We also tested management's estimate of percentage of costs that are directly attributable to capital projects through verifying the inputs into the calculation and agreeing these to appropriate support and evidence. Further, we have challenged management's methodology and estimate through considering whether there are alternative appropriate assumptions.

Key observations

Based on the work performed we are satisfied that the assumptions made in respect of the capitalisation rates applied to capitalised overheads within the fixed assets balance are reasonable as at 31 March 2022.

*5.1. Impairment of goodwill*

Key audit matter description

Management is required to assess the carrying value of goodwill and acquired intangible assets and perform an impairment review under IAS 36 Impairment of Assets on an annual basis and whenever an indication of impairment exists. Goodwill was acquired through business combinations.

As disclosed in note 15 of the financial statements the carrying value of goodwill in relation to East Midlands is £518.8m (2021: £518.8m), West Midlands £614.4m (2021: £614.4m) and South Wales £120.9m (2021: £120.9m).

We have identified a key audit matter around key assumptions used in management's impairment model. The most complex assumptions that require judgement are the discount rate used to calculate the present value of future cash flows and the premium applied to the Regulatory Asset Value ("RAV") at the end of the RIIO-ED2 forecasted cash flow period for each cash generating unit.

We did not identify impairment of goodwill as a key audit matter in the prior year. Due to the acquisition of the WPD Group by National Grid plc, the recoverable amount of goodwill was determined using the fair value less costs to sell method. Therefore, the overall impairment assessment was less complex and the judgemental assumptions of a value in use calculation were not applicable.

Refer to note 1 'Significant Accounting Policies', Note 2 'Critical Accounting Judgements and Key Sources of Estimation Uncertainty' and note 15 'Intangible Assets' in the financial statements for further discussion of the Group's policy and judgements in the goodwill impairment review, including the Group's disclosures of the sensitivity and reasonably possible changes of the East Midlands, West Midlands and South Wales cash generating units to changes in the key assumptions.

How the scope of our audit responded to the key audit matter

We have challenged the underlying cash flow forecasts, with reference to Ofgem guidance on RIIO-ED2 forecasted cash flows.

With involvement of our internal valuation specialists, we have challenged the reasonableness of the discount rate and premium applied to the RAV at the end of the cash flow period and challenged management's position using key assumptions developed independently based on external market data.

**We have evaluated and recalculated management's sensitivity analysis on the key assumptions.**

Further, we developed independent expectations of goodwill impairment using alternative assumptions around returns in the RIIO-ED2 cash flow period.

We also assessed the adequacy of the Group's disclosures of the sensitivity and reasonably possible changes of the East Midlands, West Midlands and South Wales cash generating units to changes in the key assumptions.

**Independent auditor's report  
to the members of Western Power Distribution plc (continued)**

**5.1. Impairment of goodwill (continued)**

**Key observations**

We conclude that the key assumptions underpinning the value in use calculation used by the Group in its assessment of the carrying value of goodwill for each of the three CGUs, when considered in aggregate, lie within the range of reasonable estimates.

We concluded that the valuation of goodwill is appropriate.

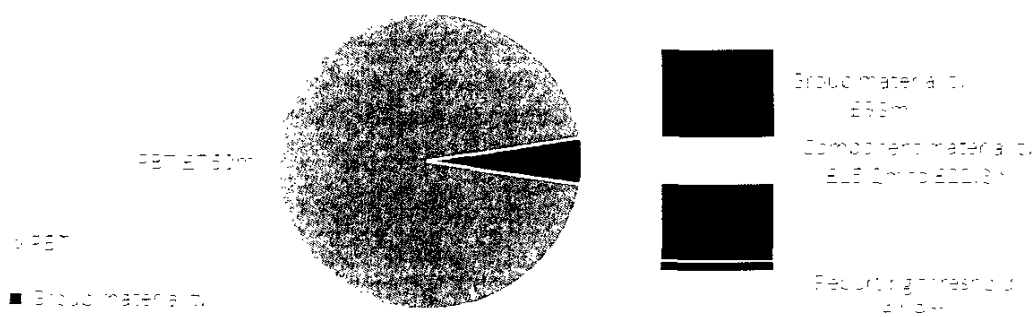
**6. Our application of materiality**

**6.1 Materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|                                            | Group financial statements                                                                                                                                                                  | Parent Company financial statements                                                                                                                                         |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Materiality</b>                         | £38.0m (2021: £34.6m)                                                                                                                                                                       | £15.2m (2021: £13.9m)                                                                                                                                                       |
| <b>Basis for determining materiality</b>   | 5% of profit before tax (2021: 5% of profit before tax).                                                                                                                                    | Parent Company materiality equates to less than 1% of net assets, which is capped at 40% of Group materiality. This is consistent with the methodology applied in 2021.     |
| <b>Rationale for the benchmark applied</b> | We have determined materiality based on profit before tax as this is the key metric used by management, investors, analysts and lenders, with shareholder value being driven by the result. | We have determined materiality based on net assets as the Company holds the investments for its subsidiary companies. Therefore a balance sheet basis is to be appropriate. |



**6.2 Performance materiality**

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

|                                                                    | Group financial statements                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Parent Company financial statements           |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| <b>Performance materiality</b>                                     | 70% (2021: 70%) of group materiality                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 70% (2021: 70%) of parent Company materiality |
| <b>Basis and rationale for determining performance materiality</b> | <p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> <li>Our cumulative experience from prior year audits;</li> <li>The level of corrected and uncorrected misstatements identified from prior year audits;</li> <li>Our risk assessment, including our understanding of the entity and its environment;</li> <li>Our assessment of the group's overall control environment and that we consider it appropriate to rely on internal controls over a number of business processes including fixed assets and revenue.</li> </ul> |                                               |

**Independent auditor's report  
to the members of Western Power Distribution plc (continued)**

**6. Our application of materiality (continued)**

**6.3. Error reporting threshold**

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £1.9m (2021: £1.7m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**7. An overview of the scope of our audit**

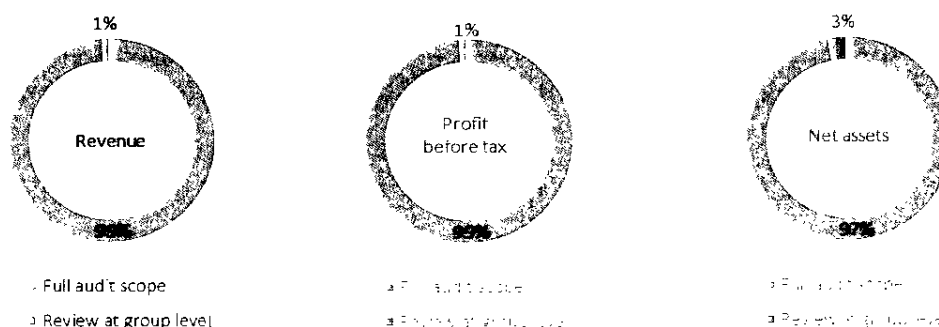
**7.1. Identification and scoping of components**

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. We used data analytic tools to help inform our understanding of the business, identify key risk areas and evaluate the level of audit coverage required.

Based on that assessment we focused our group audit scope primarily on the audit work of five components, which were subject to a full scope audit. Analytical procedures were performed on the remaining non-significant component. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Those five components represent the principal business units within the Group and the parent company and account for over 99% of revenue and profit before tax (2021: 98%) and 97% of net assets (2021: 98%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work of the five components was executed at a level of materiality applicable to the individual component and was lower than Group materiality.

The parent Company is located in Bristol and audited directly by the group audit engagement team.



**7.2. Our consideration of the control environment**

The Group's IT landscape contains a number of IT systems, applications and tools used to support business processes and for reporting. In line with our scoping of components (see section 7.1) our work in relation to IT controls focuses on the four identified components. We performed an independent risk assessment of the systems, applications and tools to determine those which are of greatest relevance to the Group's financial reporting, including those that contain system configured automated controls that host financially relevant data and associated reports.

With the involvement of our specialists, we performed testing of General IT controls of these systems, typically covering controls surrounding user access management, change management and interfaces with other systems relating to in scope IT systems as well as controls over key reports generated from the IT systems and their supporting infrastructure.

We performed walkthrough procedures of the key controls relevant to a number of business processes; to understand whether the controls were effectively designed to address the IT related risk. We subsequently performed testing of the controls across the audit period, to determine whether the controls had been consistently applied as designed.

Our procedures enabled us to place reliance on IT controls, as planned, in the audit approach across a number of business cycles (see section 6.2).

We have also obtained an understanding of and tested the controls over a number of financial statement line item processes. We have taken controls reliance in our testing of a number of business processes including fixed assets and revenue.

We performed walkthrough procedures of the key controls relevant to a number of business processes; to understand whether the controls were effectively designed to address the identified risks of material misstatement. We subsequently performed testing of the controls across the audit period, to determine whether the controls had been consistently applied as designed.

**Independent auditor's report  
to the members of Western Power Distribution plc (continued)**

**8. 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 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.**

**9. 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 Group's and the parent 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 Group or parent Company or to cease operations, or have no realistic alternative but to do so.

**10. 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**11. 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.

*11.1. Identifying and assessing potential risks related to irregularities*

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the Board of Directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, treasury and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

**Independent auditor's report  
to the members of Western Power Distribution plc (continued)**

**11. Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

*11.1. Identifying and assessing potential risks related to irregularities (continued)*

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence as set out by the energy regulator, Ofgem, which is fundamental to the Group's ability to continue as a going concern.

*11.2. Audit response to risks identified*

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Board of Directors, and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofgem; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

**Report on other legal and regulatory requirements**

**12. 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 Group, the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

**13. Matters on which we are required to report by exception**

*13.1. Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

*13.2. Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

**We have nothing to report in respect of these matters.**

**Independent auditor's report  
to the members of Western Power Distribution plc (continued)**

**Report on other legal and regulatory requirements (continued)**

**14. Other matters which we are required to address**

*14.1 Auditor tenure*

Following the recommendation of the Board of Directors, we were appointed by the shareholders on 16 June 2017 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 March 2017 to 31 March 2022.

*14.2 Consistency of the audit report with the additional report to the Board of Directors*

Our audit opinion is consistent with the additional report to the Board of Directors we are required to provide in accordance with ISAs (UK).

**15. 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.



Suzanne Gallagher (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Reading, United Kingdom  
22 July 2022

**Western Power Distribution plc consolidated income statement**

For the year ended 31 March 2022

|                                                                               | Note | 2022<br>£m     | 2021<br>£m |
|-------------------------------------------------------------------------------|------|----------------|------------|
| <b>Revenue*</b>                                                               | 3    | <b>1,886.0</b> | 1,718.5    |
| Operating costs*                                                              | 5    | <b>(830.1)</b> | (771.4)    |
| Other operating income                                                        | 6    | <b>3.9</b>     | 3.9        |
| Other operating expense                                                       | 6    | <b>(1.0)</b>   | (2.1)      |
| <b>Operating profit</b>                                                       | 3    | <b>1,058.8</b> | 948.9      |
| Finance income                                                                | 7    | <b>0.2</b>     | 20.3       |
| Finance costs                                                                 | 7    | <b>(318.3)</b> | (288.7)    |
| Net finance income relating to pensions and<br>other post-retirement benefits | 26   | <b>6.2</b>     | 12.0       |
| <b>Profit before income tax</b>                                               |      | <b>746.9</b>   | 692.5      |
| Income tax expense                                                            | 10   | <b>(373.6)</b> | (121.1)    |
| <b>Profit for the year attributable to equity holders of the parent</b>       |      | <b>373.3</b>   | 571.4      |

All operations are continuing.

The accompanying notes 1 to 33 are an integral part of these financial statements.

\* Customer contributions amounting to £49.2m (2021: £47.3m) have been reclassified from operating costs to revenue. Refer to note 2 (page 65) for details.

**Western Power Distribution plc consolidated statement of comprehensive income**  
For the year ended 31 March 2022

|                                                                                                                | Note | 2022<br>£m     | 2021<br>£m   |
|----------------------------------------------------------------------------------------------------------------|------|----------------|--------------|
| <b>Profit for the year</b>                                                                                     |      | <b>373.3</b>   | <b>571.4</b> |
| <b>Other comprehensive income/(expense):</b>                                                                   |      |                |              |
| <i>Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:</i>        |      |                |              |
| Profit/(loss) arising on cash flow hedges during the year                                                      |      | <b>9.9</b>     | (80.1)       |
| Reclassification adjustments for (gains)/losses on cash flow hedges included in profit or loss (finance costs) |      | <b>(7.5)</b>   | 57.8         |
| Income tax effect                                                                                              | 10   | <b>0.7</b>     | 4.2          |
|                                                                                                                |      | <b>3.1</b>     | (18.1)       |
| <i>Other comprehensive income/(expense) not to be reclassified to profit or loss in subsequent periods:</i>    |      |                |              |
| Re-measurement gains/(losses) on defined benefit pension plan                                                  | 26   | <b>1,021.1</b> | (307.2)      |
| Income tax effect                                                                                              | 10   | <b>(280.3)</b> | 68.5         |
|                                                                                                                |      | <b>740.8</b>   | (238.7)      |
| <b>Other comprehensive income/(expense) for the year, net of tax</b>                                           |      | <b>743.9</b>   | (256.8)      |
| <b>Total comprehensive income for the year, net of tax, attributable to equity holders of the parent</b>       |      | <b>1,117.2</b> | <b>314.6</b> |

**Western Power Distribution plc consolidated statement of changes in equity**

For the year ended 31 March 2022

|                                                            | Note | Share<br>capital<br>£m | Merger<br>reserve<br>£m | Hedging<br>reserve<br>£m | Non-cash<br>capital<br>contribution<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>equity<br>£m |
|------------------------------------------------------------|------|------------------------|-------------------------|--------------------------|------------------------------------------------------|----------------------------|-----------------------|
| At 1 April 2020                                            |      | 1,657.6                | (963.1)                 | 1.2                      | -                                                    | 4,590.1                    | 5,285.8               |
| Profit for the year                                        |      | -                      | -                       | -                        | -                                                    | 571.4                      | 571.4                 |
| Other comprehensive expense                                |      | -                      | -                       | (18.1)                   | -                                                    | (238.7)                    | (256.8)               |
| <b>Total comprehensive (expense) / income for the year</b> |      | -                      | -                       | (18.1)                   | -                                                    | 332.7                      | 314.6                 |
| Share capital reduction                                    |      | (600.0)                | -                       | -                        | -                                                    | 600.0                      | -                     |
| Equity dividends paid                                      | 11   | -                      | -                       | -                        | -                                                    | (221.2)                    | (221.2)               |
| At 31 March 2021                                           |      | 1,057.6                | (963.1)                 | (16.9)                   | -                                                    | 5,301.6                    | 5,379.2               |
| Profit for the year                                        |      | -                      | -                       | -                        | -                                                    | 373.3                      | 373.3                 |
| Other comprehensive income                                 |      | -                      | -                       | 3.1                      | -                                                    | 740.8                      | 743.9                 |
| <b>Total comprehensive income for the year</b>             |      | -                      | -                       | 3.1                      | -                                                    | 1,114.1                    | 1,117.2               |
| Share-based payment                                        | 29   | -                      | -                       | -                        | 0.5                                                  | -                          | 0.5                   |
| Equity dividends paid                                      | 11   | -                      | -                       | -                        | -                                                    | (140.2)                    | (140.2)               |
| <b>At 31 March 2022</b>                                    |      | <b>1,057.6</b>         | <b>(963.1)</b>          | <b>(13.8)</b>            | <b>0.5</b>                                           | <b>6,275.5</b>             | <b>6,356.7</b>        |

**Western Power Distribution plc consolidated balance sheet**

As at 31 March 2022

|                                       | Note     | 2022<br>£m       | 2021<br>£m      |
|---------------------------------------|----------|------------------|-----------------|
| <b>ASSETS</b>                         |          |                  |                 |
| Property, plant and equipment         | 12       | 14,687.5         | 13,930.2        |
| Right-of-use asset                    | 13       | 9.8              | 9.3             |
| Investment property                   | 14       | 31.7             | 29.9            |
| Intangible assets                     | 15       | 1,305.4          | 1,300.8         |
| Trade and other receivables           | 17       | 5.5              | 5.2             |
| Derivative financial instruments      | 24       | 35.9             | 26.2            |
| Retirement benefit assets             | 26       | 1,448.1          | 402.8           |
| <b>Non-current assets</b>             |          | <b>17,523.9</b>  | <b>15,704.4</b> |
| Inventories                           | 16       | 36.5             | 46.7            |
| Trade and other receivables           | 17       | 327.5            | 326.8           |
| Derivative financial instruments      | 24       | -                | 1.8             |
| Cash at bank and in hand              | 18       | 148.8            | 139.2           |
| <b>Current assets</b>                 |          | <b>512.8</b>     | <b>514.5</b>    |
| <b>Total assets</b>                   | <b>3</b> | <b>18,036.7</b>  | <b>16,218.9</b> |
| <b>LIABILITIES</b>                    |          |                  |                 |
| Loans and other borrowings            | 21       | 1,384.0          | 590.7           |
| Trade and other payables              | 19       | 689.2            | 650.6           |
| Lease liabilities                     | 20       | 1.7              | 1.5             |
| Current tax liabilities               |          | 13.6             | 5.3             |
| Provisions                            | 27       | 13.3             | 10.5            |
| <b>Current liabilities</b>            |          | <b>2,101.8</b>   | <b>1,258.6</b>  |
| <b>Net current liabilities</b>        |          | <b>(1,589.0)</b> | <b>(744.1)</b>  |
| Loans and other borrowings            | 21       | 5,276.4          | 5,949.7         |
| Deferred tax liabilities              | 25       | 1,328.6          | 766.8           |
| Trade and other payables              | 19       | 2,806.8          | 2,687.4         |
| Lease liabilities                     | 20       | 8.2              | 7.9             |
| Retirement benefit liabilities        | 26       | 7.7              | 7.6             |
| Provisions                            | 27       | 150.5            | 161.7           |
| <b>Non-current liabilities</b>        |          | <b>9,578.2</b>   | <b>9,581.1</b>  |
| <b>Total liabilities</b>              | <b>3</b> | <b>11,680.0</b>  | <b>10,839.7</b> |
| <b>Net assets</b>                     |          | <b>6,356.7</b>   | <b>5,379.2</b>  |
| <b>EQUITY</b>                         |          |                  |                 |
| Share capital                         | 28       | 1,057.6          | 1,057.6         |
| Merger reserve                        | 29       | (963.1)          | (963.1)         |
| Hedging reserve                       | 29       | (13.8)           | (16.9)          |
| Non-cash capital contribution reserve | 29       | 0.5              | -               |
| Retained earnings                     | 29       | 6,275.5          | 5,301.6         |
| <b>Total equity</b>                   |          | <b>6,356.7</b>   | <b>5,379.2</b>  |

The financial statements on pages 59 to 126 were approved and authorised for issue by the Board of Directors on 22 July 2022 and signed on its behalf by:

  
P Swift  
Chief Executive

  
IR Williams  
Finance Director

**Western Power Distribution plc consolidated cash flow statement**  
For the year ended 31 March 2022

|                                                                                              | Note | 2022<br>£m       | 2021<br>£m     |
|----------------------------------------------------------------------------------------------|------|------------------|----------------|
| <b>Operating activities - continuing operations</b>                                          |      |                  |                |
| Profit for the year                                                                          |      | 373.3            | 571.4          |
| Adjustments to reconcile profit for the year to net cash flow from operating activities:     |      |                  |                |
| Income tax expense                                                                           |      | 373.6            | 121.1          |
| Finance costs                                                                                |      | 312.1            | 276.7          |
| Finance revenue                                                                              |      | (0.2)            | (20.3)         |
| Depreciation of property, plant and equipment                                                | 5    | 271.0            | 251.4          |
| Amortisation of customers' contributions                                                     |      | (49.2)           | (47.3)         |
| Amortisation of intangible assets                                                            | 5    | 3.1              | 8.9            |
| Gain on disposal of property, plant and equipment                                            |      | (1.3)            | (0.3)          |
| Loss on disposal of investment properties                                                    |      | 0.1              | 0.1            |
| Fair value gains on investment properties                                                    | 14   | (2.7)            | (1.0)          |
| Fair value losses on investment properties                                                   | 14   | 1.0              | 2.1            |
| Share based payments                                                                         |      | 0.5              | -              |
| Difference between pension contributions paid and amounts recognised in the income statement |      | (11.3)           | (146.1)        |
| (Decrease)/increase in provisions                                                            |      | (15.2)           | 4.8            |
| Debt modification                                                                            |      | -                | (2.4)          |
| Working capital adjustments:                                                                 |      |                  |                |
| Decrease/(increase) in inventories                                                           |      | 10.3             | (8.2)          |
| Increase in trade and other receivables                                                      |      | (1.0)            | (25.9)         |
| Increase in trade and other payables                                                         |      | 2.3              | 25.5           |
| Interest paid                                                                                |      | (250.2)          | (280.5)        |
| Interest received                                                                            |      | 0.1              | 11.5           |
| Customers' contributions received                                                            |      | 200.3            | 177.0          |
| Income taxes paid                                                                            |      | (82.8)           | (61.5)         |
| <b>Net cash from operating activities</b>                                                    |      | <b>1,133.8</b>   | <b>857.0</b>   |
| <b>Investing activities</b>                                                                  |      |                  |                |
| Purchase of property, plant and equipment                                                    |      | (1,017.4)        | (951.2)        |
| Proceeds from sale of property, plant and equipment                                          |      | 1.5              | 0.5            |
| Purchase of investment properties                                                            |      | (0.2)            | -              |
| Purchase of intangible assets                                                                |      | (7.8)            | (11.4)         |
| <b>Net cash used in investing activities</b>                                                 |      | <b>(1,023.9)</b> | <b>(962.1)</b> |
| <b>Financing activities</b>                                                                  |      |                  |                |
| Net increase in short-term borrowings                                                        |      | 661.2            | 307.0          |
| Payment of lease liabilities                                                                 |      | (1.7)            | (1.7)          |
| Proceeds from long-term borrowings                                                           |      | -                | 246.0          |
| Repayment of long-term borrowings net of related swaps                                       |      | (618.1)          | (456.9)        |
| Dividends paid                                                                               |      | (140.2)          | (60.2)         |
| <b>Net cash (used in)/from financing activities</b>                                          |      | <b>(98.8)</b>    | <b>34.2</b>    |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                  |      | <b>11.1</b>      | <b>(70.9)</b>  |
| <b>Cash and cash equivalents at beginning of year</b>                                        | 18   | <b>116.6</b>     | <b>187.5</b>   |
| <b>Cash and cash equivalents at end of year</b>                                              | 18   | <b>127.7</b>     | <b>116.6</b>   |

## Notes to the Western Power Distribution plc consolidated financial statements

For the year ended 31 March 2022

### 1. Significant accounting policies

The financial statements of Western Power Distribution plc (the "Company") and its subsidiaries (the "WPD Group" or "WPD") for the year ended 31 March 2022 were authorised for issue by the Board of Directors on 22 July 2022 and the balance sheet was signed on the Board's behalf by P Swift and IR Williams. The Company is a public limited company, limited by shares and incorporated and registered in England and Wales. The address of the Company's registered office is stated on page 136.

#### ***Basis of preparation***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the provisions of the UK Companies Act 2006. The financial statements have also been prepared in accordance with IFRS adopted by the European Union. The accounting policies that follow have been consistently applied to all years presented.

*The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. *In estimating the fair value of an asset or liability, the WPD Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.* Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value such as net realisable value in IAS 2 or value in use in IAS 36.

These consolidated financial statements are presented in sterling as this is the currency of the primary economic environment in which the WPD Group operates. All values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

The Comparative financial information has been presented on the same as basis as current year financial information.

The significant accounting policies and critical accounting judgements, estimates and assumptions of the WPD Group are set out below.

#### ***Going concern***

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the WPD Group has adequate resources to continue in operational existence for the foreseeable future.

The Group has net current liabilities of £1,589.0m (2021: £744.1m). The increase in the net current liability during the year is primarily due to amounts drawn under a two-way loan agreement with National Grid Plc which amounts to £662.6m. This was partially used to pay a short-term loan of £350m due in August 2021. In addition to this the current portion of a long term loan due in January 2023 amounts to £700.3m.

The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing facilities including the two way loan with the parent and issuances of long-term debt. The Group can access either short or long term borrowings in order to finance repayment of the loan due within next 12 months. The Group has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Group's ability to raise debt, to indicate that the Group will be successfully able to raise debt to finance repayments as needed. Confirmation has also been obtained from a parent undertaking that it will provide financial support to the Group for not less than 12 months from the date of approval 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 Group 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. 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, the Group does not consider that there is material uncertainty over the entity's ability to continue as a going concern.

## 1. Significant accounting policies (continued)

### *Going concern (continued)*

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 WPD, the existing and future forecasted covenant compliance of the Group, which includes the gearing ratio, the anticipated ability of the WPD Group to be able to raise additional long term debt in the future and the ability of the parent undertaking to provide financial support. The Directors have also assessed the principal risks discussed in the Strategic report (pages 19 to 25) in arriving at the going concern assumption for the preparation of the financial statements.

Thus, the directors have concluded that the WPD Group has sufficient resources available to enable it to continue in existence for the foreseeable future and for a period of at least 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements.

### *Basis of consolidation*

The WPD Group financial statements consolidate the financial statements of the Company and the entities it controls (its subsidiaries) drawn up to 31 March each year. Control of an investee exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities of the investee. Subsidiaries, other than those acquired under common control transactions, are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. Inter-company balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

For business combinations involving entities under common control, the pooling of interest method is applied. The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. The only adjustments that are made are to harmonise accounting policies. No 'new' goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity. The income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place.

### *Impact of prior period restatements*

Customer contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement 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 income statement within operating costs. For the period ended 31 March 2022, as a result of the alignment of accounting policies with the ultimate parent and in line with IFRS 15's requirements, customer contributions amounting to £49.2m (2021: £47.3m) have been credited to the income statement within revenue instead of within operating costs. Comparatives have been restated.

### *Impact of new International Financial Reporting Standards*

The following new standards are effective for accounting periods beginning on or after 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - amendments in relation to Interest Rate Benchmark Reform, Phase 2. These amendments are effective for annual periods beginning on or after 1 January 2021;
- Amendments to IFRS 16 - amendments regarding COVID-19 related rent concessions, effective for annual periods beginning on or after 1 June 2020 and further extension effective for annual periods beginning on or after 1 April 2021.

The Group has assessed the impact of these standards and concluded that there is no material change to the Group's financial statements.

**1. Significant accounting policies (continued)**

***Impact of new International Financial Reporting Standards (continued)***

*Not yet adopted*

The following pronouncements from the International Accounting Standards Board will become effective for future financial reporting periods and have not yet been adopted by the WPD Group:

- Amendments to IFRS 3 - reference to the conceptual framework, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 - amendments regarding proceeds before intended use, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 - amendments regarding onerous contracts - cost of fulfilling a contract, effective for annual periods beginning on or after 1 January 2022;
- Annual improvements to IFRS standards 2018 - 2020 cycle - effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 1 - amendments in relation to the classification of liabilities as current or non-current, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 12 - amendments regarding deferred tax related to assets and liabilities arising from a single transaction, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 8 - amendments regarding issuance of definition of an accounting estimate, effective for annual periods beginning on or after 1 January 2023;
- IFRS 17 (including June 2020 amendments to IFRS 17) - Insurance Contracts, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 1 and IFRS Practice Statement 2 - Amendments in relation to disclosure of accounting policies, effective for annual periods beginning on or after 1 January 2023.

WPD does not anticipate these standards and interpretations will have a material impact on the Group.

***Business combinations and goodwill***

Business combinations, other than the combination of businesses under common control, are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in distribution and administration expenses.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognised for any non-controlling interest and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

***Foreign currencies***

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

For debt not in sterling, see "Derivative financial instruments and hedging activities" below.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

**1. Significant accounting policies (continued)**

***Revenue recognition***

***Distribution Use of System ("DUoS") Revenue***

The Group consists of four distribution network operators ("DNOs") in the UK that earn the majority of their revenue from providing distribution use of system services. The services are provided under a Distribution Connection and Use of System Agreements ("DCUSA") with their customers.

There is a single performance obligation under the DCUSA: the DNO is required to use its distribution network to deliver electricity from metered entry points to exit point. WPD's performance obligation of delivering electricity represents a promise to deliver a series of distinct services that should be accounted for as a single performance obligation. The performance obligation is satisfied over time as:

- a) *Customers immediately control and consume the benefits WPD provides;*
- b) *WPD's service does not create or enhance an asset with an alternate use to WPD; and*
- c) *WPD has the right to payment from the customer for the service that has been provided.*

WPD measures the progress of the performance obligation using the output method. The output method recognises revenue based on the direct measurements of value transferred to the customer. Accordingly WPD records revenue on a monthly basis, based on the amount of kilowatt hour ("KWH") of electricity delivered.

Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year-end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised as such an adjustment is to future prices and relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

***Finance income***

Finance revenue comprises interest receivable on funds invested. Interest income is recognised in the income statement as it accrues, on an effective rate basis.

***Rental income***

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term.

***Engineering recharges***

Engineering recharges relate to the recovery of costs incurred in relation to construction work requested by customers, such as re-routing of existing network assets. The performance obligation relates to completion of work as per the terms of the contract. The consideration received is recognised as revenue as the construction work is completed.

***Customer contributions***

Contributions receivable in respect of additions to property, plant and equipment for new connections are treated as deferred income, which is credited to the income statement within revenue over the estimated weighted life of the related assets of 69 years. The performance obligation for customer contribution contracts is to provide customers with an ongoing network connection and thus is satisfied over a period of time instead of at a point of time. Customers immediately control and consume the benefits WPD provides.

***Other operating income and expense***

Other operating income and expense includes movements in the fair value of investment properties and gains and losses arising on the disposal of properties by the WPD Group's property management business which is considered to be part of the normal recurring operating activities of the WPD Group.

***Finance costs***

Finance expenses comprise interest payable on borrowings, accretion relating to inflation on index linked debt and the release of discounts on provisions. Interest charges are recognised in the income statement as they accrue, on an effective rate basis.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 1. Significant accounting policies (continued)

#### Leases

##### *WPD Group as a lessee*

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (assets with a purchase price of less than £5,000). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the unpaid lease payments at the commencement date, discounted by using the Group's incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the income statement in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

##### *WPD Group as a lessor*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. The Group has no finance leases.

Assets leased out under operating leases are included in property, plant and equipment and depreciated over the estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the term of the lease. Lease termination fees are allocated to the income statement upon termination. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 1. Significant accounting policies (continued)

#### *Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and impairments. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

Expenditure on electricity infrastructure assets relating to increases in capacity or enhancements of the network including qualifying replacement expenditure are treated as additions. Other costs incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred.

Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Employee costs incurred in implementing the capital schemes of the WPD Group are capitalised within infrastructure assets together with the cost of materials and an appropriate proportion of overheads.

Contributions received towards the cost of property, plant and equipment which include low carbon network funding are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated economic useful lives of the assets to which they relate.

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

|                                                   | <u>Years</u> |
|---------------------------------------------------|--------------|
| Distribution network assets:                      |              |
| Overhead lines and poles                          | 65           |
| Underground cables                                | 85           |
| Plant and machinery (transformers and switchgear) | 55           |
| Meters                                            | 3            |
| Other (towers and substation buildings)           | Up to 80     |
| Buildings - freehold                              | Up to 60     |
| Buildings - long leasehold                        | Up to 60     |
| Fixtures and equipment                            | Up to 20     |
| Vehicles and mobile plant                         | Up to 10     |

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

#### *Investment property*

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date and the highest and best use. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the WPD Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 1. Significant accounting policies (continued)

#### *Intangible assets*

Intangible assets, other than goodwill, include customer contracts and computer software and are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives. The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

#### *Contracts*

The value recognised for customer contracts relating to acquired telecommunications activities is amortised over 10 years. It is subject to an impairment test at least on an annual basis. It is written off if the activity is sold.

#### *Computer software*

Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the WPD Group is satisfied that future economic benefits will flow to the WPD Group and the cost can be separately identified and reliably measured. Software is measured initially at cost and amortised on a straight-line basis over its estimated useful life. The carrying amount is reduced by any provision for impairment where necessary. The estimated useful life assigned to computer software is up to five years.

#### *Impairment of property, plant and equipment, intangible assets, and goodwill*

The WPD Group assesses goodwill and intangibles with indefinite useful lives for impairment annually and other assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

The business plan, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. For acquisition purposes, the value of a regulated DNO is usually seen as the RAV plus a premium. The premium takes into consideration WPD's performance and any recent market transactions.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of cash-generating units ("CGUs") to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of a group of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the group of CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

## 1. Significant accounting policies (continued)

### *Impairment of property, plant and equipment, intangible assets, and goodwill (continued)*

The WPD Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the recoverable amount of cash-generating units, specifically in relation to cash flows, discount rate and estimated fair value less cost to dispose. At 31 March 2022, the carrying value of goodwill amounted to £1,254.1m (2021: £1,254.1m).

### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. It excludes borrowing costs.

### *Taxation*

The income tax expense (or credit) for the period comprises current and deferred tax. Income tax is recognised in the income statement unless it relates to an item that has been recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax is measured at the amount expected to be payable (or recoverable) in respect of the taxable profit (or loss) for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. This includes UK corporation tax payable to HM Revenue & Customs ("HMRC") and amounts payable to (or receivable from) other UK Group companies for losses and other amounts transferred between them ("group relief").

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to HMRC. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax is the tax expected to be payable (or recoverable) in future periods due to differences between the time when profits and losses are recognised in the financial statements and the time when those profits and losses are included in tax returns filed with HMRC. These temporary differences arise in the current period and then reverse in future periods. The temporary differences are calculated by comparing the carrying value of assets and liabilities at the balance sheet date with their corresponding tax bases included in tax returns.

Deferred tax is recognised on all temporary differences except:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods when the temporary differences will reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset only to the extent permitted by tax legislation.

### *Pension benefits*

The WPD Group operates four defined benefit pension plans, all of which require contributions to be made to separately administered funds. The larger plans are the two unitised sections of the industry-wide Electricity Supply Pension Scheme ("ESPS"). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. The final two plans, which are also closed to new members and have no active employees, are the Western Power Utilities Pension Scheme ("WPUPS") and the much smaller Infralec 1992 Scheme. WPD also has an unfunded obligation which relates to previous executives of WPD East Midlands, WPD West Midlands and WPD South Wales.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 1. Significant accounting policies (continued)

#### *Pension benefits (continued)*

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognised immediately when the WPD Group becomes committed to a change. The current service cost (including administration costs) is allocated to the income statement or capital expenditure as appropriate.

Net interest expense related to pension benefits represents the net change in the present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year. Net interest expense relating to pension benefits is recognised in the income statement.

Remeasurements of the net defined benefit liability or asset, comprising actuarial gains or losses, and the return on plan assets (excluding amounts included in net interest described above) are recognised within other comprehensive income in the period in which they occur.

The retirement benefit obligation or asset recognised in the balance sheet represents the deficit or surplus in the WPD Group's defined benefit pension plan. Surplus or deficit comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of a reduction in future contributions to the schemes.

Contributions to defined contribution schemes are recognised in the income statement or capital expenditure as appropriate in the year in which they become payable.

#### *Share-based payments*

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. The fair value excludes the effect of non-market vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

#### *Provisions*

A provision is recognised when the WPD Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

#### *Dividend distribution*

Dividend distribution to the Company's shareholder is recognised as a liability in the WPD Group's financial statements in the year in which the dividends are approved by the Company's directors.

#### *Financial assets*

Financial assets are classified as debt instruments at amortised cost; debt instruments at fair value through other comprehensive income ("FVOCI"); financial assets at fair value through profit and loss ("FVTPL"); derivatives designated as hedging instruments in an effective hedge; or as equity instruments designated at FVOCI, as appropriate. Financial assets include cash at bank and in hand, trade and other receivables, investments at amortised cost, and derivative financial instruments. The WPD Group determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in the income statement. The subsequent measurement of financial assets depends on their classification, as follows:

## 1. Significant accounting policies (continued)

### *Financial assets (continued)*

#### *Debt instruments at amortised cost*

Debt instruments that meet the hold-to-collect business model test and sole payment principal and interest ("SPPI") contractual cash flow test are carried at amortised cost using the effective interest method, if the time value of money is significant. Gains and losses are recognised in income when the debt instruments are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes cash at bank and in hand excluding the short term deposits, trade and other receivables including accrued income and investment at amortised cost.

#### *Financial assets at FVTPL*

Financial assets at FVTPL are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Short term deposits are included in this category. Short term deposits are highly liquid short term investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

#### *Financial assets at FVOCI*

Financial assets at FVOCI, that meet the sole payment principal and interest ("SPPI") contractual cash flow test and the objective of the group is achieved both by collecting contractual cash flows and selling financial assets, are carried on the balance sheet at fair value with gains or losses recognised in other comprehensive income. This category of financial assets include derivatives designated as hedging instruments in an effective cash flow hedge.

#### *Derivatives designated as hedging instruments in an effective hedge*

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

### *Impairment of financial assets*

WPD recognises impairment on financial assets following the expected credit loss ("ECL") model in IFRS 9.

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL, as default is a component of the probability of default ("PD") which affects the measurements of ECLs. WPD constitutes the following as an event of default:

- (i) Borrower is past due by more than 90 days on any material credit obligation to the Group; or
- (ii) Borrower is unlikely to pay its credit obligation to the Group in full.

WPD has the following financial assets not measured at FVTPL that are subject to ECL:

#### *Trade and other receivables including accrued income*

WPD applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. Lifetime ECLs result from all possible default events over the life of financial instruments.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 1. Significant accounting policies (continued)

#### *Impairment of financial assets(continued)*

##### *Trade and other receivables including accrued income (continued)*

To measure the expected credit losses, trade and other receivables have been grouped based on shared risk characteristics and the days past due. Accrued income is effectively a receivable as well for the purposes of the expected credit loss model since it is unbilled only because a passage of time is required. WPD has therefore concluded that expected loss rates for trade receivables are a reasonable approximation of the loss rates for accrued income as well.

The expected credit loss rates are primarily based on historical credit losses experienced. The historical loss rates are then adjusted for forward looking information on macroeconomic factors affecting the customer's ability to pay. The general economic trends and conditions impact the customers ability to pay. Another key factor to consider is the liquidity and overall financial position of the key electricity suppliers.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, liquidation of the debtors, the failure of the debtor to engage in a repayment plan, and a failure to make payments for a period greater than 120 days past due.

##### *Investments at amortised cost*

Investments at amortised cost is considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit loss. Twelve month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

##### *Cash at bank and in hand*

This comprises cash at bank, in hand and short term deposits. Since short term deposits are FVTPL, they are not subject to the impairment requirements of IFRS 9. Whereas cash at bank and in hand is subject to the impairment requirements of IFRS 9 but the impairment loss on these is deemed immaterial since they have an insignificant risk of change in value.

##### *Cash and cash equivalents*

In the consolidated cash flow statement and related notes, cash and cash equivalents includes cash at bank and in hand and short term deposits which are readily convertible into known amounts of cash and have a maturity of three months or less and which are subject to an insignificant risk of change in value, net of any bank overdrafts which are payable on demand.

##### *Financial liabilities*

Financial liabilities are classified as financial liabilities at FVTPL; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include trade and other payables including accruals and loans and other borrowings. The WPD Group determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, are included in this category.

##### *Financial liabilities measured at amortised cost*

All other financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs.

This category of financial liabilities includes trade and other payables and loans and other borrowings.

## 1. Significant accounting policies (continued)

### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the difference between the carrying amount of the liability before the modification and the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other operating income and expenses.

### *Derivative financial instruments and hedging activities*

The WPD Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognised in the income statement. For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the D4108hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected at inception to be highly effective in achieving offsetting changes in fair value or cash flows. Hedges meeting the criteria for hedge accounting are accounted for as follows:

#### *Cash flow hedges*

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the net unrealised gains reserve, while the ineffective portion is recognised in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to the income statement.

#### *Fair value hedges*

The WPD Group did not have any fair value hedges during the years presented in these financial statements.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 1. Significant accounting policies (continued)

#### ***Fair value measurement***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Group categorises assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within Level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or the WPD Group's assumptions about pricing by market participants.

#### ***Offsetting of financial assets and liabilities***

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the Group currently has a legally enforceable right to set off the recognised amounts; and the Group intends to either settle on a net basis or realise the asset and settle the liability simultaneously. A right of set off is the Group's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

#### ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### ***Share capital***

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

#### ***Merger reserve***

A merger reserve is recorded as a result of the application of the "pooling of interests" basis of consolidation for the reorganisation of entities under common control.

### 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 1, the directors are required to make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### **Critical judgements in applying the Group's accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### ***Capitalisation of overheads - Nature of costs capitalised***

Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the income statement with a portion being capitalised based on management's assessment of the costs incurred that are directly linked to the capital work performed. The nature of costs to be included for capitalisation is a key judgement and is based on an analysis of the activities directly attributable to capital work.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 2. Critical accounting judgements and key sources of estimation uncertainty (continued)

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### *Capitalisation of overheads - capitalisation rate*

Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the income statement with a portion being capitalised using an appropriate rate.

The capitalisation rate is based on an analysis of total costs or total labour costs, as appropriate, split between capital and expense. The rate is reviewed in detail annually and a reasonableness test is performed in light of total capital spend during the year.

The total amount of overheads capitalised at 31 March 2022 is £88.1m (2021: £75.4m). Information on sensitivity to the rate is as below:

|                       | 2022             | 2021             |
|-----------------------|------------------|------------------|
|                       | Income statement | Income statement |
|                       | (before tax)     | (before tax)     |
|                       | +/- £m           | +/- £m           |
| Change in rate +/- 1% | 1.4              | 1.2              |
| Change in rate +/- 5% | 7.2              | 6.0              |

#### *Pension obligations*

The WPD Group has a commitment to pay pension benefits. The costs of these benefits and the present value of the WPD Group's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees which is based on inflation rate and the discount rate at which the future pension payments are discounted. 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. Based on advice from external actuaries, the Company uses estimates for all these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and management's judgement regarding future expectations.

See Note 26 for further details and information on sensitivities.

#### *Goodwill*

The WPD Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. Following the assessment of the recoverable amount of goodwill allocated to the East Midlands, West Midlands and South Wales, to which goodwill of £518.8m, £614.4m and £120.9m has been allocated respectively, the directors consider the recoverable amount of goodwill allocated to these CGUs to be most sensitive to pre-tax discount rate of 5.11%, 5.24% and 5.12% for East Midlands, West Midlands and South Wales respectively and the assumed terminal value multiple of 37.5% applied to the RAV on the assumed exit date at 31 March 2045. The discount rate reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

The sensitivity analysis in respect of the recoverable amounts of the CGUs allocated to goodwill are presented in Note 15.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 3. Operating segment information

The WPD Group's operating segments are those used internally by the Board of Directors to run the business, allocate resources and make strategic decisions. The WPD Group's reportable segments are the regulated distribution of electricity in the South West, East Midlands and West Midlands of England and South Wales, and other businesses. Distribution involves the delivery of electricity across the WPD Group's distribution network. Other businesses relate to non-regulated activities including telecommunications, property management and helicopter operations which principally support the main business, and metering.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss on the same basis as in the consolidated financial statements. However, WPD Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

Analysis of revenue, operating profit, and assets and liabilities by segment is provided below. Substantially all revenues and profit before tax arise from operations within the UK.

| a) Revenues                         | Total revenue |         | Inter-segment revenue |        | External revenue* |         |
|-------------------------------------|---------------|---------|-----------------------|--------|-------------------|---------|
|                                     | 2022          | 2021*   | 2022                  | 2021   | 2022              | 2021    |
|                                     | £m            | £m      | £m                    | £m     | £m                | £m      |
| <b>Distribution network systems</b> |               |         |                       |        |                   |         |
| South West                          | 410.3         | 367.8   | (0.6)                 | (0.4)  | 409.7             | 367.4   |
| South Wales                         | 273.8         | 255.2   | (0.3)                 | (0.2)  | 273.5             | 255.0   |
| East Midlands                       | 579.3         | 531.3   | (0.6)                 | (0.4)  | 578.7             | 530.9   |
| West Midlands                       | 599.0         | 537.9   | (0.3)                 | (0.3)  | 598.7             | 537.6   |
|                                     | 1,862.4       | 1,692.2 | (1.8)                 | (1.3)  | 1,860.6           | 1,690.9 |
| <b>Other businesses</b>             | 61.9          | 59.7    | (36.5)                | (32.0) | 25.4              | 27.6    |
|                                     | 1,924.3       | 1,751.9 | (38.3)                | (33.3) | 1,886.0           | 1,718.5 |

\* Revenue for the year ended 31 March 2021 has been restated. Refer to note 1 (page 65) for details.

#### Information about major customers

Revenues from the WPD Group's largest five customers amounted to £293.4m, £272.2m, £260.5m, £127.0m and £125.8m (2021: £256.4m, £222.2m, £214.9m, £169.0m and £128.4m) arising from sales reported across the South West, South Wales, East Midlands and West Midlands segments.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**3. Operating segment information (continued)**

**b) Segment profit**

|                                                                            | 2022<br>£m | 2021<br>£m |
|----------------------------------------------------------------------------|------------|------------|
| <b>Distribution network systems</b>                                        |            |            |
| South West                                                                 | 224.4      | 206.6      |
| South Wales                                                                | 152.3      | 141.4      |
| East Midlands                                                              | 346.1      | 309.1      |
| West Midlands                                                              | 346.7      | 302.5      |
|                                                                            | 1,069.5    | 959.6      |
| <b>Other businesses</b>                                                    | 15.5       | 10.3       |
| <b>Corporate and unallocated(i)</b>                                        | (26.2)     | (21.0)     |
| <b>Operating profit</b>                                                    | 1,058.8    | 948.9      |
| Finance revenue                                                            | 0.2        | 20.3       |
| Finance costs                                                              | (318.3)    | (288.7)    |
| Net finance income relating to pensions and other post-retirement benefits | 6.2        | 12.0       |
| <b>Profit before tax</b>                                                   | 746.9      | 692.5      |
| <b>Taxation</b>                                                            |            |            |
| South West                                                                 | (82.8)     | (27.2)     |
| South Wales                                                                | (61.6)     | (18.5)     |
| East Midlands                                                              | (121.3)    | (40.8)     |
| West Midlands                                                              | (125.4)    | (38.1)     |
| Other businesses                                                           | 17.5       | 3.5        |
|                                                                            | (373.6)    | (121.1)    |
| <b>Profit for the year attributable to equity holders of the parent</b>    | 373.3      | 571.4      |

(i) Corporate and unallocated comprises primarily current service pension costs (net of capitalisation).

**c) Assets, liabilities, and capital expenditure**

|                                     | Segment assets (i) |            | Segment liabilities (ii) |            | Capital expenditure (iii) |            |
|-------------------------------------|--------------------|------------|--------------------------|------------|---------------------------|------------|
|                                     | 2022<br>£m         | 2021<br>£m | 2022<br>£m               | 2021<br>£m | 2022<br>£m                | 2021<br>£m |
| <b>Distribution network systems</b> |                    |            |                          |            |                           |            |
| South West                          | 3,420.5            | 3,244.9    | 748.8                    | 725.7      | 244.1                     | 235.6      |
| South Wales                         | 2,412.9            | 2,299.8    | 514.7                    | 482.8      | 161.6                     | 164.1      |
| East Midlands                       | 5,403.0            | 5,157.3    | 1,258.5                  | 1,206.1    | 339.3                     | 304.7      |
| West Midlands                       | 5,081.8            | 4,826.2    | 895.3                    | 860.9      | 334.4                     | 301.9      |
|                                     | 16,318.2           | 15,528.2   | 3,417.3                  | 3,275.5    | 1,079.4                   | 1,006.3    |
| <b>Other businesses</b>             | 195.3              | 202.1      | 39.2                     | 36.0       | 2.1                       | 6.6        |
| <b>Corporate and unallocated</b>    | 1,523.2            | 488.6      | 8,223.5                  | 7,528.2    | (6.4)                     | (4.7)      |
|                                     | 18,036.7           | 16,218.9   | 11,680.0                 | 10,839.7   | 1,075.1                   | 1,008.2    |

(i) Segment assets consist of property, plant and equipment, investment properties, goodwill, other intangible assets, inventories, receivables and cash. Corporate and unallocated assets includes loan to related party, derivative financial instruments, pension assets and deposits (including deposits classified as cash).

(ii) Segment liabilities consist of deferred customer contributions and operating liabilities. Corporate and unallocated liabilities includes current taxation, corporate borrowings, derivative financial instruments and deferred taxation.

(iii) Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**3. Operating segment information (continued)**

**d) Depreciation and amortisation**

|                                                             | Depreciation on<br>property, plant and<br>equipment (Note 12) |              | Amortisation of<br>intangible assets (Note<br>15) |            |
|-------------------------------------------------------------|---------------------------------------------------------------|--------------|---------------------------------------------------|------------|
|                                                             | 2022<br>£m                                                    | 2021<br>£m   | 2022<br>£m                                        | 2021<br>£m |
| <b>Distribution network systems</b>                         |                                                               |              |                                                   |            |
| South West                                                  | 68.9                                                          | 64.9         | 4.4                                               | 4.0        |
| South Wales                                                 | 47.7                                                          | 45.0         | 1.0                                               | 0.8        |
| East Midlands                                               | 97.6                                                          | 93.2         | 2.1                                               | 1.7        |
| West Midlands                                               | 90.5                                                          | 86.6         | 1.9                                               | 1.6        |
|                                                             | 304.7                                                         | 289.7        | 9.4                                               | 8.1        |
| <b>Other businesses</b>                                     | (1.1)                                                         | 0.3          | -                                                 | 0.8        |
|                                                             | 303.6                                                         | 290.0        | 9.4                                               | 8.9        |
| <b>Less: recapitalised to property, plant and equipment</b> | (34.1)                                                        | (40.0)       | (6.3)                                             | -          |
| <b>Charged to consolidated income statement</b>             | <b>269.5</b>                                                  | <b>250.0</b> | <b>3.1</b>                                        | <b>8.9</b> |

**4. Revenues**

|                                  | 2022<br>£m     | 2021<br>£m     |
|----------------------------------|----------------|----------------|
| Revenue from customer contracts* | 1,911.6        | 1,738.4        |
| Lease income                     | 12.7           | 13.5           |
| <b>Total revenue</b>             | <b>1,924.3</b> | <b>1,751.9</b> |

\* Revenue for the year ended 31 March 2021 has been restated. Refer to note 1 (page 65) for details.

The following table shows revenues from contracts with customers disaggregated by customer class:

|                                 | 2022<br>£m | 2021<br>£m |
|---------------------------------|------------|------------|
| Licensed energy suppliers - DNO | 1,697.6    | 1,549.8    |
| Other customers - DNO           | 164.8      | 142.4      |
| Other businesses customers      | 49.2       | 46.2       |
|                                 | 1,911.6    | 1,738.4    |

The licensed energy supplier revenue forms the majority of the external revenue of distribution network systems as disclosed in the Note 3 (a).

Network assets with a net book value of £14.3bn (2021: £13.6bn) are used to fulfil the contract with customers.

**5. Operating costs**

WPD Group operating costs can be analysed as follows:

|                                               | 2022<br>£m | 2021<br>£m |
|-----------------------------------------------|------------|------------|
| Employee benefit expense (Note 8)             | 165.7      | 158.8      |
| Depreciation of property, plant and equipment | 271.0      | 251.4      |
| Property taxes                                | 97.9       | 99.5       |
| Other operating charges*                      | 295.5      | 261.7      |
|                                               | 830.1      | 771.4      |

\* Other operating charges includes costs in relation to engineering recharges, National Grid exit charges (charges levied by National Grid Electricity Transmission for connection to the electricity transmission system), tree cutting, inspections and maintenance and wayleaves, as well as other overheads incurred.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**5. Operating costs (continued)**

WPD Group operating profit is stated after charging the following items:

|                                                   | 2022<br>£m | 2021<br>£m |
|---------------------------------------------------|------------|------------|
| Employee benefit expense (Note 8)                 | 165.7      | 158.8      |
| Depreciation of property, plant and equipment (i) | 271.0      | 251.4      |
| Amortisation of intangibles (ii)                  | 3.1        | 8.9        |
| Rent expense (iii):                               |            |            |
| Plant, machinery and equipment                    | 12.8       | 11.3       |
| Land and buildings                                | 0.6        | 0.5        |
| Research expenditure (iv)                         | 0.2        | 0.1        |
| Net other operating expenses (Note 6)             | 2.9        | 1.8        |

(i) Depreciation of property, plant and equipment is stated net of depreciation capitalised of £34.1m (2021: £40.0m) in respect of equipment consumed during the construction of the electricity network. It also includes depreciation of right-of-use-assets amounting to £1.5m (2021: £1.4m).

(ii) Amortisation of intangibles is stated net of amortisation capitalised of £6.3m in respect of software consumed during the construction of the electricity network.

(iii) Rent expense comprise of short term and low value leases (refer to note 20).

(iv) Research costs above exclude expenditure on Low Carbon Network and Network Innovation Allowance projects which is capitalised together with associated funding received.

**Services provided by the WPD Group's auditor**

During the year the WPD Group obtained the following services from the Company's auditor and its associates:

|                                                                   | 2022<br>£m | 2021<br>£m |
|-------------------------------------------------------------------|------------|------------|
| <b>Audit fees</b>                                                 |            |            |
| Annual audit of the Company and consolidated financial statements | 0.3        | 0.1        |
| Audit of subsidiary companies                                     | 0.7        | 0.8        |
| Other audit related services                                      | 0.3        | 0.2        |
|                                                                   | 1.3        | 1.1        |
| <b>Non-audit fees</b>                                             |            |            |
| Audit related assurance services                                  | -          | 0.1        |
|                                                                   | -          | 0.1        |
| <b>Total fees within operating costs *</b>                        | 1.3        | 1.2        |

\* Total audit fees include £0.1m in relation to the prior year UK statutory audit.

In addition, fees in respect of audit-related assurance services of £0.3m in the prior year payable to Deloitte LLP were born by PPL Corp (the previous ultimate parent company) and so are excluded from this disclosure.

**6. Other operating income and expense**

|                                                       | 2022<br>£m | 2021<br>£m |
|-------------------------------------------------------|------------|------------|
| <b>Other operating income</b>                         |            |            |
| Net gain on disposal of property, plant and equipment | 1.1        | 0.4        |
| Increase in fair value of investment properties       | 2.7        | 1.0        |
| Debt modification*                                    | -          | 2.4        |
| Income from fixed asset investments                   | 0.1        | 0.1        |
|                                                       | 3.9        | 3.9        |
| <b>Other operating expense</b>                        |            |            |
| Reduction in fair value of investment properties      | (1.0)      | (2.1)      |
| <b>Net other operating expense</b>                    | 2.9        | 1.8        |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**6. Other operating income and expense (continued)**

\* During the year ended 31 March 2021, the £100m index linked bonds were modified to change the interest rate from +0.4975% indexed to +0.2859% indexed and the maturity from 2026 to 2030. As a result, a debt modification gain of £2.4m was recorded. The modification gain will be amortised over the remaining useful life of the debt.

| <b>7. Net finance costs</b>                                                       | <b>2022</b>    | <b>2021</b>    |
|-----------------------------------------------------------------------------------|----------------|----------------|
|                                                                                   | <b>£m</b>      | <b>£m</b>      |
| <b>Finance income</b>                                                             |                |                |
| Interest on bank deposits                                                         | 0.1            | 0.4            |
| Interest on loans to PPL affiliate                                                | -              | 7.5            |
| Interest on loans to NG affiliate                                                 | 0.1            | -              |
| Foreign exchange gain on US\$ denominated financial liabilities(i)                | -              | 12.4           |
| <b>Total finance income</b>                                                       | <b>0.2</b>     | <b>20.3</b>    |
| <b>Finance costs</b>                                                              |                |                |
| Interest payable on bank loans and overdrafts                                     | (3.5)          | (7.8)          |
| Interest payable on other loans                                                   | (318.1)        | (282.3)        |
| Interest payable on loans from NG affiliate                                       | (1.9)          | -              |
| Interest payable on lease liabilities                                             | (0.3)          | (0.3)          |
| Foreign exchange (loss)/gain on US\$ denominated financial assets and liabilities | (7.5)          | 57.0           |
| Transfers from the hedging reserve in relation to cash flow hedges                | 7.5            | (57.8)         |
| Less: interest capitalised (ii)                                                   | 5.5            | 2.5            |
| <b>Total finance costs</b>                                                        | <b>(318.3)</b> | <b>(288.7)</b> |
| <b>Net finance costs</b>                                                          | <b>(318.1)</b> | <b>(268.4)</b> |

(i) During the year ended 31 March 2021, the WPD Group investment of \$200m 6.42% Eurobonds issued by PPL UK Resources Limited, was transferred to the Group's parent company as a dividend in specie. As a result, the borrowings of \$200m under a committed credit facility were also repaid to eliminate the Group's exposure to any future exchange rate fluctuations. The repayment of the \$200m borrowings in the prior year resulted in a foreign exchange gain of £12.4m during the year ended 31 March 2021.

(ii) Interest in 2022 was capitalised at a rate of 2.8% (2021: 1.6%), based on the yield on the Group's borrowings.

**8. Employee benefit expense**

Employee benefit expense, including directors' remuneration, was as follows:

|                                                                    | <b>2022</b>  | <b>2021</b>  |
|--------------------------------------------------------------------|--------------|--------------|
|                                                                    | <b>£m</b>    | <b>£m</b>    |
| Wages and salaries                                                 | 378.2        | 355.5        |
| Social security costs                                              | 45.2         | 41.8         |
| Pension costs                                                      | 82.5         | 66.8         |
|                                                                    | <b>505.9</b> | <b>464.1</b> |
| Less: amounts capitalised as part of property, plant and equipment | (340.2)      | (305.3)      |
| <b>Charged to the income statement</b>                             | <b>165.7</b> | <b>158.8</b> |

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the WPD Group.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 8. Employee benefit expense (continued)

The average number of employees during the financial year (including directors) analysed by activity was:

|                          | 2022<br>Number | 2021<br>Number |
|--------------------------|----------------|----------------|
| Electricity distribution | 6,466          | 6,397          |
| Other activities         | 166            | 159            |
|                          | <b>6,632</b>   | <b>6,556</b>   |

Employee costs in the year were capitalised at a rate of 69.0% (2021: 67.0%).

### 9. Directors' emoluments

The service contracts for the executive directors are with WPD South West. However, the emoluments detail given in this note represents total emoluments of the directors for all services provided to WPD companies as a whole. The total costs below are apportioned between WPD South Wales, WPD South West, WPD West Midlands and WPD East Midlands.

| WPD Group                                                | Highest paid director |              | Total        |              |
|----------------------------------------------------------|-----------------------|--------------|--------------|--------------|
|                                                          | 2022<br>£000          | 2021<br>£000 | 2022<br>£000 | 2021<br>£000 |
| The emoluments of the executive directors comprised:     |                       |              |              |              |
| Base salary (note i)                                     | 463                   | 442          | 1,372        | 1,315        |
| Performance dependent bonus (note ii)                    | 1,411                 | 1,102        | 3,288        | 2,585        |
| Pension compensation allowance (note iii)                | 271                   | 197          | 736          | 508          |
| Sub-total directors' remuneration                        | 2,145                 | 1,741        | 5,396        | 4,408        |
| Long term incentive plan (note iv)                       | 1,285                 | 916          | 2,739        | 1,895        |
| Fees to the independent non executive directors (note v) | -                     | -            | 100          | 100          |
|                                                          | <b>3,430</b>          | <b>2,657</b> | <b>8,235</b> | <b>6,403</b> |

(i) Base salary also includes benefits in kind.

(ii) The amount of the annual bonus is based on WPD's financial performance, the reliability of the electricity network, and other factors. Both 2022 and 2021 includes a transition incentive payment in relation to the announcement and the completion of the sale of the WPD Group to National Grid plc on 14 June 2021.

(iii) As a result of changes in tax applicable to UK pensions, the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 26). Thus WPD no longer contributes for ongoing service to the ESPS in respect of the executive directors. Instead, WPD pays cash compensation to them individually equivalent to the value of WPD's contribution in to the ESPS that would have been made had they remained active members (as determined by external actuaries).

(iv) Under the previous owner's long term incentive plan, the executive directors received an annual grant of PPL Corporation shares; these shares vested on completion of the sale of WPD to National Grid on 14 June 2021. The value of the shares vested is shown within this line.

(v) The two independent UK non executive directors are entitled to fees as determined by the appropriate Board. The PPL non-executive directors resigned on completion of the sale on 14 June 2021: no emoluments were paid to them as they were officers of PPL in respect of their services to WPD. No emoluments are paid to National Grid non-executive directors appointed on 31 January 2022, who are officers of National Grid, in respect of their services as directors to the Group.

(vi) During the year, four executive directors (2021: four) were members of the defined benefit ESPS.

(vii) An employee share option scheme is offered by the parent to be settled in the shares of the parent. No shares were vested during the year.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**10. Income tax expense**

The major components of income tax expense are:

|                                                   | 2022<br>£m   | 2021<br>£m   |
|---------------------------------------------------|--------------|--------------|
| Current tax                                       |              |              |
| Current tax expense (see below)                   | 94.6         | 67.3         |
| Adjustments in respect of prior years             | (3.2)        | (0.2)        |
| Deferred tax (Note 25)                            |              |              |
| Origination and reversal of temporary differences | 46.6         | 53.8         |
| Impact of tax rate change                         | 234.7        | -            |
| Adjustments in respect of prior years             | 0.9          | 0.2          |
|                                                   | <b>373.6</b> | <b>121.1</b> |

The tax on the WPD Group's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2021: 19%) as follows:

|                                                                                                      | 2022<br>£m   | 2021<br>£m   |
|------------------------------------------------------------------------------------------------------|--------------|--------------|
| Profit before income tax                                                                             | 746.9        | 692.5        |
| Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%) | 141.9        | 131.6        |
| Effects of:                                                                                          |              |              |
| Net (income not taxable)/expenses not deductible for tax purposes                                    | (0.7)        | (3.9)        |
| Group relief received at non-standard rates                                                          | -            | (6.6)        |
| Impact of tax rate change                                                                            | 234.7        | -            |
| Adjustments to tax charge in respect of prior years                                                  | (2.3)        | -            |
| Total taxation (continuing operations)                                                               | <b>373.6</b> | <b>121.1</b> |

The total taxation expense as a percentage of profit before income tax gives an effective tax rate of 50.0% (2021: 17.5%) compared to the standard rate of 19% (2021: 19%) due to the effects of the items stated above. The increase in the rate is mainly due to the impact of the tax rate change - see "Change in corporation tax rate" section at the end of this note. Expenses not deductible and income not taxable have been netted off as generally individually they are not material, however in the previous year, this net amount has been impacted by the non-taxable foreign exchange gain on transfer of an investment to the Group's parent (see Note 7). In the previous year, tax losses surrendered by PPL affiliates to the Group ("group relief") were not paid for and therefore the Group benefitted by the tax value of these losses. Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HMRC and additional group relief received from PPL affiliates for no payment.

Tax relating to items charged or (credited) to other comprehensive income:

|                                       | 2022<br>£m   | 2021<br>£m    |
|---------------------------------------|--------------|---------------|
| Deferred tax:                         |              |               |
| Revaluation of cash flow hedges       | (0.7)        | (4.2)         |
| Re-measurement of pension liabilities | 280.3        | (68.5)        |
|                                       | <b>279.6</b> | <b>(72.7)</b> |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**10. Income tax expense (continued)***Current tax expense*

The current tax expense for the year is the aggregate of the amounts of UK corporation tax payable by each Group company on its profit for the year. The calculation of the amount of UK corporation tax payable is determined by tax legislation. The starting point for the calculation is the profit before tax shown in the income statement and adjustments required by the legislation are made to arrive at the profit chargeable to corporation tax. The calculation of the amount of corporation tax expected to be paid for the year is shown below. The actual amount payable will be determined following further detailed analysis at the time when the tax returns for the year for each Group company are filed with HMRC.

|                                                                                                      | 2022<br>£m | 2021<br>£m |
|------------------------------------------------------------------------------------------------------|------------|------------|
| Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%) | 141.9      | 131.6      |
| Adjustments:                                                                                         |            |            |
| Depreciation and amortisation (note i)                                                               | (39.8)     | (14.0)     |
| Pensions (note ii)                                                                                   | (3.5)      | (40.0)     |
| Other timing adjustments (note iii)                                                                  | (3.3)      | (1.4)      |
| Other adjustments (note iv)                                                                          | (0.7)      | (2.3)      |
| Corporation tax payable on profits before group relief                                               | 94.6       | 73.9       |
| Group relief (note v):                                                                               |            |            |
| Losses received from other group companies for free                                                  | -          | (6.6)      |
| Corporation tax payable on profits after group relief                                                | 94.6       | 67.3       |
| The current tax charge on profits for the year is split as follows:                                  |            |            |
| Corporation tax payable to HM Revenue & Customs                                                      | 94.6       | 67.3       |
| Group relief payable to other group companies                                                        | -          | -          |
|                                                                                                      | 94.6       | 67.3       |

(i) Expenditure on tangible and intangible assets (net of related customer contributions) is initially recorded on the balance sheet and then depreciated or amortised over the useful economic lives of the assets. Tax deductions are not allowed for the depreciation or amortisation, except to the extent that the expenditure is regarded as maintaining or replacing part of an asset, and instead tax deductions are given for eligible expenditure at the rates prescribed by tax legislation ("capital allowances").

(ii) The expense of providing pensions to employees is deductible from taxable profits at the time when contributions are paid into the pension schemes and not when the expense is charged to the income statement. As a proportion of the pension expense is capitalised (see Note 8), the deduction for contributions paid in the year is greater than the expense in the income statement.

(iii) Adjustments are required for the timing of other deductions. These include interest capitalised (see Note 7) and employee benefit expense (see Note 8). A proportion of interest expense is included in tangible fixed asset additions, but the tax legislation provides for this expense to be deducted against profits for the year. Contrary to this, a deduction for employee benefit expense must be deferred until the year of payment if the payment is not made within nine months of the year end.

(iv) Other adjustments are required for costs that are not deductible, such as legal fees relating to certain property transactions, and non-taxable income, such as dividends received from investments that have already paid tax on their income. In addition, the profit or loss on disposal of tangible fixed assets shown in the income statement is not taxable or deductible and is instead replaced with a gain or loss calculated in accordance with tax legislation.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**10. Income tax expense (continued)***Current tax expense (continued)*

(v) The tax legislation allows a company that incurs a loss to surrender it to other companies within the same group to deduct from their taxable profits. Payment may be made up to the value of the loss without tax consequence.

(vi) All undertakings within the Group are tax resident in the UK, except for Aztec Insurance Limited which is tax resident in Guernsey where the statutory tax rate is 0%. However, the results of Aztec Insurance Limited are included in the UK corporation tax returns filed by its parent company, WPD Distribution Network Holdings Limited. Therefore, all of the group's activities are subject to UK taxation rules and the group's current tax charge comprises solely of UK tax.

*Change in corporation tax rate*

In the Spring Budget 2021, the UK government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. Deferred tax balances as at 31 March 2022, that are expected to reverse after 1 April 2023, have been provided for at 25%.

**11. Dividends**

|                                                                 | 2022<br>£m | 2021<br>£m |
|-----------------------------------------------------------------|------------|------------|
| Equity dividends - 13.26 pence (2021: 20.92 pence) per £1 share | 140.2      | 221.2      |

The prior year amount above includes a non-cash dividend in specie paid to Western Power Distribution Holding Company Limited in December 2020 of £161.0m.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**12. Property, plant and equipment**

|                                  | Generation<br>£m | Distribution<br>network<br>£m | Non-network<br>land &<br>buildings<br>£m | Fixtures &<br>equipment<br>£m | Vehicles<br>& mobile<br>plant<br>£m | Total<br>£m     |
|----------------------------------|------------------|-------------------------------|------------------------------------------|-------------------------------|-------------------------------------|-----------------|
| <b>Cost</b>                      |                  |                               |                                          |                               |                                     |                 |
| At 1 April 2020                  | 0.5              | 15,646.6                      | 165.9                                    | 278.6                         | 141.3                               | 16,232.9        |
| Additions                        | -                | 917.7                         | 9.1                                      | 54.1                          | 15.9                                | 996.8           |
| Transfers                        | -                | -                             | (1.0)                                    | -                             | -                                   | (1.0)           |
| Disposals and retirements        | -                | (79.2)                        | -                                        | (33.7)                        | (3.8)                               | (116.7)         |
| At 1 April 2021                  | 0.5              | 16,485.1                      | 174.0                                    | 299.0                         | 153.4                               | 17,112.0        |
| Additions                        | -                | 1,011.2                       | 4.0                                      | 36.8                          | 9.1                                 | 1,061.1         |
| Disposals and retirements        | -                | (2.2)                         | -                                        | (25.1)                        | (8.0)                               | (35.3)          |
| <b>At 31 March 2022</b>          | <b>0.5</b>       | <b>17,494.1</b>               | <b>178.0</b>                             | <b>310.7</b>                  | <b>154.5</b>                        | <b>18,137.8</b> |
| <b>Accumulated depreciation</b>  |                  |                               |                                          |                               |                                     |                 |
| At 1 April 2020                  | 0.1              | 2,772.8                       | 19.9                                     | 143.5                         | 72.0                                | 3,008.3         |
| Depreciation charge for the year | -                | 234.8                         | 2.5                                      | 39.0                          | 13.7                                | 290.0           |
| Disposals and retirements        | -                | (79.2)                        | -                                        | (33.7)                        | (3.6)                               | (116.5)         |
| At 1 April 2021                  | 0.1              | 2,928.4                       | 22.4                                     | 148.8                         | 82.1                                | 3,181.8         |
| Depreciation charge for the year | -                | 247.3                         | 2.3                                      | 41.2                          | 12.8                                | 303.6           |
| Disposals and retirements        | -                | (2.2)                         | -                                        | (25.1)                        | (7.8)                               | (35.1)          |
| <b>At 31 March 2022</b>          | <b>0.1</b>       | <b>3,173.5</b>                | <b>24.7</b>                              | <b>164.9</b>                  | <b>87.1</b>                         | <b>3,450.3</b>  |
| <b>Net book value</b>            |                  |                               |                                          |                               |                                     |                 |
| <b>At 31 March 2022</b>          | <b>0.4</b>       | <b>14,320.6</b>               | <b>153.3</b>                             | <b>145.8</b>                  | <b>67.4</b>                         | <b>14,687.5</b> |
| At 31 March 2021                 | 0.4              | 13,556.7                      | 151.6                                    | 150.2                         | 71.3                                | 13,930.2        |
| At 31 March 2020                 | 0.4              | 12,873.8                      | 146.0                                    | 135.1                         | 69.3                                | 13,224.6        |

Included in distribution network and vehicles & mobile plant at 31 March 2022 was an amount of £197.6m (2021: £180.8m) relating to expenditure on assets in the course of construction.

Included in additions are staff costs of £340.2m (2021: £305.3m), general overheads of £88.1m (2021: £75.4m) and interest of £5.5m (2021: £2.5m).

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**13. Right-of-use asset**

|                  | Land & buildings<br>£m | Fibres<br>£m | Radio sites<br>£m | Vehicles<br>£m | Total<br>£m |
|------------------|------------------------|--------------|-------------------|----------------|-------------|
| At 1 April 2020  | 7.4                    | 2.3          | 0.3               | -              | 10.0        |
| Additions        | 0.6                    | 0.1          | -                 | -              | 0.7         |
| Depreciation     | (0.6)                  | (0.7)        | (0.1)             | -              | (1.4)       |
| At 31 March 2021 | 7.4                    | 1.7          | 0.2               | -              | 9.3         |
| At 1 April 2021  | 7.4                    | 1.7          | 0.2               | -              | 9.3         |
| Additions        | 0.3                    | -            | 0.3               | 1.4            | 2.0         |
| Depreciation     | (0.6)                  | (0.7)        | (0.1)             | (0.1)          | (1.5)       |
| At 31 March 2022 | 7.1                    | 1.0          | 0.4               | 1.3            | 9.8         |

**14. Investment property**

|                                            | Retail<br>£m | Office<br>£m | Industrial<br>£m | Total<br>£m |
|--------------------------------------------|--------------|--------------|------------------|-------------|
| <b>Fair value</b>                          |              |              |                  |             |
| At 1 April 2020                            | 20.7         | 5.1          | 4.3              | 30.1        |
| Valuation gains                            | 0.1          | -            | 0.9              | 1.0         |
| Valuation losses                           | (1.8)        | -            | (0.3)            | (2.1)       |
| Transfers to property, plant and equipment | -            | -            | 1.0              | 1.0         |
| Disposals                                  | (0.1)        | -            | -                | (0.1)       |
| At 1 April 2021                            | 18.9         | 5.1          | 5.9              | 29.9        |
| Valuation gains                            | 0.2          | 1.9          | 0.6              | 2.7         |
| Valuation losses                           | (0.9)        | -            | (0.1)            | (1.0)       |
| Additions                                  | 0.2          | -            | -                | 0.2         |
| Disposals                                  | (0.1)        | -            | -                | (0.1)       |
| At 31 March 2022                           | 18.3         | 7.0          | 6.4              | 31.7        |

The fair value of the investment property has been arrived at on the basis of a valuations carried out by external independent valuers. The valuers are regulated by the Royal Institution of Chartered Surveyors ("RICS") and follow the rules, codes, and guidance in the RICS Rules of Conduct for Firms. The valuations have been prepared in accordance with IFRS 13 Fair Value Measurements and represent the 'highest and best use' of the property.

In arriving at the valuation, tenancy details and market evidence of transaction prices for similar properties are taken into consideration. Investment properties generating rental revenue are valued using an investment approach and vacant buildings are valued using the comparison method of valuation. Where land is being held for development, the valuation technique is based either on the comparison method or residual method.

The amounts recognised in the income statement for rental income from investment property are £2.5m (2021: £2.4m).

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during the period of occupation. This service charge amounted to £0.5m (2021: £0.5m) for which a similar amount is included within operating costs.

In determining the appropriate classes of investment property the Group has considered the nature, characteristics and risks associated with its properties. As a consequence the Group has identified the following classes of assets:

# Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

## 14. Investment property (continued)

- Retail - representing a single investment in a supermarket store in Cwmbran, South Wales, occupied by J Sainsbury.
- Other retail - representing a portfolio of other retail properties across Wales and the South West of England.
- Office - representing a portfolio of office buildings across WPD's region.
- Industrial - representing a portfolio of industrial and storage facilities across WPD's region.

The tables below show details for the larger properties. Within other assets, recorded at £4.6m (2021: £4.6m), are a further 22 (2021: 24) investment properties with an average value of £208,864 per property (2021: £193,250), valued by the WPD Group's internal qualified surveyor.

All of the valuations fall within Level 3 of the fair value hierarchy (see Note 23). The table below provides details by class of property of the fair value ascribed to each class of asset, an indication of the key inputs used in deriving the valuation, together with other key features which inform the valuation process. In light of the immaterial nature of the other assets below to the financial statements as a whole, the directors have elected not to provide the equivalent detailed information in respect of these valuations.

The valuations are sensitive to movements in key variables, notably the yields applied to valuations based on income capitalisation which can change due to general market conditions and also an assessment of the quality of the underlying tenant. Broadly, a 0.5% increase/decrease in an assumed yield of 5% will result in a 10% decrease/increase in the value of a property, whilst a 0.5% increase/decrease in an assumed yield of 10% will result in a 5% decrease/increase in the value of a property.

Unobservable and observable inputs used in determination of fair values

Other key information

| Class of property       | Carrying amount/Fair value 2022<br>£m | Valuation technique   | Input                                                                                                          | Range (weighted average) 2022                                         | Range 2022                                                                                                                                     |
|-------------------------|---------------------------------------|-----------------------|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Retail Level 3          | 15.0                                  | Income capitalisation | > Length of leases in place (in years)<br>> Yield<br>> Passing rent (per sqm p.a.)<br>> Long term vacancy rate | 7y<br>5.2%<br>£201.4<br>0%                                            | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>28y<br>20+<br>5,308                                             |
| Other retail Level 3    | 2.3                                   | Income capitalisation | > Net rent (per sqm p.a.)<br>> Length of leases in place (in years)<br>> Yield<br>> Long term vacancy rate     | £82 - £230 (£131)<br>0y - 5y (3.0y)<br>6.4% - 9.0%<br>0%              | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>> Actual vacancy rate<br>50+<br>20+<br>2,175<br>0%              |
| Office Level 3          | 7.0                                   | Income capitalisation | > Net rent (per sqm p.a.)<br>> Length of leases in place (in years)<br>> Yield<br>> Long term vacancy rate     | £0 - £138 (£29.0)<br>0y - 3.5y (0.5y)<br>0% - 9.4%<br>0% - 100% (54%) | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>> Actual vacancy rate<br>24y - 39y<br>20+<br>8,224<br>0% - 100% |
| Industrial Level 3      | 2.8                                   | Income capitalisation | > Net rent (per sqm p.a.)<br>> Length of leases in place (in years)<br>> Yield<br>> Long term vacancy rate     | £53- £84 (£75)<br>0y - 20y (8.6y)<br>9.1%<br>0%                       | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>> Actual vacancy rate<br>66y<br>20+<br>3,106<br>0%              |
| <b>Total</b>            | <b>27.1</b>                           |                       |                                                                                                                |                                                                       |                                                                                                                                                |
| Other assets            | 4.6                                   |                       |                                                                                                                |                                                                       |                                                                                                                                                |
| <b>Total fair value</b> | <b>31.7</b>                           |                       |                                                                                                                |                                                                       |                                                                                                                                                |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**14. Investment property (continued)**

| Unobservable and observable inputs used in determination of fair values |                                       |                       |                                                                                                                | Other key information                                              |                                                                                                                                               |
|-------------------------------------------------------------------------|---------------------------------------|-----------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Class of property                                                       | Carrying amount/Fair value 2021<br>£m | Valuation technique   | Input                                                                                                          | Range (weighted average) 2021                                      | Range 2021                                                                                                                                    |
| Retail Level 3                                                          | 15.7                                  | Income capitalisation | > Length of leases in place (in years)<br>> Yield<br>> Passing rent (per sqm p.a.)<br>> Long term vacancy rate | 8y<br>5.2%<br>£201.4<br>0%                                         | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>27y<br>20+<br>5.308                                            |
| Other retail Level 3                                                    | 2.2                                   | Income capitalisation | > Net rent (per sqm p.a.)<br>> Length of leases in place (in years)<br>> Yield<br>> Long term vacancy rate     | £0 - £230 (£95)<br>0y - 4y (1.5y)<br>0% - 11.0%<br>0%-100% (44%)   | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>> Actual vacancy rate<br>50+<br>20+<br>2.175<br>0%-100%        |
| Office Level 3                                                          | 5.0                                   | Income capitalisation | > Net rent (per sqm p.a.)<br>> Length of leases in place (in years)<br>> Yield<br>> Long term vacancy rate     | £0 - £119 (£29.1)<br>0y - 9.5y (1.2y)<br>0% - 7%<br>0% - 60% (55%) | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>> Actual vacancy rate<br>23y - 38y<br>20+<br>8.224<br>0% - 60% |
| Industrial Level 3                                                      | 2.4                                   | Income capitalisation | > Net rent (per sqm p.a.)<br>> Length of leases in place (in years)<br>> Yield<br>> Long term vacancy rate     | £36- £76 (£63)<br>1y - 21y (13y)<br>10%<br>0%                      | > Age of building<br>> Remaining useful life of building<br>> Square metres<br>> Actual vacancy rate<br>65y<br>20+<br>3.106<br>0%             |
| <b>Total</b>                                                            | <b>25.3</b>                           |                       |                                                                                                                |                                                                    |                                                                                                                                               |
| Other assets                                                            | 4.6                                   |                       |                                                                                                                |                                                                    |                                                                                                                                               |
| <b>Total fair value</b>                                                 | <b>29.9</b>                           |                       |                                                                                                                |                                                                    |                                                                                                                                               |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**15. Intangible assets**

|                                              | <b>Goodwill<br/>£m</b> | <b>Computer<br/>software<br/>£m</b> | <b>Customer<br/>contracts<br/>£m</b> | <b>Total<br/>£m</b> |
|----------------------------------------------|------------------------|-------------------------------------|--------------------------------------|---------------------|
| <b>Cost</b>                                  |                        |                                     |                                      |                     |
| At 1 April 2020                              | 1,574.5                | 65.9                                | 6.2                                  | 1,646.6             |
| Additions                                    | -                      | 11.4                                | -                                    | 11.4                |
| Transfers from property, plant and equipment | -                      | (1.5)                               | -                                    | (1.5)               |
| At 1 April 2021                              | 1,574.5                | 75.8                                | 6.2                                  | 1,656.5             |
| Additions                                    | -                      | 14.0                                | -                                    | 14.0                |
| Disposals                                    | -                      | (3.1)                               | -                                    | (3.1)               |
| <b>At 31 March 2022</b>                      | <b>1,574.5</b>         | <b>86.7</b>                         | <b>6.2</b>                           | <b>1,667.4</b>      |
| <b>Aggregate amortisation and impairment</b> |                        |                                     |                                      |                     |
| At 1 April 2020                              | 320.4                  | 22.4                                | 5.5                                  | 348.3               |
| Charge for the year                          | -                      | 8.2                                 | 0.7                                  | 8.9                 |
| Disposals                                    | -                      | (1.5)                               | -                                    | (1.5)               |
| At 1 April 2021                              | 320.4                  | 29.1                                | 6.2                                  | 355.7               |
| Charge for the year                          | -                      | 9.4                                 | -                                    | 9.4                 |
| Disposals                                    | -                      | (3.1)                               | -                                    | (3.1)               |
| <b>At 31 March 2022</b>                      | <b>320.4</b>           | <b>35.4</b>                         | <b>6.2</b>                           | <b>362.0</b>        |
| <b>Carrying amount</b>                       |                        |                                     |                                      |                     |
| <b>At 31 March 2022</b>                      | <b>1,254.1</b>         | <b>51.3</b>                         | <b>-</b>                             | <b>1,305.4</b>      |
| At 31 March 2021                             | 1,254.1                | 46.7                                | -                                    | 1,300.8             |
| At 31 March 2020                             | 1,254.1                | 43.5                                | 0.7                                  | 1,298.3             |

Goodwill acquired through business combinations has been allocated for impairment testing purposes to three cash-generating units ("CGUs"), East Midlands, West Midlands, and South Wales, which are also operating segments. These represent the lowest level within the WPD Group at which goodwill is monitored for internal management purposes.

At 31 March 2014, an impairment loss of £186.2m and £62.2m was recognised in East Midlands and West Midlands, respectively. The impairment was mainly as a result of changes in cash flow projections, largely following the agreement of the RII0-ED1 price control during that year. A further impairment loss of £72.0m was recognised at 31 March 2015 in West Midlands. This impairment had largely arisen as a result of changes to the short-term inflation assumption which had reduced both the operating cash flows and the terminal value used in the discounted cash flow model. This was partly offset by higher than previously anticipated levels of capital expenditure in that year, increasing both the future operating cash flows and the terminal value, and reducing the discount rate. For the East Midlands CGU, the increase in anticipated levels of capital expenditure was such that no overall impairment loss was recognised in the year.

| <b>Carrying amount of goodwill allocated to cash-generating units ("CGUs")</b> | <b>2022<br/>£m</b> | <b>2021<br/>£m</b> |
|--------------------------------------------------------------------------------|--------------------|--------------------|
| East Midlands                                                                  | <b>518.8</b>       | 518.8              |
| West Midlands                                                                  | <b>614.4</b>       | 614.4              |
| South Wales                                                                    | <b>120.9</b>       | 120.9              |
| <b>Carrying amount of goodwill</b>                                             | <b>1,254.1</b>     | 1,254.1            |

In assessing whether goodwill has been impaired, the carrying amount of the CGU (including goodwill) is compared with the recoverable amount of the CGU. The recoverable amount is the higher of fair value less costs to dispose and value in use.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 15. Intangible assets (continued)

For the year ended 31 March 2022, the WPD Group has calculated the recoverable amount as the value in use. The key assumptions for the value in use calculations are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the forecast period, and the multiple applied to the Regulatory Asset Value ("RAV") at the end of the period to determine the terminal value.

CGU cash flows are derived from the corporate business plan approved by management. In determining the value in use, cash flows for a period of 23 years (until 2045) have been discounted and aggregated with a terminal value, which is calculated by applying a multiple to the RAV at the end of the period. A period of greater than five years has been used as the period is covered by the corporate business plan and more accurately reflects the expected investment required in the network, in excess of the economy wide long-term growth rates in order to deliver the energy transition that is pivotal to the UK Government's legislated commitment to reach net-zero by 2050. Management believes that this commitment will require a significant shift in the UK's energy mix towards greater (renewables powered) electrification of energy supply and the electrification of transport and domestic heating and thus the cash flow period is important because it mirrors the timing of the cash outflows associated with major capital replacement cycles and their subsequent recovery under electricity distribution regulation.

Typical industry practice to estimate the value of a UK utility is based on a multiple of the entity's RAV. Based on our experience, and the general principle that the RAV broadly represents the basis upon which future returns to a business are determined, we consider a RAV based multiple at the terminal year to be the best estimate of terminal value. Due to the timing of the goodwill impairment test, a forecasted RAV for 31 March 2022 is used in the business plan and is £2,839.2m, £2,843.7m and £1,348.4m for East Midlands, West Midlands and South Wales, respectively. The terminal value multiple applied to the RAV at the end of the cash flow period i.e. 31 March 2045, is 37.5%. The discounted pre-tax cash flows of East Midlands, West Midlands and South Wales reflect an implied premium on current RAV of 68.5%, 76.2% and 66.7%, respectively.

The key assumptions during the electricity price control period from 1 April 2015 to 31 March 2023 ("RIIO-ED1") are based on revenues allowed and cost of capital assumptions agreed at the most recent electricity price control review, together with management's expectation of the related cost and capital expenditure requirements during that period. The view for the remainder of RIIO-ED1 has been updated to reflect our current performance in the price control.

Assumptions beyond this period are based on the approved budget and the Board's expectation of the outcome of the future price control review i.e. RIIO-ED2. Key RIIO-ED2 assumptions in relation to the cost of equity allowances, incentive revenues and totex have been determined by taking into consideration the current information, such as RIIO-ED2 framework consultations, existing determinations by Ofgem, as well as our performance in the current price control, the latest published policy intent from Ofgem and the Government and various other industry information. Forecast incentive revenue represents management's best estimate at this point in time as Ofgem has yet to release guidance on the potential incentive package. In the current year our forecast for RIIO-ED2 and relevant assumptions has been updated to incorporate the Government's and Ofgem's latest views on net-zero carbon targets, electric vehicle rollout and the DSO strategy. Due to the transitioning of DNO to DSO, reinforcement cash flows in the business plan have been updated to reflect the forecasted spend on future network and flexible energy projects.

The pre-tax future cash flows are discounted using a pre-tax rate discount rate of 5.11%, 5.24% and 5.12% for East Midlands, West Midlands and South Wales, respectively. The WPD Group's post-tax weighted average cost of capital ("WACC") is calculated to be 4.31%. This is converted to a pre-tax discount rate for each CGU using an iterative calculation approach in the value in use methodology. During the year, WPD's post-tax WACC, used to calculate the pre-tax discount rates, has been increased by an alpha premium of 0.75% to account for the current uncertainty in the cash flows in relation to Ofgem's final determinations for RIIO-ED2.

The pre-tax cash flows reflect an implied long term growth rate of 3.6%–4.0%. Management support this long term growth rate as the RIIO regulatory regime incentivises the Company to realise real growth above RPI when it reaches target performance measures. The Group has a historic track record of achieving such performance targets and forecasts a consistent level of performance in the future.

At 31 March 2022, the East Midlands, West Midlands, and South Wales recoverable amounts exceeded their carrying amounts by £640.9m, £823.5m, and £347.4m (2021: £492.3m, £473.1m, and £375.4m), respectively. The increase in the headroom during the year is due to the change in the basis of the recoverable amount. In the prior year, due to the acquisition of the WPD Group by National Grid Plc, the recoverable amount for the WPD Group was determined to be the fair value less costs of disposal. However, in the current year, due to the lack of sufficient observable transactions in the market in relation to identical assets, the recoverable amount for the WPD Group was determined to be the value in use.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**15. Intangible assets (continued)**

In assessing the carrying value of goodwill, the cash flows have been sensitised to various reasonable possible changes in assumptions and the analysis reflects sufficient headroom. The key reasonable possible changes and sensitivities to assumptions are presented below:

Reasonable possible changes in key assumptions:

|                                                                                                                                        | Reduction in recoverable amounts |                        |                      |             |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|------------------------|----------------------|-------------|
|                                                                                                                                        | East<br>Midlands<br>£m           | West<br>Midlands<br>£m | South<br>Wales<br>£m | Total<br>£m |
| 0.5% increase in the pre-tax discount rate to 5.61%, 5.74% and 5.62%<br>for East Midlands, West Midlands and South Wales, respectively | (351.9)                          | (467.2)                | (243.9)              | (1,063.0)   |
| 5.0% decrease in terminal value multiple on the RAV to 32.5%                                                                           | (176.4)                          | (177.6)                | (102.2)              | (456.2)     |

Change in assumption required to eliminate all headroom:

|                                         |                      |                      |                      |
|-----------------------------------------|----------------------|----------------------|----------------------|
| Increase in the pre-tax discount rate   | by 0.72%<br>to 5.83% | by 0.93%<br>to 6.17% | by 0.73%<br>to 5.85% |
| Decrease in the terminal value multiple | by 18.2%<br>to 19.3% | by 23.2%<br>to 14.3% | by 17.0%<br>to 20.5% |

All changes in assumptions in above sensitivities assume that other assumptions remain the same.

**16. Inventories**

|                  | 2022<br>£m | 2021<br>£m |
|------------------|------------|------------|
| Raw materials    | 35.6       | 44.9       |
| Work in progress | 0.9        | 1.8        |
|                  | 36.5       | 46.7       |

The cost of inventories recognised as an expense during the year was £9.8m (2021: £9.3m). The cost of inventories recognised as an expense includes £0.6m (2021: £1.1m) in respect of write downs of inventory to net realisable value and has been reduced by £0.3m (2021: nil) in respect of reversal of such write downs.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

| <b>17. Trade and other receivables</b>            | <b>2022</b>  | <b>2021</b>  |
|---------------------------------------------------|--------------|--------------|
|                                                   | <b>£m</b>    | <b>£m</b>    |
| <b>Current receivables</b>                        |              |              |
| Trade receivables                                 | 282.5        | 285.4        |
| Other receivables                                 | 14.2         | 2.7          |
| Accrued income                                    | 8.1          | 7.1          |
| Prepayments                                       | 22.7         | 31.6         |
| <b>Total current receivables</b>                  | <b>327.5</b> | <b>326.8</b> |
| <b>Non-current receivables</b>                    |              |              |
| Other receivables                                 | 1.3          | 1.1          |
| Reimbursement asset re unfunded pension liability | 3.2          | 3.1          |
| Prepayments                                       | 1.0          | 1.0          |
| <b>Total non-current receivables</b>              | <b>5.5</b>   | <b>5.2</b>   |
| <b>Total trade and other receivables</b>          | <b>333.0</b> | <b>332.0</b> |

The carrying amount of trade and other receivables and loan to related party is considered to approximate their fair value.

Trade receivables includes unbilled DUoS income of £150.2m (2021: £141.2m).

Other receivables relate primarily to insurance claims and the non-current balances that are expected to be recovered over the next three years.

WPD South Wales has an unfunded obligation in relation to previous executives. This is subject to reimbursement by Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), and therefore a corresponding reimbursement asset is stated on the balance sheet and matches the liability recorded under IAS 19 (Note 26).

As at 31 March 2022, trade receivables and accrued income at a nominal value of £21.4m (2021: £3.5m) were impaired and fully provided for. Movements in the provision for impairment were as follows.

|                                      | <b>2022</b> | <b>2021</b> |
|--------------------------------------|-------------|-------------|
|                                      | <b>£m</b>   | <b>£m</b>   |
| At 1 April                           | 3.5         | 3.0         |
| Provision for impairment             | 25.4        | 3.0         |
| Amounts written off as uncollectable | (6.7)       | (1.1)       |
| Amounts recovered during the year    | (0.8)       | (1.4)       |
| At 31 March                          | 21.4        | 3.5         |

The WPD Group considers 100% of its credit risk to be with counterparties in related industries. The maximum credit risk exposure is represented by the carrying value as at the balance sheet date.

As at 31 March, the aged analysis of trade receivables is as follows:

|             | Neither past due |              | Past due but not impaired |            |            |             |            |
|-------------|------------------|--------------|---------------------------|------------|------------|-------------|------------|
|             | Total            | nor impaired | <30 days                  | 30-60 days | 60-90 days | 90-120 days | >120 days  |
|             | £m               | £m           | £m                        | £m         | £m         | £m          | £m         |
| <b>2022</b> | <b>282.5</b>     | <b>274.6</b> | <b>4.3</b>                | <b>2.3</b> | <b>0.5</b> | <b>0.5</b>  | <b>0.3</b> |
| 2021        | 285.4            | 266.5        | 5.4                       | 1.2        | -          | 0.8         | 11.5       |

# 17. Trade and other receivables (continued)

Trade receivables that are neither past due nor impaired relate largely to charges made to electricity suppliers for the use of WPD's distribution network. Credit risk management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the credit rules within the DCUSA.

In order to minimise exposure to debt, the DCUSA requires WPD to monitor electricity suppliers' (WPD's customers) indebtedness ratios daily to ensure it does not exceed 85%. The indebtedness ratio is defined as 'Value at Risk/Credit Limit' where 'Value at Risk' is the suppliers' current outstanding invoices plus a 15 day estimate of unbilled amounts and 'Credit Limit' is calculated by reference to WPD's RAV, the suppliers' credit rating from an approved credit referencing agency, and the suppliers' payment performance history.

Where necessary, suppliers can ensure they are within the 85% indebtedness threshold by providing collateral to increase their 'Credit Limit'. This can be in the form of a letter of credit or equivalent bank guarantee, an escrow account deposit, a cash deposit, or any other form of collateral agreed between WPD and the supplier. At 31 March 2022, the WPD Group held collateral in relation to trade receivables in the form of cash £4.9m (2021: £2.3m), letters of credit £106.2m (2021: £76.8m), and parent company guarantees £16.6m (2021: £50.3m). Letters of credit have a rating of Moody's A2/S&P A or greater. The maximum amounts for parent company guarantees are based on their credit ratings as per the DCUSA regulations.

# 18. Cash at bank and in hand

|                                 | 2022<br>£m   | 2021<br>£m   |
|---------------------------------|--------------|--------------|
| Cash at bank                    | 47.2         | 53.5         |
| Short-term bank deposits        | 101.6        | 85.7         |
| <b>Cash at bank and in hand</b> | <b>148.8</b> | <b>139.2</b> |

The fair value of cash at bank is considered to approximate its carrying amount. Short term deposits are measured at fair value through profit and loss ("FVTPL"). Cash at bank earns interest at floating rates based on short-term bank deposit rates. Short term deposits are all instant access funds.

At 31 March 2022, the WPD Group had available £845.0m (2021: £837.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates. At 31 March 2022, it also had available undrawn uncommitted facilities of £1.9m (2021: £96.5m).

Included in cash and short-term bank deposits are restricted amounts totalling £12.4m (2021: £13.2m) which are not readily available for the general purposes of the WPD Group. The restrictions relate largely to minimum cash balances that are required to be maintained for insurance purposes and cash balances that can only be used for low carbon network fund projects.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 March:

|                                                            | 2022<br>£m   | 2021<br>£m   |
|------------------------------------------------------------|--------------|--------------|
| Cash at bank and in hand (from above)                      | 148.8        | 139.2        |
| Bank overdrafts (Note 21)                                  | (21.1)       | (22.6)       |
| <b>Cash at bank and in hand in the cash flow statement</b> | <b>127.7</b> | <b>116.6</b> |

Bank overdrafts comprise principally unpresented cheques at the year end.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**19. Trade and other payables**

|                                                   | 2022<br>£m     | 2021<br>£m     |
|---------------------------------------------------|----------------|----------------|
| <b>Current payables</b>                           |                |                |
| Trade payables                                    | 53.0           | 84.9           |
| Social security and other taxes                   | 65.6           | 56.8           |
| Payments received in advance                      | 214.5          | 182.6          |
| Other payables                                    | 4.9            | 2.0            |
| Deferred contributions                            | 49.2           | 47.3           |
| Deferred income                                   | 12.3           | 13.7           |
| Accruals                                          | 285.3          | 263.3          |
| Amounts due to affiliated National Grid Companies | 4.4            | -              |
|                                                   | <b>689.2</b>   | <b>650.6</b>   |
| <b>Non-current payables</b>                       |                |                |
| Deferred contributions                            | 2,806.8        | 2,687.4        |
|                                                   | <b>3,496.0</b> | <b>3,338.0</b> |

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. Deferred contributions are those amounts received from customers in respect of new connections to the network. The carrying amount of trade and other payables is considered to approximate their fair value.

**20. Lease liabilities**

|                          | 2022<br>£m | 2021<br>£m |
|--------------------------|------------|------------|
| Opening                  | 9.4        | 10.1       |
| Additions                | 2.0        | 0.7        |
| Payments during the year | (1.7)      | (1.7)      |
| Interest expense         | 0.2        | 0.3        |
| <b>At 31 March</b>       | <b>9.9</b> | <b>9.4</b> |
| of which                 |            |            |
| <b>Current</b>           | <b>1.7</b> | <b>1.5</b> |
| <b>Non-current</b>       | <b>8.2</b> | <b>7.9</b> |

The WPD Group leases various properties under non-cancellable operating lease arrangements. In addition to this, WPD leases in rights to capacity on third party fibre optic networks, and space and equipment at third party telecommunication sites, under non-cancellable lease arrangements, in order to extend its core fibre network for its point to point transmission services. The leases have various terms, escalation clauses and renewable rights. Lease terms and rentals to be paid during the lease term are defined within the agreement. In some cases, lease rentals may be subject to a rent review on dates specified within the agreement at the then prevailing market rate.

Short term leases and low value leases are excluded from recognition on the balance sheet. The amount charged to rent expense pertaining to short term leases amounts to £7.7m (2021: £7.4m) and pertaining to low value leases amounts to £0.8m (2021: £0.7m).

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**21. Loans and other borrowings**

|                               | 2022<br>£m     | 2021<br>£m   |
|-------------------------------|----------------|--------------|
| <b>Current</b>                |                |              |
| Bank overdrafts (Note 18)     | 21.1           | 22.6         |
| Syndicated credit facilities  | -              | 218.1        |
| Syndicated term loan (i)      | -              | 350.0        |
| Loan with parent company (ii) | 662.6          | -            |
| 5.25% GB£700m bonds due 2023  | 700.3          | -            |
|                               | <b>1,384.0</b> | <b>590.7</b> |

(i) A £350m 6 month term loan was fully drawn by WPD plc in February 2021 with a maturity date of 26 August 2021. This was repaid in full on the date of the change of ownership and replaced with a loan from the parent company.

(ii) The loan with parent company pertains to amounts drawn under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued on the balance at SONIA plus 0.25% margin and is paid monthly.

|                                                         | 2022<br>£m     | 2021<br>£m     |
|---------------------------------------------------------|----------------|----------------|
| <b>Non-current</b>                                      |                |                |
| 5.875% GB£250m bonds due 2027 (iv)                      | 249.2          | 249.0          |
| 5.75% GB£200m bonds due 2040 (iv)                       | 197.9          | 197.8          |
| 2.375% GB£250m bonds due 2029                           | 247.7          | 247.4          |
| 4.804% GB£225m bonds due 2037 (i) (iv)                  | 221.4          | 221.2          |
| 5.75% GB£200m bonds due 2040 (iv)                       | 197.9          | 197.8          |
| 1.625% GB£250m bonds due 2035                           | 246.4          | 246.1          |
| 6.25% GB£250m bonds due 2040 (iv)                       | 256.6          | 257.0          |
| 5.25% GB£700m bonds due 2023 (iv)                       | -              | 700.5          |
| 6.00% GB£250m bonds due 2025 (iv)                       | 251.6          | 252.0          |
| 5.75% GB£800m bonds due 2032 (iv)                       | 793.2          | 792.5          |
| 3.875% GB£400m bonds due 2024 (iv)                      | 398.6          | 398.1          |
| 3.625% GB£500m bonds due 2023                           | 498.9          | 498.2          |
| 7.375% US\$202m bonds due 2028                          | 148.7          | 140.7          |
| 3.5% GB£350m bonds due 2026                             | 347.0          | 346.4          |
| 1.75% GB£250m bonds due 2031                            | 246.3          | 245.9          |
| £50m 5 year term loan                                   | -              | 49.8           |
| 1.541% + RPI GB£105m index linked bonds 2053 (ii) (iii) | 166.6          | 154.5          |
| 1.541% + RPI GB£120m index linked bonds 2056 (ii) (iii) | 190.4          | 176.5          |
| 0.010% + RPI GB£50m index linked bonds 2029 (iii)       | 61.2           | 57.1           |
| 0.010% + RPI GB£30m index linked bonds 2036 (iii)       | 35.3           | 32.9           |
| 2.671% + RPI GB£140m index linked bonds 2043 (iii)      | 220.6          | 208.1          |
| 1.676% + RPI GB£105m index linked bonds 2052 (iii)      | 146.7          | 137.5          |
| 0.4975% + RPI GB£100m index linked bonds 2030 (iii)     | 119.5          | 110.5          |
| 1.25% + RPI GB£30m index linked bonds due 2028 (iii)    | 34.7           | 32.2           |
|                                                         | <b>5,276.4</b> | <b>5,949.7</b> |
| <b>Total loans and other borrowings</b>                 | <b>6,660.4</b> | <b>6,540.4</b> |

(i) May be redeemed, in total but not in part, on 21 December 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated UK Government bond.

(ii) May be redeemed, in total by series, on 1 December 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated UK government bond.

(iii) The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts in the current year was an increase of approximately £67.8m resulting from inflation.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 21. Loans and other borrowings (continued)

(iv) May be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licences under which the issuer operates.

None of the outstanding debt securities noted above has sinking fund requirements.

The carrying amounts of the WPD Group's borrowings are denominated in the following currencies:

|           | 2022<br>£m     | 2021<br>£m     |
|-----------|----------------|----------------|
| UK pound  | 6,511.7        | 6,399.7        |
| US dollar | 148.7          | 140.7          |
|           | <b>6,660.4</b> | <b>6,540.4</b> |

### 22. Reconciliation of liabilities arising from financing activities

|                                                                                         | 2022<br>£m     | 2021<br>£m     |
|-----------------------------------------------------------------------------------------|----------------|----------------|
| Borrowings                                                                              | 6,639.3        | 6,517.8        |
| Lease liabilities                                                                       | 9.9            | 9.4            |
| Derivatives in hedging relationship                                                     | (35.9)         | (28.0)         |
| <b>Gross debt net of related derivatives (excluding bank overdraft)</b>                 | <b>6,613.3</b> | <b>6,499.2</b> |
| <i>Change in liabilities arising from financing activities</i>                          |                |                |
|                                                                                         | 2022<br>£m     | 2021<br>£m     |
| <i>Cash flow per financing activity section of cash flow statement</i>                  |                |                |
| Net increase in short term borrowings                                                   | 661.2          | 307.0          |
| Proceeds from long term borrowings net of issue costs                                   | -              | 246.0          |
| Repayment of long term borrowings                                                       | (618.1)        | (456.9)        |
| Payment of lease liabilities                                                            | (1.7)          | (1.7)          |
| <b>Change in liabilities arising from financing activities</b>                          | <b>41.4</b>    | <b>94.4</b>    |
| <i>Non-cash adjustments</i>                                                             |                |                |
| Fair value change in derivatives                                                        | (7.9)          | 83.7           |
| Foreign exchange loss/(gain) on borrowings                                              | 7.2            | (60.3)         |
| Net increase in borrowings due to indexation                                            | 67.8           | 11.7           |
| Debt modification gain                                                                  | -              | (2.4)          |
| Amortisation of premiums, discounts and issue costs                                     | 2.0            | 0.4            |
| Interest payable balance rolled into parent company two-way loan                        | 1.4            | -              |
| Leases acquired during the year                                                         | 2.0            | 0.7            |
| Interest expense on lease                                                               | 0.2            | 0.3            |
| <b>Movement in gross debt net of related derivatives in the year</b>                    | <b>114.1</b>   | <b>128.5</b>   |
| <b>Gross debt net of related derivatives at beginning of year</b>                       | <b>6,499.2</b> | <b>6,370.7</b> |
| <b>Gross debt net of related derivatives (excluding bank overdrafts) at end of year</b> | <b>6,613.3</b> | <b>6,499.2</b> |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**23. Financial instruments***Financial risk management objectives and policies*

The WPD Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, bonds and trade payables. The main purpose of these financial liabilities is to raise finance for the WPD Group's operations. The WPD Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The WPD Group also enters into derivative transactions, principally interest rate and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the WPD Group's operations and its sources of finance.

It is, and has been throughout 2022 and 2021, the WPD Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the WPD Group's financial instruments are fair value interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

*Market risk*

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates and inflation will affect the WPD Group's profit. The management of market risk is undertaken with risk limits approved by the Board.

*Interest rate risk*

The WPD Group has issued debt to finance its operations, which exposes it to interest rate risk. Borrowings issued at variable rates expose the WPD Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the WPD Group to fair value interest rate risk. The WPD Group's interest rate risk management policy includes achieving 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. The WPD Group's policy stipulates that a maximum of 25% of WPD Group borrowings be subject to variable rates of interest.

The WPD Group may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

The net exposure to interest rates at the balance sheet date can be summarised thus:

|                                                  | <b>2022</b>     | 2021           |
|--------------------------------------------------|-----------------|----------------|
|                                                  | <b>Carrying</b> | Carrying       |
|                                                  | <b>amount</b>   | amount         |
|                                                  | <b>£m</b>       | <b>£m</b>      |
| Interest bearing/earning assets and liabilities: |                 |                |
| Fixed                                            | 4,965.8         | 5,012.4        |
| Floating                                         | (127.7)         | 451.5          |
| Index-linked                                     | 1,637.6         | 909.3          |
|                                                  | <b>6,475.7</b>  | <b>6,373.2</b> |
|                                                  |                 |                |
|                                                  | <b>2022</b>     | 2021           |
|                                                  | <b>Carrying</b> | Carrying       |
|                                                  | <b>amount</b>   | amount         |
|                                                  | <b>£m</b>       | <b>£m</b>      |
| Represented by:                                  |                 |                |
| Cash and cash equivalents                        | (148.8)         | (139.2)        |
| Derivative financial assets/liabilities          | (35.9)          | (28.0)         |
| Loans and borrowings                             | 6,660.4         | 6,540.4        |
|                                                  | <b>6,475.7</b>  | <b>6,373.2</b> |

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 23. Financial instruments (continued)

#### Interest rate sensitivity

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-fixed hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments are recorded through the income statement. The exposure measured is therefore based on variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the WPD Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the WPD Group's equity.

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes all non-derivative floating rate financial instruments.

Currency derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date. The sensitivity analysis is indicative only and it should be noted that the WPD Group's exposure to such market rate changes is continually changing. The calculation is based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the WPD Group.

|                         | 2022                                       |                  | 2021                                       |                  |
|-------------------------|--------------------------------------------|------------------|--------------------------------------------|------------------|
|                         | Income statement<br>(before tax)<br>+/- £m | Equity<br>+/- £m | Income statement<br>(before tax)<br>+/- £m | Equity<br>+/- £m |
| Interest Rate +/- 100bp | (1.3)                                      | -                | 4.5                                        | -                |

#### Inflation risk

The WPD Group'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 form of liability is a good match to the WPD Group's regulated assets ("RAV"), which are also linked to RPI due to the price setting mechanism imposed by the regulator, and also the price cap is linked to RPI. By matching liabilities to assets, index-linked debt 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.

The carrying value of index-linked debt held by the WPD Group is as follows:

|                   | 2022<br>£m | 2021<br>£m |
|-------------------|------------|------------|
| Index-linked debt | 1,637.6    | 909.3      |

#### Inflation sensitivity

Assuming sensitivity to the RPI does not take into account any changes to revenue or operating costs that are affected by RPI or inflation generally, the following table shows the illustrative effect on the income statement that would result from reasonably possible movements in changes in RPI before the effects of tax.

|                                  | 2022                                       |                  | 2021                                       |                  |
|----------------------------------|--------------------------------------------|------------------|--------------------------------------------|------------------|
|                                  | Income statement<br>(before tax)<br>+/- £m | Equity<br>+/- £m | Income statement<br>(before tax)<br>+/- £m | Equity<br>+/- £m |
| UK Retail Prices Index +/- 1.00% | 16.4                                       | (13.3)           | 9.1                                        | (7.4)            |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**23. Financial instruments (continued)***Foreign currency risk*

The WPD Group's assets are principally sterling denominated; however, the WPD Group has access to various international debt capital markets and raises foreign currency denominated debt. Where long-term debt is denominated in a currency which is not sterling, the WPD Group's policy is to swap 100% of the foreign currency denominated principal and interest cash flows into sterling through the use of cross-currency swaps.

Under a currency swap, the WPD Group agrees with another party to exchange the principal amount of the two currencies, together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and principal amount. The principal of these instruments reflects the extent of the WPD Group's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

During the prior year the WPD Group investment of \$200m 6.42% Eurobonds issued by PPL UK Resources Limited, which were acquired at a premium of \$21m, were transferred to the Group's parent company as a dividend in specie. As a result, the borrowings of \$200m under a related committed credit facility were also repaid to eliminate the Group's exposure to any future exchange rate fluctuations.

The principal amount of the WPD Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date and the impact of derivative financial instruments used to manage foreign currency risk were as follows:

|                                | 2022<br>\$m | 2021<br>\$m |
|--------------------------------|-------------|-------------|
| Borrowings                     | (202.0)     | (202.0)     |
| Gross exposure                 | (202.0)     | (202.0)     |
| Effect of cross-currency swaps | 202.0       | 202.0       |
| Net exposure                   | -           | -           |

*Foreign currency sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in Sterling against the US dollar exchange rate, with all other variables held constant, of the WPD Group's profit before tax and the WPD Group's equity.

|                                | 2022                                      |              | 2021                                      |              |
|--------------------------------|-------------------------------------------|--------------|-------------------------------------------|--------------|
|                                | Income<br>statement<br>(before tax)<br>£m | Equity<br>£m | Income<br>statement<br>(before tax)<br>£m | Equity<br>£m |
| 10% increase in exchange rates | -                                         | (2.7)        | -                                         | (4.9)        |
| 10% decrease in exchange rates | -                                         | 3.3          | -                                         | 6.0          |

*Credit risk (see also Note 17)*

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the WPD Group and arises from cash and cash equivalents, derivative financial instruments and deposits with financial institutions and principally from credit exposures to customers relating to outstanding receivables.

WPD maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria). Depending on the creditworthiness of the counterparty, the WPD Group may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**23. Financial instruments (continued)**

*Credit risk (see also Note 17) (continued)*

|                                  | 2022<br>£m   | 2021<br>£m   |
|----------------------------------|--------------|--------------|
| Cash and short-term deposits     | 148.8        | 139.2        |
| Trade receivables                | 282.5        | 285.4        |
| Other receivables                | 15.5         | 3.8          |
| Accrued income                   | 8.1          | 7.1          |
| Derivative financial instruments | 35.9         | 28.0         |
|                                  | <b>490.8</b> | <b>463.5</b> |

The table above does not take into account collateral held in relation to trade receivables in the form of cash £4.9m (2021: £2.3m), letters of credit £106.2m (2021: £76.8m), and parent company guarantees £16.6m (2021: £50.3m).

WPD has concentrations of customers among electric utilities and other energy marketing and trading companies. These concentrations of counterparties may impact WPD's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions.

The analysis of WPD's financial assets by credit risk rating grade is as follow:

| 2022                              | 12 month<br>ECL<br>£m | Lifetime<br>ECL<br>£m | FVTPL<br>£m | FVOCI<br>£m | Total<br>£m |
|-----------------------------------|-----------------------|-----------------------|-------------|-------------|-------------|
| AAA to A (Low to Fair Risk)       | 47.2                  | -                     | 101.6       | 35.9        | 184.7       |
| BBB+ to B (Monitoring)            | -                     | -                     | -           | -           | -           |
| Others monitored on ageing matrix | -                     | 327.5                 | -           | -           | 327.5       |
| Total gross carrying value        | 47.2                  | 327.5                 | 101.6       | 35.9        | 512.2       |
| Loss allowance                    | -                     | (21.4)                | -           | -           | (21.4)      |
| Net carrying value                | 47.2                  | 306.1                 | 101.6       | 35.9        | 490.8       |
| 2021                              | 12 month<br>ECL<br>£m | Lifetime<br>ECL<br>£m | FVTPL<br>£m | FVOCI<br>£m | Total<br>£m |
| AAA to A (Low to Fair Risk)       | 53.5                  | -                     | 85.7        | 28.0        | 167.2       |
| BBB+ to B (Monitoring)            | -                     | -                     | -           | -           | -           |
| Others monitored on ageing matrix | -                     | 299.8                 | -           | -           | 299.8       |
| Total Gross Carrying Value        | 53.5                  | 299.8                 | 85.7        | 28.0        | 467.0       |
| Loss Allowance                    | -                     | (3.5)                 | -           | -           | (3.5)       |
| Net Carrying Value                | 53.5                  | 296.3                 | 85.7        | 28.00       | 463.5       |

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 23. Financial instruments (continued)

#### Liquidity risk

Liquidity risk is the risk that the WPD Group will not have sufficient funds to meet the obligations or commitments arising from its business operations and its financial liabilities.

Treasury is responsible for managing the banking and liquidity requirements of the WPD Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. The department's operations are governed by policies determined by the Board.

The following credit facilities were in place at 31 March 2022:

|                                                | Expiration date | Capacity<br>£m | Borrowed<br>£m | Letters of<br>credit issued<br>£m | Unused<br>capacity<br>£m |
|------------------------------------------------|-----------------|----------------|----------------|-----------------------------------|--------------------------|
| WPD South West - Syndicated Credit Facility    | May 2025        | 220.0          | -              | -                                 | 220.0                    |
| WPD East Midlands - Syndicated Credit Facility | May 2025        | 250.0          | -              | -                                 | 250.0                    |
| WPD West Midlands - Syndicated Credit Facility | May 2025        | 250.0          | -              | -                                 | 250.0                    |
| WPD South Wales - Syndicated Credit Facility   | May 2025        | 125.0          | -              | -                                 | 125.0                    |
| Uncommitted Credit Facilities                  |                 | 6.0            | -              | 4.1                               | 1.9                      |
| Total Credit Facilities                        |                 | 851.0          | -              | 4.1                               | 846.9                    |

The WPD Group also has uncommitted two-way loan facilities with its ultimate parent, National Grid Plc.

The WPD Group's primary source of liquidity is cash generated from its ongoing business operations. The electricity regulator sets a major element of the WPD Group's revenues, providing both a stable and predictable source of funds. In recognition of the long life of the WPD Group's assets and anticipated indebtedness, and to create financial efficiencies, the WPD Group's policy is to arrange that debt maturities are spread over a wide range of dates, thereby ensuring that the WPD Group is not subject to excessive refinancing risk in any one year. The WPD Group has entered into borrowing agreements for periods out to 2056.

The following tables detail the WPD Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the WPD Group can be required to pay. The table includes both interest and principal cash flows.

| 2022                     | Less than<br>one year<br>£m | One to<br>five years<br>£m | Five to<br>fifteen years<br>£m | Greater than<br>fifteen years<br>£m | Total<br>£m |
|--------------------------|-----------------------------|----------------------------|--------------------------------|-------------------------------------|-------------|
| Borrowings               | 1,630.6                     | 2,482.9                    | 2,927.8                        | 1,869.8                             | 8,911.1     |
| Lease liabilities        | 1.7                         | 4.3                        | 4.0                            | 6.5                                 | 16.5        |
| Trade and other payables | 359.9                       | -                          | -                              | -                                   | 359.9       |
| Total                    | 1,992.2                     | 2,487.2                    | 2,931.8                        | 1,876.3                             | 9,287.5     |

| 2021                     | Less than<br>one year<br>£m | One to<br>five years<br>£m | Five to<br>fifteen years<br>£m | Greater than<br>fifteen years<br>£m | Total<br>£m |
|--------------------------|-----------------------------|----------------------------|--------------------------------|-------------------------------------|-------------|
| Borrowings               | 486.9                       | 2,732.4                    | 3,590.6                        | 1,869.1                             | 8,679.0     |
| Lease liabilities        | 1.5                         | 4.0                        | 4.0                            | 6.6                                 | 16.0        |
| Trade and other payables | 363.9                       | -                          | -                              | -                                   | 363.9       |
| Total                    | 852.3                       | 2,736.4                    | 3,594.6                        | 1,875.7                             | 9,058.9     |

# Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

## 23. Financial instruments (continued)

### Liquidity risk (continued)

The following table details the WPD Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross cash (inflows) and outflows on derivatives that require gross settlement.

| 2022                               | Less than<br>one year<br>£m | One to<br>five years<br>£m | Five to<br>fifteen years<br>£m | Greater than<br>fifteen years<br>£m | Total<br>£m |
|------------------------------------|-----------------------------|----------------------------|--------------------------------|-------------------------------------|-------------|
| Cross currency derivative payments | 9.0                         | 35.9                       | 139.8                          | -                                   | 184.7       |
| Cross currency derivative receipts | (11.3)                      | (45.4)                     | (176.4)                        | -                                   | (233.1)     |
| Total                              | (2.3)                       | (9.5)                      | (36.6)                         | -                                   | (48.4)      |

| 2021                               | Less than<br>one year<br>£m | One to<br>five years<br>£m | Five to<br>fifteen years<br>£m | Greater than<br>fifteen years<br>£m | Total<br>£m |
|------------------------------------|-----------------------------|----------------------------|--------------------------------|-------------------------------------|-------------|
| Cross currency derivative payments | 9.0                         | 35.9                       | 148.8                          | -                                   | 193.7       |
| Cross currency derivative receipts | (10.8)                      | (43.2)                     | (179.0)                        | -                                   | (233.0)     |
| Total                              | (1.8)                       | (7.3)                      | (30.2)                         | -                                   | (39.3)      |

### Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the WPD Group's financial instruments that are carried in the financial statements.

| 2022                                   | Amortised<br>cost<br>£m | Fair value<br>through<br>profit &<br>loss<br>£m | Fair value<br>through<br>OCI<br>£m | Total book<br>value<br>£m | Fair value<br>£m |
|----------------------------------------|-------------------------|-------------------------------------------------|------------------------------------|---------------------------|------------------|
| <i>Financial assets</i>                |                         |                                                 |                                    |                           |                  |
| Cash                                   | 47.2                    | 101.6                                           | -                                  | 148.8                     | 148.8            |
| Derivative financial instruments       | -                       | -                                               | 35.9                               | 35.9                      | 35.9             |
| Trade and other receivables            | 306.1                   | -                                               | -                                  | 306.1                     | 306.1            |
| <i>Financial liabilities</i>           |                         |                                                 |                                    |                           |                  |
| Bank overdraft                         | (21.1)                  | -                                               | -                                  | (21.1)                    | (21.1)           |
| Interest-bearing loans and borrowings: |                         |                                                 |                                    |                           |                  |
| - Floating rate borrowings             | (662.6)                 | -                                               | -                                  | (662.6)                   | (662.6)          |
| - Fixed rate borrowings                | (5,001.7)               | -                                               | -                                  | (5,001.7)                 | (5,574.4)        |
| - Index linked                         | (975.0)                 | -                                               | -                                  | (975.0)                   | (1,420.8)        |
| Lease liabilities                      | (9.9)                   | -                                               | -                                  | (9.9)                     | (9.9)            |
| Trade and other payables               | (359.9)                 | -                                               | -                                  | (359.9)                   | (359.9)          |
|                                        | (6,676.9)               | 101.6                                           | 35.9                               | (6,539.4)                 | (7,558.0)        |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**23. Financial instruments (continued)**

*Fair values of financial assets and financial liabilities (continued)*

| 2021                                   | Amortised<br>cost<br>£m | Fair value<br>through<br>profit &<br>loss<br>£m | Fair value<br>through<br>OCI<br>£m | Total book<br>value<br>£m | Fair value<br>£m |
|----------------------------------------|-------------------------|-------------------------------------------------|------------------------------------|---------------------------|------------------|
| <i>Financial assets</i>                |                         |                                                 |                                    |                           |                  |
| Cash                                   | 53.5                    | 85.7                                            | -                                  | 139.2                     | 139.2            |
| Derivative financial instruments       | -                       | -                                               | 28.0                               | 28.0                      | 28.0             |
| Trade and other receivables            | 296.3                   | -                                               | -                                  | 296.3                     | 296.3            |
| <i>Financial liabilities</i>           |                         |                                                 |                                    |                           |                  |
| Bank overdraft                         | (22.6)                  | -                                               | -                                  | (22.6)                    | (22.6)           |
| Interest-bearing loans and borrowings: |                         |                                                 |                                    |                           |                  |
| - Floating rate borrowings             | (218.1)                 | -                                               | -                                  | (218.1)                   | (218.1)          |
| - Fixed rate borrowings                | (5,040.4)               | -                                               | -                                  | (5,040.4)                 | (6,103.0)        |
| - Index linked                         | (1,259.3)               | -                                               | -                                  | (1,259.3)                 | (1,720.4)        |
| Lease liabilities                      | (9.4)                   | -                                               | -                                  | (9.4)                     | (9.4)            |
| Trade and other payables               | (363.9)                 | -                                               | -                                  | (363.9)                   | (363.9)          |
|                                        | (6,563.9)               | 85.7                                            | 28.0                               | (6,450.2)                 | (7,973.9)        |

The fair value of the WPD Group's outstanding cross currency swaps is the estimated amount, calculated using discounted cash flow models, that the WPD Group would receive or pay in order to terminate such contracts in an arm's length transaction taking into account market rates of interest and foreign exchange at the balance sheet date.

The carrying value of the WPD Group's bank loans and overdrafts approximates their fair value. The fair value of the WPD Group's other borrowings is estimated using quoted prices or, where these are not available, discounted cash flow analyses based on the WPD Group's current incremental borrowing rates for similar types and maturities of borrowing; these are classified as Level 2 in the fair value hierarchy.

The carrying value of short term receivables and payables are assumed to approximate their fair values where discounting is not material.

*Fair value hierarchy*

The WPD Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2022, the WPD Group held the following financial instruments measured at fair value:

| 2022                                 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
|--------------------------------------|---------------|---------------|---------------|-------------|
| <i>Assets measured at fair value</i> |               |               |               |             |
| Derivatives financial instruments    | -             | 35.9          | -             | 35.9        |
| Short term deposits                  | 101.6         | -             | -             | 101.6       |

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 23. Financial instruments (continued)

#### *Fair values of financial assets and financial liabilities (continued)*

| 2021                                 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
|--------------------------------------|---------------|---------------|---------------|-------------|
| <i>Assets measured at fair value</i> |               |               |               |             |
| Derivatives financial instruments    | -             | 28.0          | -             | 28.0        |
| Short term deposits                  | 85.7          | -             | -             | 85.7        |

To manage interest rate risk, WPD uses interest rate contracts such as forward-starting swaps. To manage foreign currency exchange risk, WPD uses foreign currency contracts such as cross-currency swaps. An income approach is used to measure the fair value of these contracts, utilising readily observable inputs, such as forward interest rates and forward foreign currency exchange rates, as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. The impact of credit risk on the fair value of derivatives is generally small relative to liabilities like debt, because the principal (notional) amount is not at risk and credit enhancements often exist and thus the overall classification of derivatives as Level 2 remains appropriate. WPD generally does not calculate separate liquidity valuation adjustments, based on the traders' view that liquidity risk is included in the market prices. WPD also does not generally calculate modelling reserves, as the interest rate/foreign currency derivatives can be developed using standard practices.

During the reporting period ending 31 March 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

Hedge counterparties are major banks of high quality credit standing.

In addition to the above financial instruments, the fair value of long-term debt and investment at amortised cost as disclosed under financial liabilities is classified as Level 2.

WPD uses observable market data from Bloomberg to arrive at the fair value of long term debt and investment at amortised cost.

#### *Capital risk management*

The primary objective of the WPD Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The WPD Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the WPD Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2022 or 31 March 2021.

The WPD Group does not consider the standard gearing ratio of net debt as a percentage of net debt plus net assets shown in the balance sheet as an appropriate capital monitoring measure as it does not reflect the economic value of the assets of the Group's regulated businesses. Instead, the WPD Group monitors capital using a gearing ratio, which is net debt divided by the RAV. The RAV is a regulatory measure of the regulated business' asset base required to carry out the regulated activities. Regulated revenues are designed to cover operating costs (including certain replacement expenditure) and capital depreciation, as well as an allowed return on the RAV. The WPD Group's policy is to maintain a gearing ratio that ensures an investment grade credit rating. The WPD Group includes within net debt borrowings and associated cross currency swaps less cash and cash equivalents and deposits.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**23. Financial instruments (continued)**

|                                                                  | 2022<br>£m | 2021<br>£m |
|------------------------------------------------------------------|------------|------------|
| Short term borrowings                                            | 1,362.9    | 568.1      |
| Long term borrowings                                             | 5,276.4    | 5,949.7    |
| Lease liabilities                                                | 9.9        | 9.4        |
| Letters of credit                                                | 4.1        | 3.5        |
| Cross currency swaps                                             | (35.9)     | (28.0)     |
| Cash at bank and in hand (excluding restricted cash)             | (114.8)    | (103.4)    |
| Net debt                                                         | 6,502.6    | 6,399.3    |
| Regulatory Asset Value                                           | 9,407.1    | 8,330.5    |
| Gearing ratio                                                    | 69%        | 77%        |
| <i>Reconciliation of cash flows to net debt</i>                  |            |            |
|                                                                  | 2022<br>£m | 2021<br>£m |
| Net (increase)/decrease in cash at hand in bank                  | (11.4)     | 70.9       |
| Net increase in short term borrowings                            | 661.2      | 307.0      |
| Net decrease in long term borrowings                             | (618.1)    | (210.9)    |
| Payment of lease liabilities                                     | (1.7)      | (1.7)      |
| Change in debt resulting from cash flows                         | 30.0       | 165.3      |
| Fair value change in derivative                                  | (7.9)      | 83.7       |
| Foreign exchange loss/(gain) on borrowings                       | 7.2        | (60.3)     |
| Net increase in borrowings due to indexation                     | 67.8       | 11.7       |
| Debt modification gain                                           | -          | (2.4)      |
| Amortisation of premiums, discounts and issue costs              | 2.0        | 0.4        |
| Movement in letters of credits                                   | 0.6        | -          |
| Interest payable balance rolled into parent company two-way loan | 1.4        | -          |
| Leases acquired during the year                                  | 2.0        | 0.7        |
| Interest expense on lease                                        | 0.2        | 0.3        |
| Movement in net debt in the year                                 | 103.3      | 199.4      |
| Net debt at beginning of year                                    | 6,399.3    | 6,199.9    |
| Net debt at end of year                                          | 6,502.6    | 6,399.3    |

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 24. Derivative financial instruments

#### *Cross-currency swaps*

The WPD Group entered into cross-currency interest rate swaps designated as cash flow hedges in order to hedge the currency cash flow risks associated with the future interest and principal payments on the WPD Group's US dollar borrowings arising from fluctuations in currency rates.

The cross-currency swaps have two fixed interest rate legs that match the interest, payment debts, currency, notional amount and maturity date of USD denominated debt and thus no ineffectiveness is expected. Furthermore, the swaps also provide for a final exchange of currency on maturity of debts, thereby also eliminating any currency risk related to the principal repayment.

The assessment of whether the derivative will be highly effective is determined by comparison of the critical terms of the hedging instrument (i.e. cross-currency interest rate swap) with the critical terms of the hedged item. Because of the fact that the critical terms are the same (timing and amount of US dollar cash flows), the entity can conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. The only possible source of hedge ineffectiveness is the credit risk of the swap counterparty. There has been no adverse development with regard to the counterparty's credit risk.

The hedge ratio is calculated from the quantity of the hedge item being hedged and the quantity of the hedging instrument being used to hedge that quantity of the hedged item. There is no imbalance between the weightings of the hedged item and the hedging instrument.

At 31 March 2022, the WPD Group had outstanding cross-currency swap agreements in cash flow hedges against borrowings with a total principal amount of \$202.0m (2021: \$202.0m) and a swapped notional principal of £121.9m (2021: £121.9m). The hedges were assessed to be highly effective. The cross-currency swaps have a remaining term of six years (2021: seven years) to match the underlying hedged borrowings consisting of semi-annual interest payments and the repayment of principal amounts. Under the swaps the WPD Group receives US dollar interest at an average fixed rate of 6.0% (2021: 6.0%) and pays pound sterling interest at an average fixed rate of 7.4% (2021: 7.4%).

#### *Forward-starting interest rate swaps*

WPD wishes to hedge the variability in the semi-annual interest payments related to the forecast debt issuance attributable to changes in the benchmark interest rate (i.e. swap rate) between hedge inception and the issuance's pricing date. This can be achieved through the use of a forward-starting interest rate swap, whereby WPD pays fixed and receives floating, that will be terminated when the debt issuance is priced. Through interest rate swaps WPD wants to benefit from lower gilt rates at a point of time. Locking in the rates at the lowest possible levels assists WPD to outperform the allowed cost of debt under Ofgem's price control mechanism.

The assessment of whether the hedge is effective is determined by using regression techniques to produce a comparison of the hedging instrument (forward starting interest rate swap) with the hedged item (forecast debt issuance).

The possible sources of hedge ineffectiveness are if the hedged transaction does not occur or if the transaction does not occur at the initial agreed terms such as timing, principal and tenor of issuance. Another possible source of hedge ineffectiveness is the credit risk of the swap counterparty.

The hedge ratio is calculated from the quantity of the hedge item being hedged and the quantity of the hedging instrument being used to hedge that quantity of the hedged item. There is no imbalance between the weightings of the hedged item and the hedging instrument.

For the year ended 31 March 2022

### Hedging instruments

2022

| 2021                                    | Nominal<br>amount<br>£m | Carrying<br>amount<br>(assets)<br>£m | Carrying<br>amount<br>(liabilities)<br>£m | Line item<br>in balance<br>sheet<br>£m | Change in<br>fair value<br>relevant to<br>ineffective<br>hedge<br>£m |
|-----------------------------------------|-------------------------|--------------------------------------|-------------------------------------------|----------------------------------------|----------------------------------------------------------------------|
| Foreign currency risk                   |                         |                                      |                                           |                                        |                                                                      |
| Cross-currency swaps - cash flow hedges | 121.9                   | 28.0                                 | -                                         | Derivative<br>financial<br>instruments | -                                                                    |
|                                         | 121.9                   | 28.0                                 | -                                         | -                                      | -                                                                    |

|                                        |                             |                            | 2022                           |                                     |             |
|----------------------------------------|-----------------------------|----------------------------|--------------------------------|-------------------------------------|-------------|
|                                        | Less than<br>one year<br>£m | One to<br>five years<br>£m | Five to<br>fifteen years<br>£m | Greater than<br>fifteen years<br>£m | Total<br>£m |
| Cross-currency swaps - cash flow hedge | -                           | -                          | 121.9                          | -                                   | 121.9       |

|                                        |                             |                            | 2021                           |                                     |             |
|----------------------------------------|-----------------------------|----------------------------|--------------------------------|-------------------------------------|-------------|
|                                        | Less than<br>one year<br>£m | One to<br>five years<br>£m | Five to<br>fifteen years<br>£m | Greater than<br>fifteen years<br>£m | Total<br>£m |
| Cross-currency swaps - cash flow hedge | -                           | -                          | 121.9                          | -                                   | 121.9       |

# Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

## 24. Derivative financial instruments (continued)

### Hedging instruments (continued)

The average rate of the hedging instruments is as follows:

|                        | 2022  | 2021  |
|------------------------|-------|-------|
| Foreign currency risk: |       |       |
| Cross-currency swaps   | 7.37% | 7.37% |

### Hedged items

|                             | 2022                                                          |                                 | 2021                                                          |                                 |
|-----------------------------|---------------------------------------------------------------|---------------------------------|---------------------------------------------------------------|---------------------------------|
|                             | Value change in hedged item relating to hedge ineffectiveness | Cash flow hedge reserve balance | Value change in hedged item relating to hedge ineffectiveness | Cash flow hedge reserve balance |
|                             | £m                                                            | £m                              | £m                                                            | £m                              |
| Foreign currency risk:      |                                                               |                                 |                                                               |                                 |
| Foreign currency borrowings | -                                                             | (13.8)                          | -                                                             | (16.9)                          |

### Hedge effectiveness

|                       | 2022                       |                                                          |                                                                   |                                                           |                                                      |                                                            |
|-----------------------|----------------------------|----------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------|------------------------------------------------------------|
|                       | Hedging gain/(loss) in OCI | Ineffective hedge portion recognised in income statement | Line item in income statement including ineffective hedge portion | Amount reclassified because cash flows no longer expected | Amount reclassified because hedged item affected P&L | Line item in income statement including reclass adjustment |
|                       | £m                         | £m                                                       |                                                                   | £m                                                        | £m                                                   |                                                            |
| Foreign currency risk | 9.1                        | -                                                        | -                                                                 | -                                                         | (7.5)                                                | Finance costs                                              |
| Interest rate risk    | -                          | -                                                        | -                                                                 | -                                                         | 1.5                                                  |                                                            |

|                       | 2021                         |                                                          |                                                                   |                                                           |                                                      |                                                            |
|-----------------------|------------------------------|----------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------|------------------------------------------------------------|
|                       | Hedging gain / (loss) in OCI | Ineffective hedge portion recognised in income statement | Line item in income statement including ineffective hedge portion | Amount reclassified because cash flows no longer expected | Amount reclassified because hedged item affected P&L | Line item in income statement including reclass adjustment |
|                       | £m                           | £m                                                       |                                                                   | £m                                                        | £m                                                   |                                                            |
| Foreign currency risk | (62.2)                       | -                                                        | -                                                                 | -                                                         | 45.4                                                 | Finance costs                                              |
| Interest rate risk    | (2.7)                        | -                                                        | -                                                                 | -                                                         | 1.4                                                  |                                                            |

# Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

## 24. Derivative financial instruments (continued)

### Reconciliation of cash flow hedge reserve

|                                                                                      | 2022<br>£m    | 2021<br>£m    |
|--------------------------------------------------------------------------------------|---------------|---------------|
| Opening balance                                                                      | (16.9)        | 1.2           |
| Hedging gain/(loss)                                                                  | 9.1           | (64.9)        |
| Amount reclassified to income statement because hedged item affected profit and loss | (6.0)         | 46.8          |
| <b>Closing balance</b>                                                               | <b>(13.8)</b> | <b>(16.9)</b> |

## 25. Deferred tax

The following are the deferred tax liabilities and assets recognised by the WPD Group and movements thereon during the current and prior year:

|                                         | Accelerated capital allowances<br>£m | Retirement benefit obligation<br>£m | Other<br>£m  | Total<br>£m    |
|-----------------------------------------|--------------------------------------|-------------------------------------|--------------|----------------|
| At 1 April 2020                         | 682.9                                | 113.1                               | (10.5)       | 785.5          |
| Charge/(credit) to the income statement | 23.8                                 | 30.5                                | (0.3)        | 54.0           |
| Credit to equity                        | -                                    | (68.5)                              | (4.2)        | (72.7)         |
| At 1 April 2021                         | 706.7                                | 75.1                                | (15.0)       | 766.8          |
| Charge to the income statement          | 277.3                                | 4.5                                 | 0.4          | 282.2          |
| Charge/(credit) to equity               | -                                    | 280.3                               | (0.7)        | 279.6          |
| Transfer between categories             | (9.1)                                | -                                   | 9.1          | -              |
| <b>At 31 March 2022</b>                 | <b>974.9</b>                         | <b>359.9</b>                        | <b>(6.2)</b> | <b>1,328.6</b> |

Accelerated capital allowances represents the tax deferred on profits due to the difference in time when the deductions for expenditure on fixed assets are recognised in the income statement through depreciation and when tax deductions for that expenditure through capital allowances are included in tax returns filed with HMRC. Deferred tax arises on retirement benefit obligations as tax deductions are included in tax returns as contributions are paid to the pension schemes and not when the obligations or surpluses on the schemes are recorded in the financial statements. The other deferred tax balances relate to items such as provisions and accruals that are tax deductible when paid rather than when accrued and debt value adjustments that are taxed/deducted under tax rules at times different to when those adjustments have been recognised in the income statements.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. After offset, there is a net deferred tax liability that will reverse after more than one year. The net deferred tax liability will impact the Group's tax payments over a very long period of time mainly due to the long expected useful lives of fixed assets and the Group's pension schemes having no fixed maturity dates.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the deferred tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £238.1m (2021: £180.9m) in respect of capital losses amounting to £952.4m (2021: £952.4m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 26. Retirement benefit obligations

#### Introduction

The WPD Group operates four defined benefit pension schemes:

- two segments of the Electricity Supply Pension Scheme ("ESPS"),
  - the segment covering WPD South West and WPD South Wales ("ESPS WPD"), and
  - the segment covering WPD East Midlands and WPD West Midlands ("ESPS CN")
- the Western Power Utilities Pension Scheme ("WPUPS")
- the Infracore 1992 Pension Scheme ("Infracore 92")

The assets of all four schemes are held separately from those of the WPD Group in trustee administered funds.

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity supply industry. The two segments of the ESPS relating to WPD are closed to new members except in very limited circumstances. Existing members are unaffected. A defined contribution scheme is offered to new employees.

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of a former affiliated group. WPD South Wales will fund the actuarial deficit. However, as Western Power Distribution Holding Company Limited, (formerly PPL WPD Investments Limited), the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. This was novated from PPL WPD Limited during the prior year. As Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Note 27) and matches the gross asset/liability recorded under IAS 19 below.

Infracore 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales.

WPUPS and Infracore 92 are closed to active members.

The WPD Group also has an unfunded obligation which relates to previous executives of WPD East Midlands and WPD West Midlands. WPD South Wales also has an unfunded obligation in relation to previous executives. This is subject to reimbursement by Western Power Distribution Holding Company Limited as a result of the novation agreement executed during the prior year, and therefore a corresponding reimbursement asset is stated on the balance sheet (Note 17) and matches the liability recorded under IAS 19.

#### Other scheme

WPD also operates a defined contribution scheme. The assets of the scheme are held separately from those of WPD in an independent fund administered by the scheme trustee. The scheme has two sections:

- (a) a closed section with no active members. At 31 March 2022 there were 191 members with deferred benefits in the scheme (2021: 194) and 5 pensioners (2021: 5). Market value of the assets was £2.4m (2021: £2.3m).
- (b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2022 there were 4,588 members (2021: 4,295). The market value of the assets of the open section of the scheme was £164.0m (2021: £139.4m). Employer contributions to the scheme amounted to £13.5m in the year (2021: £10.6m).

#### Defined benefit schemes

The liability/asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries, Aon, using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

The schemes are funded, defined benefit, final salary pension plans. The level of benefits provided depends on members' length of service and their salary at their date of leaving the WPD. The majority of pensions in payment receive inflationary increases in line with the RPI ("Retail Prices Index") inflation. The benefit payments are from trustee-administered funds. The amount of contributions to be paid is decided jointly by the employer and the Trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The schemes' investment strategy is decided by the Trustees, in consultation with the employer. The Boards of Trustees must be composed of representatives of the employer and plan participants in accordance with the schemes' legal documentation.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**26. Retirement benefit obligations (continued)**

The amounts recognised in the balance sheet are determined as follows:

|                                                                                            | 2022           |               |             |                   |                |             |
|--------------------------------------------------------------------------------------------|----------------|---------------|-------------|-------------------|----------------|-------------|
|                                                                                            | ESPS WPD<br>£m | ESPS CN<br>£m | WPUPS<br>£m | Infralec 92<br>£m | Unfunded<br>£m | Total<br>£m |
| Present value of obligations                                                               | 2,368.5        | 3,336.9       | 491.8       | 12.8              | 7.7            | 6,217.7     |
| Fair value of scheme assets                                                                | (2,827.3)      | (4,216.3)     | (597.0)     | (17.5)            | -              | (7,658.1)   |
| (Surplus)/deficit of funded plan and liability/<br>(asset) recognised in the balance sheet | (458.8)        | (879.4)       | (105.2)     | (4.7)             | 7.7            | (1,440.4)   |
| Represented by:                                                                            |                |               |             |                   |                |             |
| Retirement benefit obligations                                                             | -              | -             | -           | -                 | 7.7            | 7.7         |
| Retirement benefit assets                                                                  | (458.8)        | (879.4)       | (105.2)     | (4.7)             | -              | (1,448.1)   |
|                                                                                            | (458.8)        | (879.4)       | (105.2)     | (4.7)             | 7.7            | (1,440.4)   |
|                                                                                            |                |               |             |                   |                |             |
|                                                                                            | 2021           |               |             |                   |                |             |
|                                                                                            | ESPS WPD<br>£m | ESPS CN<br>£m | WPUPS<br>£m | Infralec 92<br>£m | Unfunded<br>£m | Total<br>£m |
| Present value of obligations                                                               | 2,606.1        | 3,671.9       | 510.0       | 13.5              | 7.6            | 6,809.1     |
| Fair value of scheme assets                                                                | (2,637.6)      | (3,940.9)     | (608.4)     | (17.4)            | -              | (7,204.3)   |
| Deficit/(surplus) of funded plan and liability/<br>(asset) recognised in the balance sheet | (31.5)         | (269.0)       | (98.4)      | (3.9)             | 7.6            | (395.2)     |
| Represented by:                                                                            |                |               |             |                   |                |             |
| Retirement benefit obligations                                                             | -              | -             | -           | -                 | 7.6            | 7.6         |
| Retirement benefit assets                                                                  | (31.5)         | (269.0)       | (98.4)      | (3.9)             | -              | (402.8)     |
|                                                                                            | (31.5)         | (269.0)       | (98.4)      | (3.9)             | 7.6            | (395.2)     |

The regulator, Ofgem, currently allows ongoing service costs and a proportion of the deficit costs to be recovered through regulated income.

Analysis of the amount charged to profit before interest and taxation or to capital expenditure:

|                                                       | 2022           |               |             |                   |                |             |
|-------------------------------------------------------|----------------|---------------|-------------|-------------------|----------------|-------------|
|                                                       | ESPS WPD<br>£m | ESPS CN<br>£m | WPUPS<br>£m | Infralec 92<br>£m | Unfunded<br>£m | Total<br>£m |
| Current service cost                                  | 32.6           | 36.4          | -           | -                 | -              | 69.0        |
| Administrative costs                                  | 1.3            | 1.7           | 0.4         | -                 | -              | 3.4         |
| WPUPS reimbursement agreement                         | -              | -             | (0.4)       | -                 | -              | (0.4)       |
| Operating charge relating to defined<br>benefit plans | 33.9           | 38.1          | -           | -                 | -              | 72.0        |
| Interest income on plan assets                        | (52.9)         | (79.1)        | (12.1)      | (0.4)             | -              | (144.5)     |
| Interest on plan liabilities                          | 52.2           | 73.5          | 10.1        | 0.3               | 0.2            | 136.3       |
| WPUPS reimbursement agreement                         | -              | -             | 2.0         | -                 | -              | 2.0         |
| Other finance (income)/expense                        | (0.7)          | (5.6)         | -           | (0.1)             | 0.2            | (6.2)       |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**26. Retirement benefit obligations (continued)**

|                                                    | 2021           |               |             |                   |                |             |
|----------------------------------------------------|----------------|---------------|-------------|-------------------|----------------|-------------|
|                                                    | ESPS WPD<br>£m | ESPS CN<br>£m | WPUPS<br>£m | Infralec 92<br>£m | Unfunded<br>£m | Total<br>£m |
| Current service cost                               | 27.3           | 28.9          | -           | -                 | -              | 56.2        |
| Administrative costs                               | 1.3            | 1.8           | 0.5         | -                 | -              | 3.6         |
| WPUPS reimbursement agreement                      | -              | -             | (0.5)       | -                 | -              | (0.5)       |
| Operating charge relating to defined benefit plans | 28.6           | 30.7          | -           | -                 | -              | 59.3        |
| Interest income on plan assets                     | (55.8)         | (82.3)        | (14.2)      | (0.3)             | -              | (152.6)     |
| Interest on plan liabilities                       | 51.9           | 74.1          | 10.7        | 0.3               | 0.1            | 137.1       |
| WPUPS reimbursement agreement                      | -              | -             | 3.5         | -                 | -              | 3.5         |
| Other finance (income)/expense                     | (3.9)          | (8.2)         | -           | -                 | 0.1            | (12.0)      |

The operating charge is allocated to the operating expenses in the income statement or to capital expenditure as appropriate.

Analysis of the amount recognized in other comprehensive income:

|                                                                               | 2022           |               |             |                   |                |             |
|-------------------------------------------------------------------------------|----------------|---------------|-------------|-------------------|----------------|-------------|
|                                                                               | ESPS WPD<br>£m | ESPS CN<br>£m | WPUPS<br>£m | Infralec 92<br>£m | Unfunded<br>£m | Total<br>£m |
| Return on plan assets excluding amounts included in interest (income)/expense | (196.5)        | (294.4)       | (2.8)       | -                 | -              | (493.7)     |
| Loss from change in demographic assumptions                                   | 87.2           | 118.4         | 13.1        | 0.5               | -              | 219.2       |
| (Gain)/loss from change in financial assumptions                              | (335.8)        | (462.4)       | (29.5)      | (1.1)             | 0.4            | (828.4)     |
| Experience losses                                                             | 24.5           | 38.1          | 14.0        | 0.2               | -              | 76.8        |
| Reimbursement agreement                                                       | -              | -             | 5.2         | -                 | (0.2)          | 5.0         |
| Remeasurement (gains)/losses recognised in other comprehensive income         | (420.6)        | (600.3)       | -           | (0.4)             | 0.2            | (1,021.1)   |

|                                                                       | 2021           |               |             |                   |                |             |
|-----------------------------------------------------------------------|----------------|---------------|-------------|-------------------|----------------|-------------|
|                                                                       | ESPS WPD<br>£m | ESPS CN<br>£m | WPUPS<br>£m | Infralec 92<br>£m | Unfunded<br>£m | Total<br>£m |
| Return on plan assets excluding amounts included in interest income   | (168.6)        | (316.0)       | 6.3         | (2.4)             | -              | (480.7)     |
| Loss from change in demographic assumptions                           | -              | -             | 0.7         | -                 | -              | 0.7         |
| Loss from change in financial assumptions                             | 362.4          | 475.4         | 52.5        | 1.4               | 0.4            | 892.1       |
| Experience gains                                                      | (16.0)         | (29.2)        | (5.6)       | (0.2)             | -              | (51.0)      |
| WPUPS reimbursement agreement                                         | -              | -             | (53.9)      | -                 | -              | (53.9)      |
| Remeasurement losses/(gains) recognised in other comprehensive income | 177.8          | 130.2         | -           | (1.2)             | 0.4            | 307.2       |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**26. Retirement benefit obligations (continued)**

The movement in the net defined benefit obligation over the accounting period is as follows:

| <b>ESPS WPD</b>                                                               | <b>Year ended 31 March 2022</b>           |                                         |                     | <b>Year ended 31 March 2021</b>           |                                         |                     |
|-------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------|---------------------|-------------------------------------------|-----------------------------------------|---------------------|
|                                                                               | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> |
| <b>Liability/(asset) at 1 April</b>                                           | <b>2,606.1</b>                            | <b>(2,637.6)</b>                        | <b>(31.5)</b>       | <b>2,283.9</b>                            | <b>(2,414.7)</b>                        | <b>(130.8)</b>      |
| Current service cost                                                          | 32.6                                      | -                                       | 32.6                | 27.3                                      | -                                       | 27.3                |
| Administrative costs                                                          | 1.3                                       | -                                       | 1.3                 | 1.3                                       | -                                       | 1.3                 |
| Interest expense/(income)                                                     | 52.2                                      | (52.9)                                  | (0.7)               | 51.9                                      | (55.8)                                  | (3.9)               |
|                                                                               | <b>86.1</b>                               | <b>(52.9)</b>                           | <b>33.2</b>         | <b>80.5</b>                               | <b>(55.8)</b>                           | <b>24.7</b>         |
| Remeasurements:                                                               |                                           |                                         |                     |                                           |                                         |                     |
| Return on plan assets excluding amounts included in interest (income)/expense | -                                         | (196.5)                                 | (196.5)             | -                                         | (168.6)                                 | (168.6)             |
| Loss from change in demographic assumptions                                   | 87.2                                      | -                                       | 87.2                | -                                         | -                                       | -                   |
| (Gain)/loss from change in financial assumptions                              | (335.8)                                   | -                                       | (335.8)             | 362.4                                     | -                                       | 362.4               |
| Experience losses/(gains)                                                     | 24.5                                      | -                                       | 24.5                | (16.0)                                    | -                                       | (16.0)              |
|                                                                               | <b>(224.1)</b>                            | <b>(196.5)</b>                          | <b>(420.6)</b>      | <b>346.4</b>                              | <b>(168.6)</b>                          | <b>177.8</b>        |
| Contributions:                                                                |                                           |                                         |                     |                                           |                                         |                     |
| Employers                                                                     | -                                         | (39.9)                                  | (39.9)              | -                                         | (103.2)                                 | (103.2)             |
| Plan participants                                                             | 3.8                                       | (3.8)                                   | -                   | 4.0                                       | (4.0)                                   | -                   |
|                                                                               | <b>3.8</b>                                | <b>(43.7)</b>                           | <b>(39.9)</b>       | <b>4.0</b>                                | <b>(107.2)</b>                          | <b>(103.2)</b>      |
| Payments from plan:                                                           |                                           |                                         |                     |                                           |                                         |                     |
| Benefit payments                                                              | (102.1)                                   | 102.1                                   | -                   | (107.4)                                   | 107.4                                   | -                   |
| Administrative costs                                                          | (1.3)                                     | 1.3                                     | -                   | (1.3)                                     | 1.3                                     | -                   |
|                                                                               | <b>(103.4)</b>                            | <b>103.4</b>                            | <b>-</b>            | <b>(108.7)</b>                            | <b>108.7</b>                            | <b>-</b>            |
| <b>Liability/(asset) at 31 March</b>                                          | <b>2,368.5</b>                            | <b>(2,827.3)</b>                        | <b>(458.8)</b>      | <b>2,606.1</b>                            | <b>(2,637.6)</b>                        | <b>(31.5)</b>       |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**26. Retirement benefit obligations (continued)**

| <b>ESPS CN</b>                                                                | <b>Year ended 31 March 2022</b>           |                                         |                     | <b>Year ended 31 March 2021</b>           |                                         |                     |
|-------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------|---------------------|-------------------------------------------|-----------------------------------------|---------------------|
|                                                                               | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> |
| <b>Liability/(asset) at 1 April</b>                                           | <b>3,671.9</b>                            | <b>(3,940.9)</b>                        | <b>(269.0)</b>      | <b>3,263.4</b>                            | <b>(3,580.2)</b>                        | <b>(316.8)</b>      |
| Current service cost                                                          | 36.4                                      | -                                       | 36.4                | 28.9                                      | -                                       | 28.9                |
| Administrative costs                                                          | 1.7                                       | -                                       | 1.7                 | 1.8                                       | -                                       | 1.8                 |
| Interest expense/(income)                                                     | 73.5                                      | (79.1)                                  | (5.6)               | 74.1                                      | (82.3)                                  | (8.2)               |
|                                                                               | <b>111.6</b>                              | <b>(79.1)</b>                           | <b>32.5</b>         | <b>104.8</b>                              | <b>(82.3)</b>                           | <b>22.5</b>         |
| Remeasurements:                                                               |                                           |                                         |                     |                                           |                                         |                     |
| Return on plan assets excluding amounts included in interest (income)/expense | -                                         | (294.4)                                 | (294.4)             | -                                         | (316.0)                                 | (316.0)             |
| Loss from change in demographic assumptions                                   | 118.4                                     | -                                       | 118.4               | -                                         | -                                       | -                   |
| (Gain)/loss from change in financial assumptions                              | (462.4)                                   | -                                       | (462.4)             | 475.4                                     | -                                       | 475.4               |
| Experience losses/(gains)                                                     | 38.1                                      | -                                       | 38.1                | (29.2)                                    | -                                       | (29.2)              |
|                                                                               | <b>(305.9)</b>                            | <b>(294.4)</b>                          | <b>(600.3)</b>      | <b>446.2</b>                              | <b>(316.0)</b>                          | <b>130.2</b>        |
| Contributions:                                                                |                                           |                                         |                     |                                           |                                         |                     |
| Employers                                                                     | -                                         | (42.6)                                  | (42.6)              | -                                         | (104.9)                                 | (104.9)             |
| Plan participants                                                             | 5.7                                       | (5.7)                                   | -                   | 5.5                                       | (5.5)                                   | -                   |
|                                                                               | <b>5.7</b>                                | <b>(48.3)</b>                           | <b>(42.6)</b>       | <b>5.5</b>                                | <b>(110.4)</b>                          | <b>(104.9)</b>      |
| Payments from plan:                                                           |                                           |                                         |                     |                                           |                                         |                     |
| Benefit payments                                                              | (144.7)                                   | 144.7                                   | -                   | (146.2)                                   | 146.2                                   | -                   |
| Administrative costs                                                          | (1.7)                                     | 1.7                                     | -                   | (1.8)                                     | 1.8                                     | -                   |
|                                                                               | <b>(146.4)</b>                            | <b>146.4</b>                            | <b>-</b>            | <b>(148.0)</b>                            | <b>148.0</b>                            | <b>-</b>            |
| <b>Liability/(asset) at 31 March</b>                                          | <b>3,336.9</b>                            | <b>(4,216.3)</b>                        | <b>(879.4)</b>      | <b>3,671.9</b>                            | <b>(3,940.9)</b>                        | <b>(269.0)</b>      |

**26. Retirement benefit obligations (continued)**

| <b>WPUPS</b>                                                                  | <b>Year ended 31 March 2022</b>           |                                         |                     | <b>Year ended 31 March 2021</b>           |                                         |                     |
|-------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------|---------------------|-------------------------------------------|-----------------------------------------|---------------------|
|                                                                               | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> |
| <b>Liability/(asset) at 1 April</b>                                           | <b>510.0</b>                              | <b>(608.4)</b>                          | <b>(98.4)</b>       | 476.1                                     | (625.5)                                 | (149.4)             |
| Administrative costs                                                          | 0.4                                       | -                                       | 0.4                 | 0.5                                       | -                                       | 0.5                 |
| Interest expense/(income)                                                     | 10.1                                      | (12.1)                                  | (2.0)               | 10.7                                      | (14.2)                                  | (3.5)               |
| Past service cost and gains and losses on settlement                          | -                                         | -                                       | -                   | 0.1                                       | -                                       | 0.1                 |
|                                                                               | <b>10.5</b>                               | <b>(12.1)</b>                           | <b>(1.6)</b>        | <b>11.3</b>                               | <b>(14.2)</b>                           | <b>(2.9)</b>        |
| Remeasurements:                                                               |                                           |                                         |                     |                                           |                                         |                     |
| Return on plan assets excluding amounts included in interest expense/(income) | -                                         | (2.8)                                   | (2.8)               | -                                         | 6.3                                     | 6.3                 |
| Loss from change in demographic assumptions                                   | 13.1                                      | -                                       | 13.1                | 0.7                                       | -                                       | 0.7                 |
| (Gain)/loss from change in financial assumptions                              | (29.5)                                    | -                                       | (29.5)              | 52.5                                      | -                                       | 52.5                |
| Experience loss/(gains)                                                       | 14.0                                      | -                                       | 14.0                | (5.6)                                     | -                                       | (5.6)               |
|                                                                               | <b>(2.4)</b>                              | <b>(2.8)</b>                            | <b>(5.2)</b>        | <b>47.6</b>                               | <b>6.3</b>                              | <b>53.9</b>         |
| Contributions:                                                                |                                           |                                         |                     |                                           |                                         |                     |
| Employers                                                                     | -                                         | -                                       | -                   | -                                         | -                                       | -                   |
|                                                                               | -                                         | -                                       | -                   | -                                         | -                                       | -                   |
| Payments from plan:                                                           |                                           |                                         |                     |                                           |                                         |                     |
| Benefit payments                                                              | (25.9)                                    | 25.9                                    | -                   | (24.5)                                    | 24.5                                    | -                   |
| Administrative costs                                                          | (0.4)                                     | 0.4                                     | -                   | (0.5)                                     | 0.5                                     | -                   |
|                                                                               | <b>(26.3)</b>                             | <b>26.3</b>                             | <b>-</b>            | <b>(25.0)</b>                             | <b>25.0</b>                             | <b>-</b>            |
| <b>Liability/(asset) at 31 March</b>                                          | <b>491.8</b>                              | <b>(597.0)</b>                          | <b>(105.2)</b>      | 510.0                                     | (608.4)                                 | (98.4)              |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**26. Retirement benefit obligations (continued)**

| <b>Infracore 92</b>                                                           | <b>Year ended 31 March 2022</b>           |                                         |                     | <b>Year ended 31 March 2021</b>           |                                         |                     |
|-------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------|---------------------|-------------------------------------------|-----------------------------------------|---------------------|
|                                                                               | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> | <b>Present value of obligation<br/>£m</b> | <b>Fair value of plan assets<br/>£m</b> | <b>Total<br/>£m</b> |
| <b>Liability/(asset) at 1 April</b>                                           | <b>13.5</b>                               | <b>(17.4)</b>                           | <b>(3.9)</b>        | <b>12.6</b>                               | <b>(15.1)</b>                           | <b>(2.5)</b>        |
| Interest expense/(income)                                                     | 0.3                                       | (0.4)                                   | (0.1)               | 0.3                                       | (0.3)                                   | -                   |
|                                                                               | 0.3                                       | (0.4)                                   | (0.1)               | 0.3                                       | (0.3)                                   | -                   |
| Remeasurements:                                                               |                                           |                                         |                     |                                           |                                         |                     |
| Return on plan assets excluding amounts included in interest (income)/expense | -                                         | -                                       | -                   | -                                         | (2.4)                                   | (2.4)               |
| Loss from change in demographic assumptions                                   | 0.5                                       | -                                       | 0.5                 | -                                         | -                                       | -                   |
| (Gain)/loss from change in financial assumptions                              | (1.1)                                     | -                                       | (1.1)               | 1.4                                       | -                                       | 1.4                 |
| Experience losses/(gains)                                                     | 0.2                                       | -                                       | 0.2                 | (0.2)                                     | -                                       | (0.2)               |
|                                                                               | (0.4)                                     | -                                       | (0.4)               | 1.2                                       | (2.4)                                   | (1.2)               |
| Contributions:                                                                |                                           |                                         |                     |                                           |                                         |                     |
| Employers                                                                     | -                                         | (0.3)                                   | (0.3)               | -                                         | (0.2)                                   | (0.2)               |
|                                                                               | -                                         | (0.3)                                   | (0.3)               | -                                         | (0.2)                                   | (0.2)               |
| Payments from plan:                                                           |                                           |                                         |                     |                                           |                                         |                     |
| Benefit payments                                                              | (0.6)                                     | 0.6                                     | -                   | (0.6)                                     | 0.6                                     | -                   |
|                                                                               | (0.6)                                     | 0.6                                     | -                   | (0.6)                                     | 0.6                                     | -                   |
| <b>Liability/(asset) at 31 March</b>                                          | <b>12.8</b>                               | <b>(17.5)</b>                           | <b>(4.7)</b>        | <b>13.5</b>                               | <b>(17.4)</b>                           | <b>(3.9)</b>        |

The significant actuarial assumptions made were as follows:

|                                            | <b>2022</b>           |                      |                    |                           |
|--------------------------------------------|-----------------------|----------------------|--------------------|---------------------------|
|                                            | <b>ESPS WPD<br/>%</b> | <b>ESPS CN<br/>%</b> | <b>WPUPS<br/>%</b> | <b>Infracore 92<br/>%</b> |
| RPI Inflation                              | 3.50                  | 3.60                 | 3.70               | 3.70                      |
| CPI Inflation                              | 3.05                  | 3.10                 | 3.15               | 3.15                      |
| Rate of general long-term salary increases | 3.55                  | 3.60                 | N/a                | N/a                       |
| RPI-linked pension increases               | 3.10                  | 3.10                 | 3.70               | 3.15                      |
| CPI-linked pension increases               | N/a                   | N/a                  | 3.15               | N/a                       |
| Post-88 GMP pension increases              | 2.10                  | 2.10                 | 2.15               | 2.15                      |
| Discount rate for scheme liabilities       | 2.80                  | 2.80                 | 2.75               | 2.75                      |

# Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

## 26. Retirement benefit obligations (continued)

The significant actuarial assumptions made were as follows:

|                                            | 2021     |         |       |             |
|--------------------------------------------|----------|---------|-------|-------------|
|                                            | ESPS WPD | ESPS CN | WPUPS | Infralec 92 |
|                                            | %        | %       | %     | %           |
| RPI Inflation                              | 3.20     | 3.20    | 3.20  | 3.20        |
| CPI Inflation                              | 2.70     | 2.70    | 2.70  | 2.70        |
| Rate of general long-term salary increases | 3.70     | 3.70    | N/a   | N/a         |
| RPI-linked pension increases               | 3.15     | 3.15    | 3.20  | 3.20        |
| CPI-linked pension increases               | N/a      | N/a     | 2.70  | N/a         |
| Post-88 GMP pension increases              | 2.30     | 2.30    | 2.30  | 2.30        |
| Discount rate for scheme liabilities       | 2.03     | 2.03    | 2.03  | 2.03        |

Assumptions relating to future mortality are set based on actuarial advice in accordance with published statistics and experience. The impact of the COVID-19 outbreak on long term mortality trends is currently unclear and therefore has not been included in the mortality assumptions. These assumptions translate into an average life expectancy in years for a member at age 60:

### ESPS WPD

|                                                      | 31 March 2022                                                                                              | 31 March 2021                                                                                             |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Mortality table adopted                              | Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate | Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate |
| Life expectancy for a male currently aged 60         | 26.9                                                                                                       | 25.9                                                                                                      |
| Life expectancy for a female currently aged 60       | 28.8                                                                                                       | 28                                                                                                        |
| Life expectancy at 60 for a male currently aged 40   | 28.1                                                                                                       | 26.7                                                                                                      |
| Life expectancy at 60 for a female currently aged 40 | 30.00                                                                                                      | 28.9                                                                                                      |

### ESPS CN

|                                                      | 31 March 2022                                                                                              | 31 March 2021                                                                                             |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Mortality table adopted                              | Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate | Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate |
| Life expectancy for a male currently aged 60         | 26.9                                                                                                       | 25.9                                                                                                      |
| Life expectancy for a female currently aged 60       | 28.8                                                                                                       | 28                                                                                                        |
| Life expectancy at 60 for a male currently aged 40   | 28.1                                                                                                       | 26.7                                                                                                      |
| Life expectancy at 60 for a female currently aged 40 | 30.00                                                                                                      | 28.9                                                                                                      |

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**26. Retirement benefit obligations (continued)**

**WPUPS**

|                                                      | 31 March 2022                                                                    | 31 March 2021                                                                   |
|------------------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Mortality table adopted                              | *with CMI 2021 core projections and a 1.25% per annum long-term improvement rate | *with CMI 2018 core projections and a 1.0% per annum long-term improvement rate |
| Life expectancy for a male currently aged 60         | 26.9                                                                             | 26.1                                                                            |
| Life expectancy for a female currently aged 60       | 29.2                                                                             | 28.5                                                                            |
| Life expectancy at 60 for a male currently aged 40   | 28.2                                                                             | 27.1                                                                            |
| Life expectancy at 60 for a female currently aged 40 | 30.6                                                                             | 29.6                                                                            |

\* Male non-pensioners: 105% of S3PMA base tables, female non-pensioners: 97% of S3PFA\_middle base tables, male pensioners 103% of S3PMA base tables, female pensioners: 96% of S3PFA\_middle base tables

**Infralec 92**

|                                                      | 31 March 2022                                                                                             | 31 March 2021                                                                                            |
|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Mortality table adopted                              | 100% of S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate | 100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate |
| Life expectancy for a male currently aged 60         | 26.9                                                                                                      | 25.9                                                                                                     |
| Life expectancy for a female currently aged 60       | 28.8                                                                                                      | 28.0                                                                                                     |
| Life expectancy at 60 for a male currently aged 40   | 28.5                                                                                                      | 27.1                                                                                                     |
| Life expectancy at 60 for a female currently aged 40 | 30.4                                                                                                      | 29.3                                                                                                     |

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

|                 | Change in assumption % | Impact on defined benefit obligation |               |             |                   |
|-----------------|------------------------|--------------------------------------|---------------|-------------|-------------------|
|                 |                        | ESPS WPD<br>£m                       | ESPS CN<br>£m | WPUPS<br>£m | Infralec 92<br>£m |
| Discount rate   | -/+0.50%               | +204/-178                            | +271/-240     | +33/-30     | +1/-1             |
| RPI Inflation   | +/-0.50%               | -149/-140                            | +193/-183     | +28/-25     | +1/-0             |
| Life expectancy | + 1 year               | 106                                  | 145           | 23          | 1                 |

The above sensitivity analysis on the discount rate is based on a change in assumption while holding all other assumptions constant. The change in RPI inflation assumption impacts on the CPI assumption, revaluation in deferment and pension increase assumptions. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**26. Retirement benefit obligations (continued)**

E/SPS WPD scheme assets are comprised as follows:

|                                             | 31 March 2022  |                                                  | 31 March 2021  |                                                  |
|---------------------------------------------|----------------|--------------------------------------------------|----------------|--------------------------------------------------|
|                                             | Total          | Of which<br>not quoted<br>in an active<br>market | Total          | Of which<br>not quoted<br>in an active<br>market |
|                                             | £m             | £m                                               | £m             | £m                                               |
| Equities                                    | 628.7          | (3.6)                                            | 839.4          | -                                                |
| Credit                                      | 250.0          | -                                                | 208.1          | -                                                |
| Property                                    | 253.2          | 253.2                                            | 159.0          | 159.0                                            |
| Macro-orientated                            | 111.8          | -                                                | 127.0          | -                                                |
| Multi strategy                              | 424.6          | -                                                | 381.9          | -                                                |
| LDI strategy                                | 1,130.6        | 1,130.6                                          | 897.4          | -                                                |
| Other including cash and net current assets | 28.4           | (4.1)                                            | 24.8           | -                                                |
| <b>Total</b>                                | <b>2,827.3</b> | <b>1,376.1</b>                                   | <b>2,637.6</b> | <b>159.0</b>                                     |

E/SPS CN scheme assets are comprised as follows:

|                                             | 31 March 2022  |                                                  | 31 March 2021  |                                                  |
|---------------------------------------------|----------------|--------------------------------------------------|----------------|--------------------------------------------------|
|                                             | Total          | Of which<br>not quoted<br>in an active<br>market | Total          | Of which<br>not quoted<br>in an active<br>market |
|                                             | £m             | £m                                               | £m             | £m                                               |
| Equities                                    | 686.2          | (6.0)                                            | 980.1          | -                                                |
| Credit                                      | 351.7          | -                                                | 289.4          | -                                                |
| Property                                    | 365.7          | 365.7                                            | 118.8          | 118.8                                            |
| Macro-orientated                            | 334.9          | -                                                | 305.2          | 305.2                                            |
| Multi strategy                              | 463.2          | -                                                | 699.3          | -                                                |
| LDI strategy                                | 2,018.2        | 1,943.1                                          | 1,387.6        | -                                                |
| Other including cash and net current assets | (7.1)          | (8.5)                                            | 160.5          | -                                                |
| <b>Total</b>                                | <b>4,212.8</b> | <b>2,294.3</b>                                   | <b>3,940.9</b> | <b>424.0</b>                                     |

WPUPS scheme assets are comprised as follows:

|                  | 31 March 2022 |                                                  | 31 March 2021 |                                                  |
|------------------|---------------|--------------------------------------------------|---------------|--------------------------------------------------|
|                  | Total         | Of which<br>not quoted<br>in an active<br>market | Total         | Of which<br>not quoted<br>in an active<br>market |
|                  | £m            | £m                                               | £m            | £m                                               |
| Equities         | -             | -                                                | 123.9         | -                                                |
| Corporate bonds  | 281.6         | -                                                | -             | -                                                |
| Government bonds | 312.9         | 309.5                                            | 484.2         | -                                                |
| Other            | 2.5           | (0.9)                                            | 0.3           | -                                                |
| <b>Total</b>     | <b>597.0</b>  | <b>308.6</b>                                     | <b>608.4</b>  | <b>-</b>                                         |

Infralec 92 scheme assets are comprised as follows:

|                  | 31 March 2022 |                                                  | 31 March 2021 |                                                  |
|------------------|---------------|--------------------------------------------------|---------------|--------------------------------------------------|
|                  | Total         | Of which<br>not quoted<br>in an active<br>market | Total         | Of which<br>not quoted<br>in an active<br>market |
|                  | £m            | £m                                               | £m            | £m                                               |
| Equities         | 7.9           | -                                                | 7.5           | -                                                |
| Government bonds | 5.8           | -                                                | 5.6           | -                                                |
| Corporate bonds  | 3.5           | -                                                | 4.0           | -                                                |
| Other            | 0.3           | -                                                | 0.3           | -                                                |
| <b>Total</b>     | <b>17.5</b>   | <b>-</b>                                         | <b>17.4</b>   | <b>-</b>                                         |

## Notes to the Western Power Distribution plc consolidated financial statements (continued)

For the year ended 31 March 2022

### 26. Retirement benefit obligations (continued)

There is no self-investment in any of the schemes.

Through its defined benefit pension plans, the WPD Group is exposed to a number of risks, the most significant of which are detailed below:

|                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Asset volatility       | The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (e.g. equities) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives. |
| Changes in bond yields | A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.                                                                                                                                                                                                                                                                                                      |
| Inflation risk         | The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). A proportion of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.                                                                |
| Life expectancy        | The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.                                                                                                                                                                                                                                                                                                        |

The schemes use government bonds, corporate bonds and cash as matching assets. The remainder of assets are used as growth assets.

The employer has agreed that it will aim to eliminate the actuarial deficits (as assessed on the ongoing funding basis) by 30 November 2024 for the WPD segment of the ESPS, by 31 July 2024 for the CN segment of the ESPS, and by 30 September 2024 for I92.

The current agreed employer contributions for the WPD segment of the ESPS are 31.2% per annum of pensionable salaries from 1 April 2020 to 31 March 2023 and 42.4% per annum of pensionable salaries thereafter in respect of future benefit accruals, expenses (including PPF levies) and death in service benefits plus an additional £1.2m per annum in respect of expenses. Company deficit contributions are £18.0m per annum payable from 1 April 2021 to 30 November 2024.

The current agreed employer contributions for the CN segment of the ESPS are 27.9% per annum of pensionable salaries from 1 April 2020 to 31 March 2023 and 37.0% per annum of pensionable salaries thereafter in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits plus an additional £1.8m per annum in respect of expenses. The Company is not currently paying any deficit contributions, pending the outcome of the 31 March 2022 actuarial valuation.

The results of the 31 March 2019 funding valuation showed that WPUPS was in surplus on the ongoing funding basis. As a result, no deficit contributions are required, and the expected employer contributions to the scheme for the year ending 31 March 2023 are nil.

The current agreed employer contribution to Infracore 92 is that on 31 March each year, from 31 March 2021 to 31 March 2024 (inclusive) WPD will pay £0.2m per annum.

Funding levels are monitored on a regular basis and the next triennial valuation is due to be completed as at 31 March 2022.

Current expected total employer contributions for the year ending 31 March 2023 are £39.5m for the WPD segment of the ESPS and £24.6m for the CN segment of the ESPS.

Please note the results of the actuarial funding valuation as at 31 March 2022 may give rise to a revised schedule of contributions and as such the quantities in the paragraph above may be liable to change.

The weighted average duration of the defined benefit obligation is around 16-18 years for the WPD segment of the ESPS, 15-17 years for the CN segment of the ESPS, around 12-14 years for WPUPS and around 13-14 years for Infracore 92.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**  
For the year ended 31 March 2022

**27. Provisions**

|                                    | <b>WPUPS<br/>Reimbursement<br/>Agreement<br/>(i)<br/>£m</b> | <b>Asset<br/>Retirement<br/>Obligations<br/>(ii)<br/>£m</b> | <b>Insurance<br/>(iii)<br/>£m</b> | <b>Pensions<br/>(iv)<br/>£m</b> | <b>Other<br/>(v)<br/>£m</b> | <b>Total<br/>£m</b> |
|------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------|---------------------------------|-----------------------------|---------------------|
| At 1 April 2021                    | 98.4                                                        | 51.1                                                        | 16.5                              | 2.8                             | 3.4                         | 172.2               |
| Charged to income statement:       |                                                             |                                                             |                                   |                                 |                             |                     |
| Additional / (release)             | 1.6                                                         | (15.1)                                                      | 0.9                               | 1.5                             | -                           | (11.1)              |
| WPUPS reimbursement remeasurements | 5.2                                                         | -                                                           | -                                 | -                               | -                           | 5.2                 |
| Utilised during year               | -                                                           | (1.5)                                                       | -                                 | (0.5)                           | (0.5)                       | (2.5)               |
| <b>At 31 March 2022</b>            | <b>105.2</b>                                                | <b>34.5</b>                                                 | <b>17.4</b>                       | <b>3.8</b>                      | <b>2.9</b>                  | <b>163.8</b>        |

Provisions have been analysed between current and non-current as follows:

|                         |              |             |             |            |            |              |
|-------------------------|--------------|-------------|-------------|------------|------------|--------------|
| <b>Current</b>          | -            | 1.5         | 9.1         | 0.8        | 1.9        | 13.3         |
| <b>Non-current</b>      | <b>105.2</b> | <b>33.0</b> | <b>8.3</b>  | <b>3.0</b> | <b>1.0</b> | <b>150.5</b> |
| <b>At 31 March 2022</b> | <b>105.2</b> | <b>34.5</b> | <b>17.4</b> | <b>3.8</b> | <b>2.9</b> | <b>163.8</b> |
| Current                 | -            | 1.9         | 5.5         | 0.6        | 2.5        | 10.5         |
| Non-current             | 98.4         | 49.2        | 11.0        | 2.2        | 0.9        | 161.7        |
| At 31 March 2021        | 98.4         | 51.1        | 16.5        | 2.8        | 3.4        | 172.2        |

(i) WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of a former affiliated group. WPD South Wales will fund the actuarial deficit. However, as Western Power Distribution Holding Company Limited, the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. This responsibility was transferred from PPL WPD Limited during the prior year. As Western Power Distribution Holding Company Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet as a provision above, and matches the gross asset recorded under IAS 19 (Note 26).

(ii) Asset retirement obligations relate to an estimate of the costs of disposing and removing wood poles, fluid filled cables, SF6 gas units and PCB contaminated units at the end of their useful lives and are expected to be settled over the next 85 years. These assets are included in distribution network within property, plant and equipment.

(iii) Insurance provisions relate to claims covered by the WPD Group's wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey, and claims covered by external insurers. This includes third party motor claims, employers' liability, public and product liability, and professional indemnity and includes claims that are reported but not yet paid and anticipated cost of claims incurred but not yet reported. The directors expect the provision to be settled in the next five years.

(iv) Pension provisions relate to expected settlements of liabilities relating to the pension liability relating to the Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years.

(v) Other provisions relate principally to onerous uninsured losses, and miscellaneous claims arising in the ordinary course of business; the directors expect other provisions to be settled within the next two years.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**28. Share capital**

|                                                                | 2022<br>£m | 2021<br>£m |
|----------------------------------------------------------------|------------|------------|
| <b>Issued and fully paid:</b>                                  |            |            |
| 1,057,592,372 (2021: 1,057,592,372) ordinary shares of £1 each | 1,057.6    | 1,057.6    |

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable. In April 2020 share capital was reduced by £600.0m and was credited to retained earnings.

**29. Capital and reserves**

|                                       | 2022<br>£m | 2021<br>£m |
|---------------------------------------|------------|------------|
| Share capital                         | 1,057.6    | 1,057.6    |
| Merger reserve                        | (963.1)    | (963.1)    |
| Hedging reserve                       | (13.8)     | (16.9)     |
| Non-cash capital contribution reserve | 0.5        | -          |
| Retained earnings                     | 6,275.5    | 5,301.6    |
|                                       | 6,356.7    | 5,379.2    |

The **share capital** represents the nominal value of the authorised ordinary shares in the Company in issue which carry a right to participate in the distribution of dividends or capital of the Company.

The **merger reserve** arose on the restructuring of WPD Group entities under common control in October 2014 and September 2001.

The **hedging reserve** comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

The **non-cash capital contribution reserve** pertains to the employee share option scheme offered by the parent to be settled in the shares of the parent.

**30. Contingent liabilities**

The WPD Group's businesses are parties to various legal claims, actions and complaints. Although the WPD Group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on the WPD Group's financial statements.

**31. Commitments***Capital commitments*

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

|                               | 2022<br>£m | 2021<br>£m |
|-------------------------------|------------|------------|
| Property, plant and equipment | 146.1      | 92.2       |

*Operating lease commitments - WPD Group as lessor*

The WPD Group has entered into commercial property leases on its investment property portfolio, consisting of the WPD Group's surplus offices, shops remaining from a discontinued business, and surplus land, and also on its fibres. The leases have lease terms between 1 and 125 years, and have various terms, escalation clauses and renewable rights. Leases include a clause to enable upward revision of rental charge on a review cycle set on lease inception according to prevailing market conditions.

### 31. Commitments (continued)

#### *Operating lease commitments - WPD Group as lessor (continued)*

Future minimum rentals receivable under non-cancellable operating leases at 31 March are as follows:

|                    | 2022<br>£m  | 2021<br>£m  |
|--------------------|-------------|-------------|
| Year 1             | 3.2         | 3.3         |
| Year 2             | 2.9         | 3.1         |
| Year 3             | 2.4         | 2.8         |
| Year 4             | 1.8         | 2.4         |
| Year 5             | 1.8         | 1.8         |
| Year 6 and onwards | 7.5         | 8.8         |
|                    | <b>19.6</b> | <b>22.2</b> |

#### *Guarantees and indemnities*

The WPD Group has provided guarantees in respect of the funding required by the WPD Group's pension schemes.

### 32. Related party transactions

The immediate parent undertaking of the WPD Group is Western Power Distribution Holding Company Limited, which is registered in England and Wales.

The smallest and largest group in which the results of the Company are consolidated is that by headed by National Grid plc, registered in England and Wales. Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the WPD Group. Details of directors' compensation are set out in Note 9.

The following significant transactions with related parties were in the normal course of business.

|                                                           | 2022<br>£m | 2021<br>£m |
|-----------------------------------------------------------|------------|------------|
| Revenue - National Grid affiliate companies (i)           | 14.0       | -          |
| Operating costs - National Grid affiliate companies (ii)  | (19.8)     | -          |
| Net finance cost                                          | (1.8)      | -          |
| Loan with parent company (iii)                            | 662.6      | -          |
| Amounts due to affiliated National Grid Companies         | 4.4        | -          |
| WPUPS reimbursement liability re WPUPS pension asset (iv) | 105.2      | 98.4       |
| Reimbursement asset re unfunded pension liability (v)     | 3.2        | 1.0        |

(i) Revenue from related parties consists of engineering recharge revenue from National Grid entities in relation to ongoing diversion projects.

(ii) Operating costs charged by related parties largely relates to National Grid exit charges.

(iii) The loan with parent company pertains to an amount drawn under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued on the balance at SONIA plus 0.25% margin and is paid monthly.

**Notes to the Western Power Distribution plc consolidated financial statements (continued)**

For the year ended 31 March 2022

**32. Related party transactions (continued)**

(iv) WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of a former affiliated group. WPD South Wales will fund the actuarial deficit. However, Western Power Distribution Holding Company Limited, the Company's parent, has taken full financial responsibility for this scheme. WPD South Wales will be reimbursed for these payments. As Western Power Distribution Holding Company Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet and matches the gross asset/liability recorded under IAS 19 (Note 26).

(v) WPD South Wales also has an unfunded pension liability in respect of previous executives. Western Power Distribution Holding Company Limited has taken full responsibility for this scheme and, therefore, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet and matches the liability recorded under IAS 19 (Note 26).

**33. Events after the reporting period**

Subsequent to the year-end no dividend was paid by the Company.

On 1 June 2022, the WPD Group concluded the sale of WPD Smart Metering Limited, a subsidiary business of the Group. The investment in WPD Smart Metering Limited is not accounted for as assets held for sale as at 31 March 2022 since there was no committed plan to sell the asset as at that date.

**Parent Company financial statements of Western Power Distribution plc**

**Company balance sheet**

As at 31 March 2022

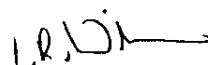
|                                                          | Note | 2022<br>£m     | 2021<br>£m     |
|----------------------------------------------------------|------|----------------|----------------|
| <b>Non-current assets</b>                                |      |                |                |
| Investments:                                             |      |                |                |
| Shares in subsidiary undertakings                        | 4    | 2,876.0        | 2,876.0        |
| Derivative financial instruments                         |      | 35.9           | 26.1           |
|                                                          |      | <b>2,911.9</b> | <b>2,902.1</b> |
| <b>Current assets</b>                                    |      |                |                |
| Derivative financial instruments                         |      | -              | 1.8            |
| Debtors                                                  | 5    | 371.6          | 493.3          |
| Cash at bank                                             |      | 0.2            | 4.5            |
|                                                          |      | <b>371.8</b>   | <b>499.6</b>   |
| Creditors - amounts falling due within one year          | 6    | (493.9)        | (450.1)        |
| <b>Net current (liabilities)/assets</b>                  |      | <b>(122.1)</b> | <b>49.5</b>    |
| <b>Total assets less current liabilities</b>             |      | <b>2,789.8</b> | <b>2,951.6</b> |
| Creditors - amounts falling due after more than one year | 6    | (1,052.1)      | (1,092.7)      |
| <b>Provision for liabilities</b>                         |      |                |                |
| Deferred tax                                             | 7    | (1.2)          | (0.7)          |
| <b>Net assets</b>                                        |      | <b>1,736.5</b> | <b>1,858.2</b> |
| <b>Capital and reserves</b>                              |      |                |                |
| Share capital                                            | 8    | 1,057.6        | 1,057.6        |
| Hedging reserve                                          | 9    | 1.0            | 0.5            |
| Profit and loss account                                  |      | 677.9          | 800.1          |
| <b>Equity shareholders' funds</b>                        |      | <b>1,736.5</b> | <b>1,858.2</b> |

The Company reported a profit for the financial year ended 31 March 2022 of £18.0m (2021: £31.8m loss) and other comprehensive income of £0.5m (2021: £0.5m).

The financial statements of the Company on pages 127 to 136 were approved by the Board of Directors and authorised for issue on 22 July 2022 and signed on its behalf by:



P Swift  
Chief Executive



I R Williams  
Finance Director

**Company statement of changes in equity**

For the year ended 31 March 2022

|                                                  | Share<br>capital<br>£m | Hedging<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>equity<br>£m |
|--------------------------------------------------|------------------------|--------------------------|----------------------------|-----------------------|
| <b>At 1 April 2020</b>                           | <b>1,657.6</b>         | <b>-</b>                 | <b>453.1</b>               | <b>2,110.7</b>        |
| Loss for the year                                | -                      | -                        | (31.8)                     | (31.8)                |
| Other comprehensive income                       | -                      | 0.5                      | -                          | 0.5                   |
| <b>Total comprehensive income for the year</b>   | <b>-</b>               | <b>0.5</b>               | <b>(31.8)</b>              | <b>(31.3)</b>         |
| Share capital reduction                          | (600.0)                | -                        | 600.0                      | -                     |
| Equity dividends paid (20.92 pence per £1 share) | -                      | -                        | (221.2)                    | (221.2)               |
| <b>At 31 March 2021</b>                          | <b>1,057.6</b>         | <b>0.5</b>               | <b>800.1</b>               | <b>1,858.2</b>        |
| Profit for the year                              | -                      | -                        | 18.0                       | 18.0                  |
| Other comprehensive income                       | -                      | 0.5                      | -                          | 0.5                   |
| <b>Total comprehensive income for the year</b>   | <b>-</b>               | <b>0.5</b>               | <b>18.0</b>                | <b>18.5</b>           |
| Equity dividends paid (13.26 pence per £1 share) | -                      | -                        | (140.2)                    | (140.2)               |
| <b>At 31 March 2022</b>                          | <b>1,057.6</b>         | <b>1.0</b>               | <b>677.9</b>               | <b>1,736.5</b>        |

## Notes to the Company financial statements

For the year ended 31 March 2022

### 1. Authorisation of financial statements and statement of compliance with FRS 101

The parent Company financial statements of Western Power Distribution plc (the "Company") for the year ended 31 March 2022 were authorised for issue by the board of directors on 22 July 2022 and the balance sheet was signed on the board's behalf by P Swift and I R Williams. Western Power Distribution plc is a public limited company incorporated and registered in England and Wales.

The Company meets the definition of a qualifying entity under FRS 100 "Application of Financial Reporting Requirements". These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") and in accordance with applicable accounting standards.

### 2. Significant accounting policies

#### *Basis of preparation*

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc which are included on pages to 1 to 126.

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own income statement or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value such as net realisable value in IAS 2 or value in use in IAS 36.

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.

The principal accounting policies adopted are set out below.

#### *Going concern*

The directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The current financial position of the Company shows net current liabilities of £122.1m. The Company has access to a two-way loan facility with the parent, National Grid Plc. Confirmation has been obtained from a parent undertaking that it will provide financial support to the Company for not less than 12 months from the date of approval of the financial statements. The Company's net current liabilities will be settled with a combination of cash flows from dividends, the two-way loan agreement with the parent and issuances of long-term debt. The Company can access either short or long term borrowings in order to finance repayment of loans. The Company has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Group's ability to raise debt, to indicate that the Company will be successfully able to raise debt to finance repayments as needed.

The WPD Group's operating companies are regulated DNOs. 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 Group 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. Since the Company's income is primarily dividend and interest income from WPD Group entities, the Company does not consider that stage there is a material uncertainty casting a doubt over the entity's ability to continue as a going concern.

## Notes to the Company financial statements (continued)

For the year ended 31 March 2022

### 2. Significant accounting policies (continued)

#### *Going concern (continued)*

Having assessed the regulatory obligations of the business, the Company's investment portfolio, its consistent dividend inflow, the ability to raise finance externally and the ability of the parent undertaking to provide financial support, the directors have concluded that the going concern basis of preparation remains appropriate.

#### *Impact of new International Financial Reporting Standards*

The following new standards are effective for accounting periods beginning on or after 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - amendments in relation to Interest Rate Benchmark Reform, Phase 2. These amendments are effective for annual periods beginning on or after 1 January 2021;
- Amendments to IFRS 16 - amendments regarding COVID-19 related rent concessions, effective for annual periods beginning on or after 1 June 2020 and further extension effective for annual periods beginning on or after 1 April 2021.

The Company has assessed the impact of these standards and concluded that these standards do not have any material impact on the Company's financial statements.

#### *Foreign currencies*

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### *Taxation*

Current tax is measured at the amount expected to be payable (or recoverable) in respect of the taxable profit (or loss) for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. This includes UK corporation tax payable to HM Revenue & Customs ("HMRC") and amounts payable to (or receivable from) other UK group companies for losses and other amounts transferred between them ("group relief").

Deferred tax is the tax expected to be payable (or recoverable) in future periods due to differences between the time when profits and losses are recognised in the financial statements and the time when those profits and losses are included in tax returns filed with HMRC. These temporary differences arise in the current period and then reverse in future periods. The temporary differences are calculated by comparing the carrying value of assets and liabilities at the balance sheet date with their corresponding tax bases included in tax returns.

Deferred tax is recognised on all temporary differences except:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods when the temporary differences will reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset only to the extent permitted by tax legislation.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in profit and loss.

## Notes to the Company financial statements (continued)

For the year ended 31 March 2022

### 2. Significant accounting policies (continued)

#### **Financial assets**

Financial assets are classified as debt instruments at amortised cost; debt instruments at fair value through other comprehensive income ("FVOCI"); financial assets at fair value through profit and loss ("FVTPL"); derivatives designated as hedging instruments in an effective hedge; or as equity instruments designated at FVOCI, as appropriate. Financial assets include cash at bank, debtors, investments, and derivative financial instruments. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in profit and loss.

The subsequent measurement of financial assets depends on their classification, as follows:

#### *Debt instruments at amortised cost*

Debt instruments that meet the hold-to-collect business model test and sole payment principal and interest ("SPPI") contractual cash flow test, are carried at amortised cost using the effective interest method, if the time value of money is significant. Gains and losses are recognised in income when the debt instruments are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes cash at bank, debtors and investments.

#### *Financial assets at FVOCI*

Financial assets at FVOCI, that meet the sole payment principal and interest ("SPPI") contractual cash flow test and the objective of the Group is achieved both by collecting contractual cash flows and selling financial assets, are carried on the balance sheet at fair value with gains or losses recognised in other comprehensive income. This category of financial assets include derivatives designated as hedging instruments in an effective cash flow hedge.

#### *Derivatives designated as hedging instruments in an effective hedge*

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

#### **Impairment of financial assets**

The Company recognises impairment on financial assets following the expected credit loss ("ECL") model in IFRS 9.

#### *Debtors*

Debtors mainly comprise amounts owed by group undertakings and are considered to be low risk. Therefore the impairment provision is determined as 12 months expected credit loss. The 12-month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

#### *Investments*

Investments are considered to be low risk, and therefore the impairment provision is determined as 12-month expected credit loss. The 12-month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

#### *Cash at bank and in hand*

Cash at bank is subject to the impairment requirements of IFRS 9 but the impairment loss on these is deemed immaterial since they have an insignificant risk of change in value.

#### **Financial liabilities**

Financial liabilities are classified as financial liabilities at FVTPL; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include creditors. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, are included in this category.

## **Notes to the Company financial statements (continued)**

For the year ended 31 March 2022

### **2. Significant accounting policies (continued)**

#### ***Financial liabilities (continued)***

##### ***Financial liabilities measured at amortised cost***

All other financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs.

This category of financial liabilities includes creditors.

##### ***Derivative financial instruments and hedging***

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognised in the income statement.

##### ***Offsetting of financial assets and liabilities***

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the Company currently has a legally enforceable right to set off the recognised amounts; and the Company intends to either settle on a net basis or realise the asset and settle the liability simultaneously. A right of set off is the Company's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

##### ***Staff cost***

The Company does not employ any personnel. All staff are employed by the relevant subsidiaries.

##### ***Dividends***

Dividend distribution to the Company's shareholder is recognised as a liability in the WPD Group's financial statements in the year in which the dividends are approved by the Company's directors.

##### ***Share capital***

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

### **3. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in Note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no estimates dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

There are no judgements dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

**Notes to the Company financial statements (continued)**

For the year ended 31 March 2022

**4. Subsidiary undertakings**

|                                | 2022<br>£m     | 2021<br>£m     |
|--------------------------------|----------------|----------------|
| <b>Cost and Net book value</b> | <b>2,876.0</b> | <b>2,876.0</b> |

Details of the Company's subsidiary undertakings are as follows:

| Subsidiary undertakings                                              | Principal activity       | Proportion<br>% |
|----------------------------------------------------------------------|--------------------------|-----------------|
| Western Power Distribution (South West) plc                          | Electricity distribution | 100             |
| Western Power Distribution (South Wales) plc                         | Electricity distribution | 100             |
| Western Power Distribution (East Midlands) plc                       | Electricity distribution | 100             |
| Western Power Distribution (West Midlands) plc                       | Electricity distribution | 100             |
| WPD Investment Holdings Limited                                      | Investment company       | 100             |
| WPD Distribution Network Holdings Limited                            | Investment company       | 100             |
| WPD Island Limited (dissolved on 12 July 2022)                       | Investment company       | 100             |
| WPD WEM Limited                                                      | Investment company       | 100             |
| WPD Midlands Limited                                                 | Investment company       | 100             |
| WPD WEM Holdings Limited                                             | Investment company       | 100             |
| Western Power Distribution Investments Limited                       | Investment company       | 100             |
| WPD Telecoms Limited                                                 | Telecommunications       | 100             |
| Western Power Generation Limited                                     | Power generation         | 100             |
| WPD Property Investments Limited                                     | Property management      | 100             |
| Kelston Properties 2 Limited                                         | Property management      | 100             |
| Aztec Insurance Limited ^                                            | Insurance                | 100             |
| South Western Helicopters Limited                                    | Helicopter operator      | 100             |
| WPD Smart Metering Limited (disposed subsequent to the year end)     | Electricity Metering     | 100             |
| WPD Limited ^                                                        | Property management      | 100             |
| Sheet Road Management Company Limited                                | Property management      | 51              |
| South Wales Electricity Share Scheme Trustees Limited                | Trustee company          | 100             |
| Hyder Profit Sharing Trustees Limited                                | Dormant company          | 100             |
| WW Share Scheme Trustees Limited                                     | Dormant company          | 100             |
| WPD Midlands Networks Contracting Limited (dissolved on 17 May 2022) | Dormant company          | 100             |
| Central Networks Trustees Limited                                    | Dormant company          | 100             |
| WPD Share Scheme Trustees Limited                                    | Dormant company          | 100             |
| Western Power Pension Trustee Limited                                | Dormant company          | 100             |
| WPD Limited                                                          | Dormant company          | 100             |
| Meter Reading Services Limited (dissolved on 17 May 2022)            | Dormant company          | 100             |
| Meter Operator Services Limited (dissolved on 17 May 2022)           | Dormant company          | 100             |

^ Incorporated in Guernsey.

All undertakings are registered in England and Wales unless stated.

Except for WPD Investment Holdings Limited and WPD WEM Holdings Limited, which are owned 100% directly, all shares are held by subsidiary undertakings. All holdings are in ordinary shares.

Except for Aztec Insurance Limited and WPD Limited, the registered office of all subsidiary undertakings is Avonbank, Feeder Road, Bristol BS2 0TB. The registered office for Aztec Insurance Limited is PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET and for WPD Limited is Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

The exemption under s.394A and s.448A from preparing and filing the financial statements of the dormant subsidiaries has been availed.

**Notes to the Company financial statements (continued)**

For the year ended 31 March 2022

**4. Subsidiary undertakings (continued)**

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 March 2022:

| <b>Subsidiary undertakings</b>                        | <b>Company number</b> |
|-------------------------------------------------------|-----------------------|
| South Wales Electricity Share Scheme Trustees Limited | 02525006              |
| WPD Distribution Network Holdings Limited             | 08857746              |
| WPD Investment Holdings Limited                       | 10991479              |
| WPD Midlands Limited                                  | 02366928              |
| WPD WEM Holdings Limited                              | 07578676              |
| WPD WEM Limited                                       | 04066211              |

**5. Debtors**

|                                                  | <b>2022</b>  | <b>2021</b>  |
|--------------------------------------------------|--------------|--------------|
|                                                  | <b>£m</b>    | <b>£m</b>    |
| <b>Amounts falling due within one year:</b>      |              |              |
| Amounts owed by Group undertakings               | 371.6        | 493.2        |
| Prepayments and accrued income                   | -            | 0.1          |
|                                                  | <b>371.6</b> | <b>493.3</b> |
| <b>Amounts owed by Group undertakings</b>        |              |              |
|                                                  | <b>2022</b>  | <b>2021</b>  |
|                                                  | <b>£m</b>    | <b>£m</b>    |
| Inter-company Notes receivable from:             |              |              |
| WPD WEM Limited (1)                              | -            | 119.7        |
| WPD WEM Holdings Limited (2)                     | 370.0        | 370.0        |
| Interest on inter-company Notes receivable from: |              |              |
| WPD WEM Limited                                  | -            | 2.0          |
| WPD WEM Holdings Limited                         | 1.7          | 1.4          |
| Inter-company accounts                           | -            | 0.1          |
|                                                  | <b>371.7</b> | <b>493.2</b> |

(1) Accrues interest at a fixed rate of 5.0% per annum.

(2) Accrues interest at a rate of SONIA compounded to 6 monthly tenors, plus a margin of 1.25%.

All notes are unsecured and are repayable on demand. The ECL on amounts owed by Group undertakings is £0.1m.

**6. Creditors**

|                                             | <b>2022</b>  | <b>2021</b>  |
|---------------------------------------------|--------------|--------------|
|                                             | <b>£m</b>    | <b>£m</b>    |
| <b>Amounts falling due within one year:</b> |              |              |
| Syndicated credit facility (1)              | -            | 83.0         |
| Syndicated term loan (2)                    | -            | 350.0        |
| Loan with parent company (3)                | 476.6        | -            |
| Amounts owed to Group undertakings          | 0.9          | 0.8          |
| Accruals and deferred income                | 16.4         | 16.3         |
|                                             | <b>493.9</b> | <b>450.1</b> |

**Notes to the Company financial statements (continued)**  
For the year ended 31 March 2022

**6. Creditors (continued)**

|                                                      | 2022<br>£m     | 2021<br>£m     |
|------------------------------------------------------|----------------|----------------|
| <b>Amounts falling due after more than one year:</b> |                |                |
| 7.375% US\$255m bonds due 2028 (1)                   | 206.3          | 198.4          |
| 3.625% GB£500m bonds due 2023                        | 498.9          | 498.2          |
| 3.5% GB£350m bonds due 2026                          | 346.9          | 346.3          |
| Term loan facility (5)                               | -              | 49.8           |
|                                                      | <b>1,052.1</b> | <b>1,092.7</b> |

Borrowings are stated net of unamortised issue costs of £2.0m (2021: £2.9m), discount on issue of £2.1m (2021: £2.7m) and premium on issue of £12.2m (2021: £13.4m). These costs, together with the interest expense, are allocated to the income statement over the term of the bonds at a constant rate on the carrying amount.

(1) The amount borrowed on the Company's £210.0m syndicated credit facility at 31 March 2021 was £83.0m, which bore interest at 0.87% (libor plus a margin of 0.825%). This facility was fully repaid during the current year and was cancelled on 30 March 2022.

(2) On 26 February 2021, the Company entered into a £350.0m six month syndicate facility agreement with JP Morgan acting as facility agent. At 31 March 2021 the facility was fully drawn and accrued interest at a rate of 1.05%, being libor plus a margin of 1.0%. The amount drawn was fully repaid in June 2021.

(3) The loan with parent company pertains to amounts drawn under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued on the balance at SONIA plus 0.25% margin and is paid monthly.

(4) The Company is a co-obligor and makes all payments on the \$255m 7.375% notes due 15 December 2028. In accordance with the agreements, the Company and Western Power Distribution Holding Company Limited are jointly and severally, and fully and unconditionally, liable for the notes. The Company has recognised the obligation for the notes, in full.

(5) On 7 June 2019, the Company entered into a £50.0m five year term facility agreement with National Westminster Bank plc. At 31 March 2021, the full amount under the facility was borrowed and the facility accrued interest at a rate of 1.48%, being libor plus a margin of 1.4%. The amount drawn was repaid and the facility was cancelled in December 2021.

**7. Deferred tax**

The following are the deferred tax liabilities and assets recognised by the Company and movements thereon during the current year. All balances relate to temporary differences in respect of non-trade financial transactions.

|                                                               | 2022<br>£m | 2021<br>£m |
|---------------------------------------------------------------|------------|------------|
| Asset at 1 April                                              | 0.7        | 4.6        |
| Deferred tax charged in the income statement for the period   | 0.5        | (4.0)      |
| Deferred tax charged in the statement of comprehensive income | -          | 0.1        |
| Liability/(asset) at 31 March                                 | <b>1.2</b> | <b>0.7</b> |

**8. Share capital**

|                                                                | 2022<br>£m     | 2021<br>£m     |
|----------------------------------------------------------------|----------------|----------------|
| <b>Issued and fully paid:</b>                                  |                |                |
| 1,057,592,372 (2021: 1,057,592,372) ordinary shares of £1 each | <b>1,057.6</b> | <b>1,057.6</b> |

On 7 April 2020, the share capital of the Company was reduced from 1,657,592,372 ordinary shares of £1 each to 1,057,592,372 ordinary shares of £1 each by cancelling and extinguishing 600,000,000 ordinary shares of £1 each. £600.0m was credited to retained earnings.

**Notes to the Company financial statements (continued)**  
For the year ended 31 March 2022

**8. Share capital (continued)**

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable.

**9. Hedging reserve**

|                                                                                           | 2022<br>£m | 2021<br>£m |
|-------------------------------------------------------------------------------------------|------------|------------|
| At 1 April                                                                                | 0.5        | -          |
| Reclassification adjustments for losses on cash flow hedges<br>included in profit or loss | 0.6        | 0.6        |
| Income tax effect                                                                         | (0.1)      | (0.1)      |
| <b>At 31 March</b>                                                                        | <b>1.0</b> | <b>0.5</b> |

The hedging reserve relates to the value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt. The effective portion of the loss when the swap was cashed out is being amortised through the income statement over the term of the bond.

**10. Events after the reporting period**

Subsequent to the year-end no dividend was paid by the Company.

During the year ended 31 March 2022, the WPD Group initiated the process to sell WPD Smart Metering Limited. The sale concluded subsequent to the year end on 1 June 2022.

**11. Related party transactions**

The immediate parent undertaking of the Company is Western Power Distribution Holding Company Limited, which is registered in England and Wales.

Until 13 June 2021, the largest group in which the results of the Company were consolidated was that headed by PPL Corporation, incorporated in the United States of America, which was the ultimate parent undertaking and controlling party. Copies of its accounts may be obtained from its registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US. On 14 June 2021, PPL completed the sale transaction of its UK investment in the WPD Group to National Grid Plc. On completion of the sale, the ultimate controlling parent of the Company is National Grid Plc, registered in England and Wales.

As at 31 March 2022, the largest group which includes the Company and for which consolidated financial statements are prepared is National Grid plc, registered in England and Wales. Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

*Loan with parent company*

At 31 March 2022, the Company has drawn down £476.6m under the two-way loan agreement with the parent company, National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued on the balance at SONIA plus 0.25% margin and is paid monthly.

The Company recorded interest payable of £1.6m in relation to the intercompany balances.

**Registered office:**

**Western Power Distribution plc**  
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Bristol  
BS2 0TB

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Registered number 09223384