Registered number: 03600574

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2022

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WESTERN POWER DISTRIBUTION

Serving the Midlands, South West and Wales

Western Power Distribution (West Midlands) plc

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Strategic report

For the year ended 31 March 2022

The directors present their report and the audited financial statements of Western Power Distribution (West Midlands) plc (the "Company" or "WPD West Midlands"), company number 03600574, for the year ended 31 March 2022.

Ownership

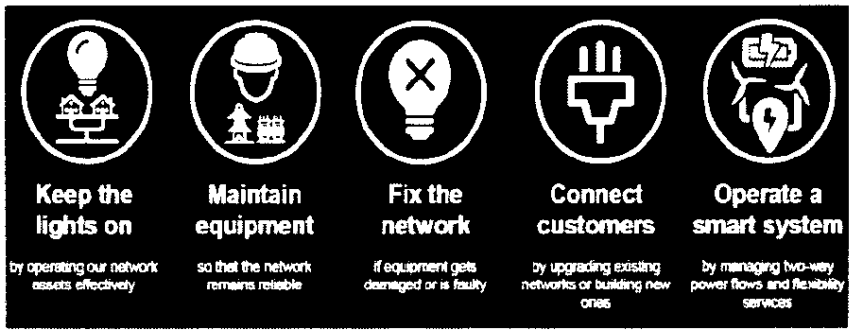
WPD West Midlands is owned by Western Power Distribution plc, ("WPD plc"), which is a public limited company registered in England and Wales. On 14 June 2021 PPL Corporation ("PPL") completed the sale transaction of its UK investment in the WPD Group to National Grid Plc ("National Grid"). On completion 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 West Midlands is an electricity Distribution Network Operator ("DNO") delivering electricity to approximately 2.5 million (2021: 2.5 million) customers over an area of 13,300 square kilometres in the West Midlands of England and employing 1,959 (2021: 1,961) staff.

Our 2.5 million customers are registered with licensed electricity suppliers who in turn pay WPD West Midlands for distributing electricity across its 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:



WPD West Midlands' network comprises approximately 23,000 km (2021: 23,000) of overhead lines, 42,000 km (2021: 42,000 km) of underground cable and 51,000 (2021: 51,000) transformers. In 2021/22 WPD West Midlands distributed 4,223 (2021: 4,278) megawatts of electricity.

We maintain our network assets to ensure safe and reliable distribution of electricity to homes and businesses across our four regions.

Group background

Western Power Distribution plc is the parent of a group ("WPD Group" or "WPD" or "the Group") whose principal operating activity is conducted by the four 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"). Where appropriate the four DNOs share engineering control and other systems.

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.

Strategic report (continued)
For the year ended 31 March 2022

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

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 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.

Purpose, strategy and goals (continued)

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 West Midlands continuously promotes safe working practices within the Company 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 Company. All staff participate in safety training programmes appropriate for the activities they carry out, 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.

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 West Midlands 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. We recognise 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 West Midlands 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 page 12), 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.

Strategic report (continued)
For the year ended 31 March 2022

Purpose, strategy and goals (continued)

Connections & customer satisfaction (continued)
Our commitment to customer satisfaction is demonstrated by our continued accreditation to the Customer Service Excellence ("CSE") Standard. WPD has held the CSE standard (formerly charter mark) for the last 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. WPD is 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, the Company 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. The Company 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 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, WPD Group has committed that by 2028 the Group 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 West Midlands 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 Group with an overarching pathway to become net zero by 2028 (excluding 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

Purpose, strategy and goals (continued)

Environment (continued)
Every member of staff is made aware of the Company'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.

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

More detailed information on our environmental goal 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 WPD Group's PSR has reached 1.9 million and the Group have proactively contacted over 1 million of those customers this year. The Group set up 31 new PSR referral networks during 2021/22, taking the total to 149 organisations so 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 and 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 and future stakeholder 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 West Midlands is fully committed to ensuring we have 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 West Midlands' approach to recruiting, training and promoting employees. We acknowledge 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, download our "Workforce Resilience Strategy" at the link below:

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

Purpose, strategy and goals (continued)

Stakeholder value and engagement (continued)

- Employees (continued)
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 Company 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 Company 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 our reputable suppliers and contractors in order to maintain the highest standards in network reliability and customer service. WPD West Midlands maintains open and positive communication with all suppliers and contractors and treats them fairly, evenly and with honesty. To create lasting value for the Company 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 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 flow 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.

- 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:
https://yourpowerfuture.westernpower.co.uk/our-future-business-plan/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 attend 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.

Purpose, strategy and goals (continued)

Stakeholder value and engagement (continued)

- Regulators (continued)
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.

- Shareholders
WPD West Midlands 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 46-50.

Looking beyond RIIO-ED1, we have combined our commitments into 3 core output categories for RIIO-ED2 and they are as follows:
- Meeting the needs of consumers and network users;
- Maintaining a safe and resilient network; and
- Delivering an environmentally sustainable network.

Business review

Highlights
WPD West Midlands has continued to deliver excellent service for our 2.5 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 41.8% (2020/21: 45.7%) and 40.9% (2020/21: 45.1%), accident rates have reduced for the Group to 0.62 (2020/21: 0.68) accidents per 100 staff and our Business Carbon Footprint ("BCF") has reduced by 15% (2020/21: 17%) since 2014/15. The Group has also supported over 25,000 fuel poor customers leading to an estimated annual saving of £14.6m for these customers. WPD's annual £1million Community Matters Fund delivered an estimated £2million 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 where we achieved an overall Group score of 9.03 (2020/21: 9.18) out of 10 for customer satisfaction.

A comprehensive view of our progress against the full range of commitments made within the 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 Group 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

Strategic report (continued)
For the year ended 31 March 2022

Business review (continued)

Highlights
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 Group has run four 'Flexibility Services' webinars and two surgery days attracting over 50 interested flexibility providers active during 2021/22 and has conducted significant rollout of innovative flexibility initiatives, including 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 2021/2022. 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 the WPD Group dealt with 1,647 incidents, restored 243,930 properties and also answered 98,745 customer calls. The Group was also able to send 130 WPD staff to assist other DNOs 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 the WPD Group network, with our engineers restoring supplies to over 530,000 customers. The Group would usually expect to deal with that number of incidents in two months rather than four days.

During these storms the Group 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.

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 WPD Group agreed to pay £14.9m into the voluntary redress fund, of which £3.7m was paid by the Company. 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.

Business review (continued)

Ofgem announcement – WPD Priority Services Register ("PSR") (continued)
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, WPD Group has 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 page 31.

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's share of this is 26.4% which amounts to £266.8m of which £83.9m pertains to WPD West Midlands.

For claims above the materiality threshold, amounting to £82.3m for the Company, 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 Company.

The claims that are below the materiality threshold amount to £1.6m for the Company 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 Company.

Bad debts provision
Another impact for the DNOs is bad debts in relation to DUoS charges up to the date of supplier failure. Bad debt costs are also a pass through cost for the DNOs. 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 Company. The recoverability for the Company 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 amount to £5.1m (2021/22: £nil) and the bad debt expense for the year ended 31 March 2022 is £6.5m (2021/22: £nil).

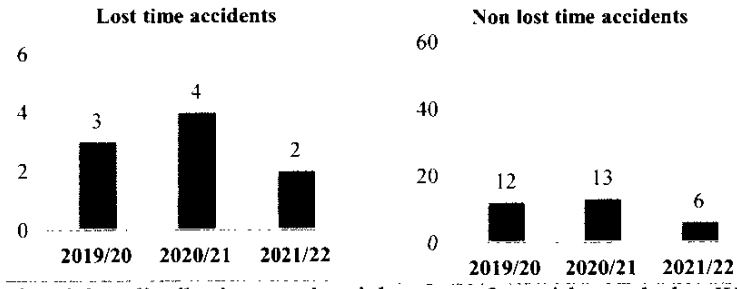
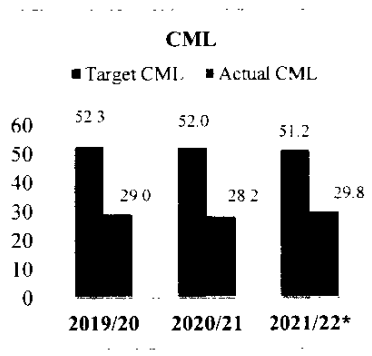
Financial performance
The majority of our revenue is fixed over the price control period but year on year can vary through under or over recovery as actual energy demand varies against volume forecasts used to set tariffs, as well as other variables such as actual incentive revenues achieved. Our revenue for the year ended 31 March 2022 amounts to £599.0m (2020/21: £537.9m). When comparing this to our allowed revenue for the year we have an over recovery of £20.6m. This over recovery of revenue is a regulatory timing difference and will be paid back by the financial year ending 31 March 2024.

Strategic report (continued)

For the year ended 31 March 2022

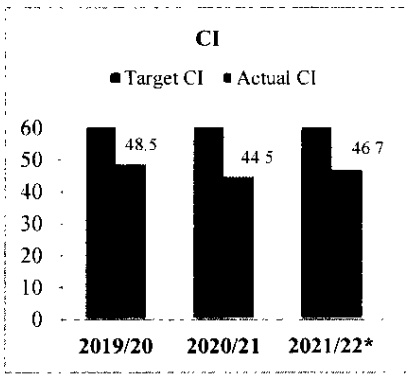
Key performance indicators (KPIs)

KPIs are used to assess progress against our overall strategy and key goals.

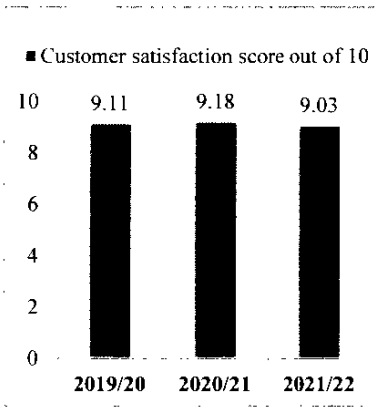
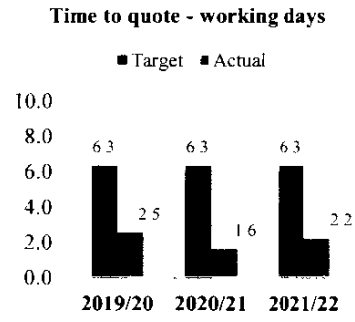
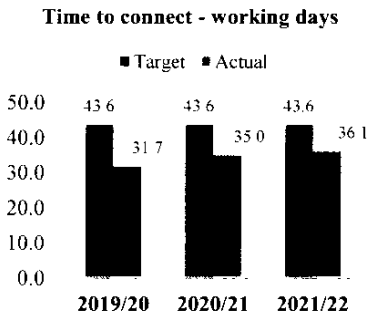
	KPI	Performance and comments
Safety	**Level of work related accidents**	 Electricity distribution carries inherent safety risks and the WPD directors are committed to the highest levels of safety in all areas. All accidents are investigated and appropriate safety communications are conducted with the relevant teams. The total number of accidents to staff during the year have been decreased from 17 in 2020/21 to 8 in 2021/22. 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. 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: https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1
Network performance & reliability	**Customer minutes lost (CML)**	 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 the Company is performing better than its targets as we are focused on ensuring maximum network reliability for our customers. *The 2021/22 actuals are subject to Ofgem confirmation.

Key performance indicators (KPIs)

KPIs are used to assess progress against the overall strategy and key goals.

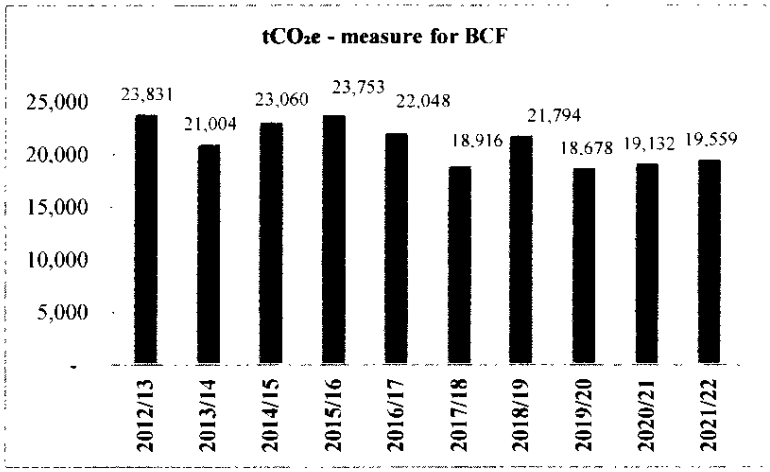
	KPI	Performance and comments
Network performance & reliability	**Number of customer interruptions (CI)**	 CI represents supply interruptions experienced by connected customers per 100 customers. Adjustment for exceptional one off events that are outside the control of DNOs is allowed by Ofgem. The targets 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. *The 2021/22 actuals are subject to Ofgem confirmation.
	Other measures (WPD Group)	- 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 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)
KPIs are used to assess progress against the overall strategy and key goals.

	KPI	Performance and comments
Connections & customer satisfaction	**Overall customer satisfaction (WPD Group)**	 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 Group 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	 
		Ofgem set's 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
Environment	**Business carbon footprint ("BCF")**	



Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO_2") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO_2"). We currently report a number of scope 3 emissions including contractor emissions and business mileage (road rail, air).

WPD West Midlands 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.

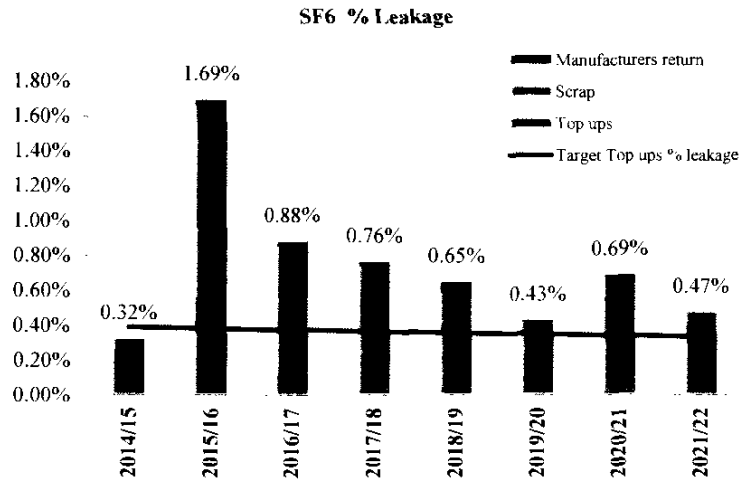
WPD's current target is a 5% reduction over the RIIO-ED1 period based on the baseline year of 2012/13. At 2021/22 WPD Group is outperforming the target. Our Business Carbon Footprint ("BCF") has reduced by 15% (2020/21: 17%) since 2014/15.

For further details on various elements that make up our BCF refer to our detailed environment report at the link below:

https://www.westernpower.co.uk/customers-and-community/environmen
For details on methodology for calculation of our BCF refer to pages 61-62.

Key performance indicators (KPIs) (continued)

	KPI	Performance and comments
Environment	**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.

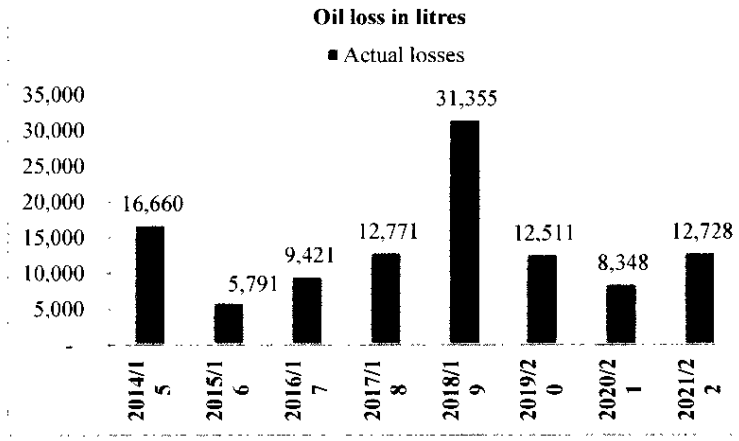


The WPD Group's current target is a 17% reduction over the RIIO-ED1 period. The target was set at the start of RIIO-ED1 and relates only to top ups % leakage as the scrap and manufacturers return data was not compiled at that time. High leak rates were reported across all four WPD licence areas due to improved detection and reporting systems being used and the re-assessment of how the data contributing to the WPD bank of SF6 is calculated following internal corporate audits.

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.

Key performance indicators (KPIs) (continued)

	KPI	Performance and comments
Environment	**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 West Midlands 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 Company owns.

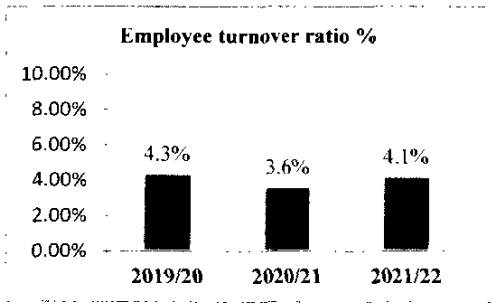
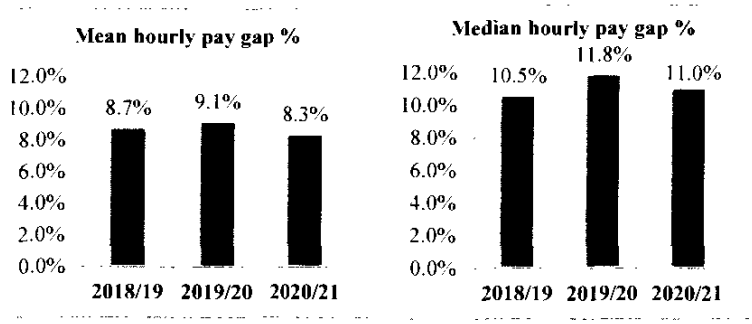


The losses from WPD West Midlands' fluid filled cables can vary from year to year generally dependent on the number of small leaks at disparate locations. The increase in the current year is mainly due to two big events i.e. Nechells / Summer Lane circuit losing 5,011 litres and a Winson Green / Ladywood 2 circuit losing 2,205 litres. The Environment Agency ("EA") have been kept fully informed of the oil losses, and we continue to operate under the EA Fluid Filled Cable Operating Code of Practice.

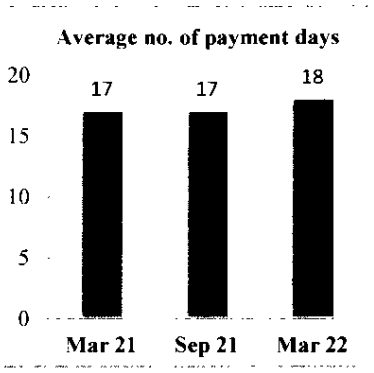
The WPD Group's current target is a 75% reduction over the RIIO-ED1 period.

	ISO accreditation	*Environmental management standard* The Company 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.
Social obligations	**Crisis packs (WPD Group)**	-WPD committed to distributing 10,000 crisis packs during RIIO-ED1. During 2021/22 we distributed 950 packs (2020/21: 576 packs), with cumulative total so far for the RIIO-ED1 period of 8,652 packs. 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.

Key performance indicators (KPIs) (continued)

	KPI	Performance and comments
Social obligations	**Fuel poverty (WPD Group)** * 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.	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).
Stakeholder value & engagement	**Employee turnover ratio (WPD Group)**	 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.
	Employee gender pay gap (WPD Group)	 *2020/21 are the latest available results and is for data on snapshit date of 05 April 2021. The report for snapshot date of April 2022 will be available by April 2023. WPD's median gender pay gap on snapshot date of 5 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%). Further information about WPD's gender pay gap could be found at: https: www.westernpower.co.uk about-us

Key Performance Indicators (KPIs) (continued)

	KPI	Performance and comments
Stakeholder value &	**Supplier payment performance**	 Payment performance is reported every six months. Of invoices paid: - 94% are within 30 days (2021:95%) - 4% are within 31 to 60 days (2021:4%) - 2% are in 61 days or more (2021:1%) Invoices due but not paid within agreed terms: 9% (2021: 11%)
Financial KPIs	**Revenue**	**2021/22 (£m)**: 599.0 **2020/21 (£m)**: 537.9 The majority of WPD West Midlands' 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 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**: 260.3 **2020/21**: 219.5 As part of regulatory process Ofgem sets the allowed rate of return within each price control As evident from the level of capital expenditure below, WPD West Midlands 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 Tangible fixed asset additions	**2021/22 (£m)**: 331.5 **2020/21 (£m)**: 298.4 WPD West Midlands 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 total extent of our capital expenditure, as well as an 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 we have invested £2.0bn in capital related activities. Planned investment in the network for the remainder of the RIIO-ED1 period (until March 2023) is £0.3bn.

Key Performance Indicators (KPIs) (continued)

	KPI	Performance and comments
Financial KPIs	**Regulatory asset value ("RAV")***	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. 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 measures as RAV is a regulatory measure. The differences between IFRS and regulatory rules have built up over many years and cannot be reconciled.
	* Because of timing, the 2021/22 RAV used in these calculations is the latest draft and not finalised value. As directed by Ofgem, the RAV is calculated using an average of March 2022 and April 2022 RPI.	
	Gearing ratio	Gearing for the Company 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 the gearing ratio does not exceed 85%. WPD West Midlands aims to keep to keep the gearing at 65% or less.
	*Refer to note 19 on page 103 for calculation of net debt	

	2021/22 (£m)	2020/21 (£m)
RAV	2,949.8	2,621.9

	2021/22 (£m)	2020/21 (£m)
Net debt*	1,562.8	1,539.8
RAV	2,949.8	2,621.9
Net debt to RAV	53.0%	58.7%

Key Performance Indicators (KPIs) (continued)

	KPI	Performance and comments		
Financial KPIs	**Interest cover**	**2021/22 (£m)**	**2020/21 (£m)**	A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for the Company. It is also used as a key internal indicator of the financial health of the DNO. In order to comply with bank covenants the interest cover ratio cannot 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	260.3	219.5	
	Interest payable	79.5	79.1	
	Depreciation	81.0	75.5	
	Amortisation-intangible assets	0.6	1.6	
	Amortisation-customer contributions	(13.6)	(12.9)	
	Earnings before interest, tax, depreciation and amortisation ("EBITDA")	407.8	362.8	
	Interest payable	79.5	79.1	
	Interest cover	5.1	4.6	

Future developments

Transition to DSO

WPD West Midlands 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.

WPD's 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).

Future developments (continued)

Transition to DSO (continued)
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 Group 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.

Latest update to our DSO strategy can be found at the link below:
https://www.westernpower.co.uk/smarter-networks/network-strategy/dso-strategy

RIIO-ED2
The RIIO-ED2 price control period is set to be a five year period from April 2023-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 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, WPD has surpassed the commitments made for the current price control RIIO-ED1. We demonstrate that WPD 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 capabilities 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.

Future developments (continued)

RIIO-ED2 (continued)

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: WPD will continue to deliver the highest standards of safety, reliability and customer service that customers have come to expect from us. We will aim for power cuts to be at their lowest ever levels and customer satisfaction to be at its highest at over 93%. Crucially WPD 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: WPD will support the UK's ambitions to achieve net zero carbon emissions by 2050, driving crucial changes in energy usage and customer green behaviour. WPD will set the benchmark by achieving net zero in its own operations by 2028 (excluding network losses and scope 3 emissions) and 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. WPD will ensure that the Group 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: WPD will deliver a first class programme of inclusive support. This will include offering 600,000 smart energy action plans for vulnerable customers of the Group each year ensuring no one is left behind in a smart future. WPD will also more than double its ground breaking fuel poverty support to deliver over £60 million of savings for 113,000 fuel poor customers over the course of RIIO-ED2.

WPD Group has 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, Net Zero Communities' strategy, Environment strategy, Workforce Resilience strategy, DSO strategy and Customer Vulnerability strategy. Each of these strategies are 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://yourpowerfuture.westernpower.co.uk/riioed2-business-plan

Green Recovery initiative
Under this initiative, Ofgem has agreed to allow DNOs to unlock investment funding for targeted areas. WPD Group has established plans and work programmes to build a 'green recovery' from the effects of Covid-19 and will investing up to £59m across the WPD Group, of which £18m is within the West Midlands region, to boost green growth and jobs across our region, increasing the Group's available network capacity for demand growth by 617MW – equivalent to connecting 171,000 heat pumps or 385,000 domestic electric vehicle chargers. The Company's available network capacity will increase by 132MW.

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.

Future developments (continued)

Green Recovery initiative (continued)
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 Group 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 RIIO-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, Western Power Distribution 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

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 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 West Midlands endeavours to achieve its goals, it considers the following risk categories most significant:

	Risk	Mitigating actions
Safety	**On site accidents:** Due to the nature of the business there is an inherent safety risk associated with unsafe working practices	- WPD West Midlands has robust safety policies and procedures in place to ensure a safe working environment. There is a system for reporting of near misses and incidents with policies being reviewed and amended accordingly to avoid any future recurrence. - The safety team actively supports managers with their safety responsibilities and provides assistance to enable them to maintain a clear focus on safety. 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. - 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 3,123 (2021: 2,960) versus a target of 1,705 (2021 1,740).

Risk management and controls (continued)

As WPD West Midlands endeavours to achieve its goals, it considers the following risk categories most significant:

	Risk	Mitigating actions
Network performance & reliability	**Network disruptions:** Events such as weather conditions, third party damage etc. may cause disruptions, which in turn can impact results both directly through the timing of recovery relating to lower units delivered on which income is charged, and also through the system of penalties and rewards that Ofgem has in place relating to customer	- WPD West Midlands 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. -WPD West Midlands 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. - Local operational teams undertake desktop exercises to ensure resilience and business continuity plans remain appropriate. All learning is shared across the business. - Established restoration plans are in place and reviewed with National Grid and contracted Power Stations. - 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. - Flood resilience plans are in place for major substations and other critical sites. - WPD West Midlands has a resilient IT infrastructure with multi-sites running fault tolerant/mirrored systems with the ability to cope with home working as well. - 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. - In addition to normal equipment stocks, WPD also keeps a small number of additional strategic spares and is 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.

Risk management and controls (continued)

	Risk	Mitigating actions
Network performance & reliability	**Network disruptions (continued)**	- There are reciprocal arrangements in place with other network operators for backup support through NEWSAC ("North East West South Area Consortium"). This allows for the sharing of physical labour, materials and/or plant amongst the industry when required. - 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.
	Cyber breach threat: Access to our key networks and systems by an unauthorised party.	- Stringent policies and procedures are in place to provide controls around network security, proactive threat intelligence gathering, asset management, data backups and incident response. - A dedicated and qualified team is in place that continually reviews and monitors our cyber security position and reporting capabilities. - WPD limits direct connection of WPD's corporate network to the internet, direct cloud based services and personal devices. - Data considered to be 'in transit' is secured where possible using a variety of methods and techniques including use of various file transfer protocols. - Regular security drills are performed involving the Information Resources department and business teams. - All servers are backed up for both operational and disaster recovery purposes and the data is secured off-site. This facilitates full recovery of each system once the appropriate replacement hardware or hosting capacity has been sourced. Disaster recovery testing is performed on a regular basis. - Extra measures have been put in place due to the heightened risk from 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 Company's externally facing systems and the Company'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. - Network segmentation of sensitive environments is either in place or currently being introduced to prevent unauthorised access. - Distribution denial-of-service attacks ("DDOS") protection services on our key internet links have been introduced to prevent malicious disruption of our staff's connectivity to WPD systems whilst working from home.

Risk management and controls (continued)

	Risk	Mitigating actions
Network performance & reliability	**Cyber breach threat (continued):**	- We have conducted several incident response exercises to test our readiness in relation to our incident response processes. - 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. - 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.
Connections & customer satisfaction	**Customer dissatisfaction:** Failure to meet the required level of customer satisfaction performance.	- WPD's Customer Panel ("CP") meets quarterly and expert members represent a wide range of customers and other key stakeholder groups. CP, with 30 members 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. - 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. - 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.

Risk management and controls (continued)

	Risk	Mitigating actions
Environment	**Regulatory changes:** Changes in legislation relating to environmental and other matters are not adopted by WPD West Midlands.	- The Company has a dedicated regulation and compliance department with skilled personnel that track regulatory changes and provide advice in relation to interpretation and compliance of, and with, changes. - There is regular engagement with the WPD Board on political and regulatory developments which may impact the Group. The Board monitors management's progress in ensuring compliance with changes to legislation.
	Negative impact of network assets on the environment: Due to the nature of the equipment used in the industry, network assets may have a harmful impact on the environment.	- 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 West Midlands, reduces the effect on the total annual fluid losses. - Frequent assessment and careful monitoring of all its network assets, specifically assets like SF6 equipment, which produce SF6 gas linked to potential global warming. WPD West Midlands carefully monitors its SF6 equipment and employs the Energy Networks Association ("ENA") Engineering recommendations for the reporting of SF6 banks, emissions and recoveries. - Following best practices and complying with various guidelines in connection with environmental practices such as: 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. b) BEIS Code of Practice on the Optimal Phasing of High Voltage Double Circuit Power. 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. d) Occupational exposure requirements specified within the Control of Electromagnetic Fields of Work Regulations 2016.

Risk management and controls (continued)

	Risk	Mitigating actions
Stakeholder value & engagement	**Lack of skilled employees:** Failure to attract, retain and develop our employees.	- WPD maintains good and safe working conditions. - WPD's employees have access to pension schemes (Defined Contribution Scheme for the new members). - WPD has benchmarked terms and conditions for all employees. - 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. - Employee surveys are conducted to seek feedback and to ensure engagement across the workforce. - Various training programmes are offered under the Trainee Development Scheme and Technical Apprentice Scheme. - Succession plans are in place for key roles within the organisation. - WPD has five in-house training centres. - For the last 20 years WPD has been recruiting approximately 100 new apprentices each year.
	Reliance on suppliers: WPD West Midlands relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery.	- 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 West Midlands' ability to operate the network. - Most of the electricity which enters WPD West Midlands' network is carried on the National Grid's network and connects with the WPD network at grid supply points. Thus the Company is dependent on National Grid. National Grid is the UK electricity transmission and electricity system operator ("ESO") regulated by Ofgem and thus the risk of a major failure is considered very remote. - All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity
	Regulatory risk: WPD West Midlands' revenue is regulated and is subject to a review at the end of each price control period. Thus the Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the next, RIIO-ED2.	- WPD deploys significant resources in engaging with Ofgem on all new consultations and decisions. - WPD is actively involved in the RIIO-ED2 consultations. - WPD's RIIO-ED2 business plan is being evolved based on guidance from Ofgem and the core commitments within WPD's draft business plan are driven by Ofgem's output categories. - WPD actively engage with Ofgem in relation to all industry initiatives such as the Green Recovery Initiative which involved unlocking investment for green projects.

Risk management and controls (continued)

	Risk	Mitigating actions
Financial risks	**Interest rate risk:** WPD West Midlands 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.	- WPD West Midlands' interest rate risk management policy includes trying 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. - An element of the long-term debt is index linked which creates a natural hedge against the Company's regulated income which is also index linked. - WPD West Midlands also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecasted issuances of debt.
	Credit risk: A customer or counterparty to a financial instrument will fail to perform and pay the amount due causing financial loss to the Company.	- WPD West Midlands 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"). - In relation to any other debtors, such as customer contributions pertaining to 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.
	Inflation risk: WPD West Midlands' index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI.	-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 Company as a result of operating in a regulated industry. - As WPD's RAV is linked to RPI due to price setting mechanism imposed by the regulator, by matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI.

Risk management and controls (continued)

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 Company 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 recognise that early coordination and communication with these suppliers is key to minimising disruption.

Energy supplier failures
Due to the ongoing global energy crisis, fuelled 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 Group 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, 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.

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

Corporate and social responsibility (continued)

Social and community (continued)
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. An example is the Greenpower challenge 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.

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

- Vulnerable customers
We currently support over 616,000 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.

- Fuel poverty and energy affordability
It is WPD's key objective to keep our proportion of 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, WPD has already embedded £723 million of efficiency savings into our RIIO-ED2 business plan. Without this, required investment of WPD Group 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, WPD will deliver it's RIIO-ED2 commitments with a budget of £6.7 billion and keep bills broadly flat.

Corporate and social responsibility (continued)

Social and community (continued)

- Fuel poverty and energy affordability (continued)
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 WPD's £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 & 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 charter mark
WPD West Midlands holds the Action on Hearing Loss (formerly RNID) 'Louder Than Words' charter mark accreditation which assesses and endorses the accessibility of our services for deaf and hard of hearing people. We have held the accreditation for seven years. WPD is the first DNO Group 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, the Company 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 Company's effective tax rate see note 8.

Corporate and social responsibility (continued)

Human rights

WPD West Midlands is dedicated to conducting its business with honesty, integrity and fairness. In support of these principles it is WPD West Midlands' 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 Company 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 West Midlands has robust policies on anti-corruption and anti-bribery. These policies apply to all employees of the Company and form part of the employee Code of Conduct. Other individuals performing functions for the Company, 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 (tCO2e) 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 RIIO-ED2 period.

Our BCF details the impact that our operational activities have on the environment in terms of associated CO2 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 ("SF6") 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 61 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 15% reduction of our BCF since 2014/15. In 2021/22, only 1.45% of waste from our operations is being sent to landfill as compared to 32.7% in 2014/15. We have also achieved a reduction of SF6 gas leaks outperforming our 17% reduction RIIO-ED1 target for top ups based on like for like data.

Climate change (continued)

Our environmental impact (continued)

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

- We continue to remain committed to investigating and finding alternatives to SF6 and use four infrared SF6 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, have continued to introduce electric vehicles as part of our operational road transport fleet which will have significant impact on our business carbon footprint for years to come.

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

- Install LCT generation at all suitable depos 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 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/RIIO-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 2021/2022, 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:

Climate change (continued)

Impact of climate change on the Group (continued)

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).

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.

Climate change (continued)

Impact of climate change on the Group (continued)

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

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 4 and 33-36 for details on our policy regarding the environment.
Refer to pages 13-15 for details of impact of our activities on the environment and our performance in this area.

Refer to page 27 for our principal risks in relation to the environment and our actions to mitigate those risks.

- Employees
Refer to pages 5 and 6 for details on our policies regarding employees.
Refer to page 16 for our performance in relation to employee satisfaction.
Refer to page 28 for our principal risk in relation to employees and our actions to mitigate that risk.

Strategic report (continued)

For the year ended 31 March 2022

Non-financial information statement (Continued)

- Social matters

Refer to pages 30-32 in relation to details on our policies and activities in relation to our social responsibilities.

- Human rights

Refer to page 33.

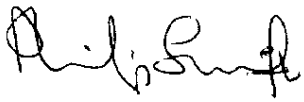
- Anti corruption and anti bribery matters

Refer to page 33.

Section 172 Statement

Refer to pages 51-57 for the Section 172 statement.

Approved by the Board and signed on its behalf by:



P Swift
Chief Executive Officer
22 July 2022

Western Power Distribution (West Midlands) 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, the Company has adopted the Wates Corporate Governance Principles for Large Private Companies.

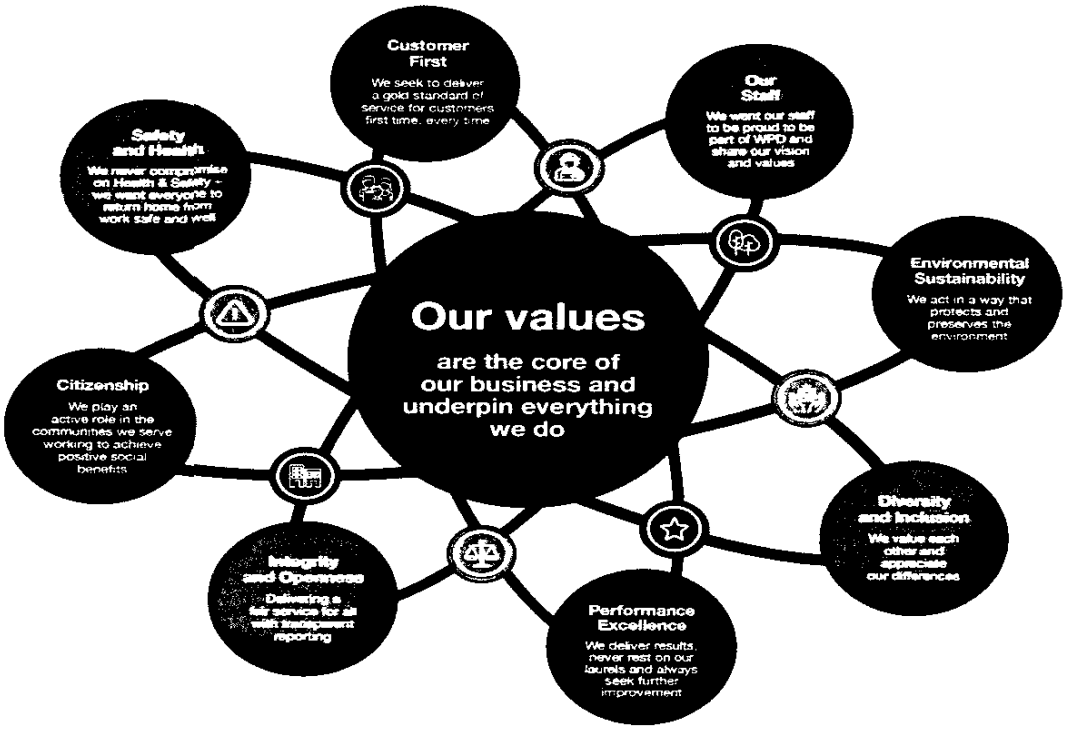
The principles below have been applied throughout the year ended 31 March 2022.

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 the Company'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.

Purpose and leadership (continued)

The Board is determined to ensure that the Company'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 group 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 Company, 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 Company 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 will provide a framework for ongoing responsible business practice that enables WPD to demonstrate the delivery of our purpose.

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 Company and from the Chief Executive of the ultimate parent, National Grid.

During the year the Chief Executive has visited various workforce groups throughout the Company. 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 Company 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 the Company'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 Company. This guides the Board to make decisions which are in the interests of all stakeholders.

Board composition

Balance and diversity

The Board comprises four executive directors, two non-executive directors and two Sufficiently Independent Directors ("SIDs"). SID's are independent directors that meet the criteria set by Ofgem for independence under the distribution licence. The two 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 and 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.

Corporate governance statement (continued)

For the year ended 31 March 2022

Board composition (continued)

Balance and diversity (continued)

The two SID's provide the Board with independent challenge and input to the decision making process. The SID's bring to the Board a wealth of experience and knowledge in the utility and regulatory sector and other business and organisations outside of the energy sector. The SID's involvement in the governance framework is demonstrated through the establishment of the Corporate Governance Committee during the year. During Board meetings the SID's are able to bring their extensive skills and experience to offer constructive independent challenge. Their inputs support the Board in considering the wider range of stakeholder's in the business. In addition, the non-executive directors fulfil their responsibility in offering constructive challenge by regularly attending board meetings of the Company. The non-executive directors possess the necessary skills and experience of the utility sector and wider business sectors to provide oversight and constructive challenge in relation to the implementation of strategy in accordance with the system of governance and risk appetite.

Outside of formal meetings, the SID's and 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.

In addition to attending Board meetings, the SID's regularly attend the group holding company board meetings and in doing so gain an understanding of matters at the group level and the views of the Shareholder. Outside of formal meetings the SIDs are provided with timely information and given access to relevant updates, including invitations to meetings, on which they are encouraged to offer constructive feedback.

The SIDs and the non-executive directors have access to the Company Secretary and to legal advisors funded by the WPD Group. As with all Board members, the SID's and 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 non executive directors. This increased the ratio of female directors on the board to 37.5%. 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.

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.

Board composition (continued)

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, SIDs and non-executive directors' appointments are approved with the support of the Chief Executive in line with the Appointments Procedure. The process followed for nomination of the directors involves 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' responsibility

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 for the WPD Group each year. In addition, there are DNO Board meetings through out the year. 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.

Directors' responsibility (continued)

Accountability and discharge of responsibilities (continued)

Overall operational responsibility of the Company 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.

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 Company. Key Performance Indicator ("KPI") monitoring is delegated to 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 day to day 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 Company which is adhered to by all the employees including the executive directors.

The executive directors understand the importance of leading with integrity. Annual training on 'Standards of integrity', as endorsed by the Board, is mandatory for all staff including the executive directors. 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.

Governance committee

A sub-committee of the Board with responsibility for Corporate Governance for the Company was established during the year. The sub-committee is charged with monitoring the Company's adherence to the six principles of the Wates Code while fulfilling the Company's purpose of the delivery of exceptional service to our customers and the support of environmental and social well-being for all the communities we serve.

As the majority of the Governance Committee membership is independent with the appointment of two SID's, one of those is the Chair of the committee which ensures the independence of the committee. The members of the committee have the appropriate skills and experience to deliver high quality oversight in governance matters. The Board considers that the Governance Committee provides efficiency by being able to focus on governance matters during their meetings, of which there will be at least three during any financial year, to advise the Board so meaningful decision can be reached by the Board.

The Board and it's sub-committee is supported by the Company Secretary who is available to all Board and committee members to provide guidance as required on all governance matters.

Directors' responsibility (continued)

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 Company'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 submissions to the regulator, Ofgem. We have extensive internal data assurance and governance procedures and established policies for ensuring data integrity in respect of the information submitted. Data is compiled from source systems that have appropriate validation checks and is prepared, reviewed and approved by Company'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 the business allows the directors to assess that systems, processes and procedures continue to operate effectively and assists in identifying and strengthening governance arrangements.

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 Company 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. We 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.

Directors' responsibility (continued)

Opportunity (continued)

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 engineering 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, connectability, and vulnerability. WPD is proposing to spend £6.7 billion across the five years of RIIO-ED2, which is an increase of £1.4 billions 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.

Opportunity (continued)

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:

- 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 risks. Identification and consideration of significant and emerging risks and subsequent related decisions if any, are undertaken by the Executive Council. The Executive Council exercises suitable judgement as to any control decisions that merit Board attention. Emerging risks are regularly reported to the Board facilitating the oversight of the risk management process of the Company. Pages 23 to 30 of the Strategic report outlines the key risks and the related mitigating actions for the Company.

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.

Corporate governance statement (continued)

For the year ended 31 March 2022

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 to 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 to 131.

The remuneration of the SID's is approved by the WPD Chief Executive Officer. 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 Company'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 Company'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 RIIO-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 55 and 56 in the S172 statement for more detail on how our RIIO-ED2 business plan was created.

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 LCTs, 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 etc. 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.

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 (BS18477). 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 31 of the Strategic report.

Corporate governance statement (continued)

For the year ended 31 March 2022

Stakeholder relations and engagement (continued)

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 the Company's goals, objectives, performance, plans and importantly how individuals are able to contribute towards the Company'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 are 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.

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.

Stakeholder relations and engagement (continued)

Employees (continued)

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 with 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 de-carbonisation 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 a 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 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 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 Company'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.

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 17 of the Strategic report. On average we pay our suppliers in 18 days (2020/21:. 17 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.

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. The company 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 its impact in terms of carbon footprint, waste recycling and fluid loss. For details on WPD's environment KPI performance as well as various actions to mitigate any key environment risks refer to pages 13, 14, 15 and 27 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 RIIO-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/riioed2-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 the page 38 within the Corporate Governance Statement. Our purpose and values clearly reflect 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 Company 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 10-19.

By receiving regular updates on business programmes and objectives, the Board monitors that management is acting in accordance with the agreed strategy. 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 Company. 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 Company. For details on the Company's risk management approach refer to page 45 in 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 RIIO-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.

Section 172 statement (continued)

For the year ended 31 March 2022

The interests of the Company's employees (continued)

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 and 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 page 48 of our Corporate governance statement.

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 of pages 46 to 50. 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 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 Company 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. The annual publication of these projections on our website follows unprecedented engagement with local authorities and other stakeholders across our region.

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 support decarbonisation.

Refer to the 'key decisions' section below on pages 55 -56 which highlights the initiatives undertaken by the Board to ensure that stakeholder engagement is a key cornerstone in determining the strategic direction of the Company

Section 172 statement (continued)

For the year ended 31 March 2022

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 the 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 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 2021/2022, 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 around £91,000 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 1.5millon 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 photovoltaic on schools in areas of high economic deprivation.

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 shapes 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.

Section 172 statement (continued)

For the year ended 31 March 2022

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 Company 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. WPD Group resolved 84% of complaints within one day, beating the RIIO-ED1 target of 70%. WPD resolved 98% of complaints within 31 days and there have been no repeat complaints across all of its 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 opposed to a 'perceived culture of blame' when an accident happens.

Our hard work in conducting our business with the highest standards is reflected in WPD Group winning the Disruptor Award at the Utility Week Awards 2021 for our Flexible Power initiative whilst also being shortlisted for the Community Investor category for our support of vulnerable customers and the Innovation category for its 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 group 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 Customer Engagement Group ("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 session 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.

Section 172 statement (continued)

For the year ended 31 March 2022

Key decisions during the year (continued)

RIIO-ED2 business plan (2023-2028) (continued)

Our business plan has evolved based on the feedback from this extensive engagement with our stakeholders, the CEG and Ofgem's Challenge Group. 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 only 28 pence per day.

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 RIIO-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 the 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 RIIO-ED2 business pan, refer the link below on our website:
https://yourpowerfuture.westernpower.co.uk/downloads/42132.

Section 172 statement (continued)

For the year ended 31 March 2022

Key decisions during the year (continued)

Declaration of dividend

During the year the Board has declared a dividend of £67.0m (2021: £nil). 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 Company in addition to the allowed rate of return and any incentive rewards received. In its capacity of providing oversight also for the operational performance of the business, the Board also takes account of the prevailing performance against customer performance targets, other RIIO-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 RIIO-ED1. As is evident from the levels of our annual capital expenditure (see page 17 of the Strategic report), we reinvest 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 ultimate 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 Western Power Distribution (West Midlands) plc, together with the financial statements and auditor's report, for the year ended 31 March 2022.

Registered company number

The Company's registered number is 03600574.

Ownership

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

Results, dividends and share capital

The profit for the year to 31 March 2022 is £134.9m (2021: £181.4m).

The Company also reports other comprehensive gains, which were posted directly to capital and reserves, of £227.0m (2021: £58.4m loss). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

For the year to 31 March 2022 dividends paid by the Company totalled £67.0m (2021: nil). £Nil (2021: 27.0m) dividends were paid after 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. However, as part of its RIIO-ED2 business planning process, WPD engages with a wide range of stakeholders to seek their input on the business plan which then drives the outputs that the Group delivers. 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. The Company 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 Company were in excess of the funding the Company reclaimed.

Financial risk management objectives and policies

WPD does not undertake transactions in financial derivative instruments for speculative purposes. All debt at WPD West Midlands is denominated in sterling and therefore there is no currency risk exposure.

Financial risk management objectives and policies (continued)
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
WPD West Midlands is supported by its credit facility. At 31 March 2022, WPD West Midlands had committed borrowing facility available, in respect of which all conditions precedent had been met at that date, of £250m. Originally maturing May 2023 this facility has been extended to May 2025. At 31 March 2022 no borrowings had been drawn against the facility. The Company also has an uncommitted two-way loan agreement with its ultimate parent, National Grid Plc, of which £58m was drawn as at 31 March 2022.

On a day-to-day basis, WPD South West provides liquidity to the whole of WPD with balances with other group companies being settled periodically. At 31 March 2022, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £220.0m maturing in May 2025, of which nil was drawn.

The Company has net current liabilities of £221.6m (2021: £160.3m) of which £nil (2021: £60.0m) is represented by bank loans and overdrafts and £28.2m (2021: £15.5m amounts due from companies within WPD Group) by amounts due to companies within the WPD group. The Company had cash (excluding restricted cash) and short-term deposits of £1.2m (2021: £2.7m). At 31 March 2022, WPD West Midlands had £1,475.6m (2021: £1,471.6m) of external debt outstanding all of which was due after more than one year. The Company's liabilities will be settled with a combination of cash flows from operating activities, borrowings from the WPD Group undertakings, use of existing facilities, and issuances of long-term debt. The Company has sufficient head room available, under existing committed facilities, to meet all cash flow needs for a period of at least 12 months from the date of signing of the accounts. The Company can access either short or long term borrowings in order to finance repayment of the loan. The Company has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Company's ability to raise debt, to indicate that the Company will be successfully able to raise debt to finance repayments as needed.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Company 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 Company 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 the Company, the existing and future forecasted covenant compliance of the Company, which includes the gearing ratio and the anticipated ability of the Company and the WPD Group to be able to raise additional long term debt in the future. The directors have also assessed the principal risks discussed in the Strategic report (pages 23-30) in arriving at the going concern assumption for the preparation of the financial statements.

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

Directors' report (continued)

For the year ended 31 March 2022

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 19-22;
- an indication of activities of the Company in the field of research and development - see page 22;
- a statement on the policy for disabled employees - see page 6; and
- employee policies - see pages 5 and 6;

Corporate governance statement

The Company's Corporate governance statement is detailed on page 38-50.

Employee engagement statement

Details of how the directors have engaged with employees and considered employees' interests during the year can be found in the Corporate governance statement on page 48.

Business relationships statement

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

Customers

- Strategic report - see pages 3, 4, 12 and 26;
- Corporate governance statement - see pages 47; 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 55-56.

Suppliers

- Strategic report - see pages 6 and 17; and
- Corporate governance statement - see page 50.

Regulators

- Strategic report - see pages 6 and 28; and
- Corporate governance statement - see page 49.

Streamline energy and carbon reporting ("SECR")

Total annual quantity of emission using equivalent tonnes of carbon dioxide ("tCO_2e") - including own use

	tCO_2e		tCO_2e per employee	
	2022	2021	**2022**	2021
Scope 1 (direct emissions)				
Operational transport	**5,317**	5,155	**2.71**	2.63
SF6 gas	**3,088**	4,213	**1.58**	2.15
Fuel combustion (diesel / gas oil)	**732**	684	**0.37**	0.35
Buildings	**98**	21	**0.05**	0.01
	9,235	10,073	**4.71**	5.14
Scope 2 (energy indirect emissions)				
Buildings electricity	**880**	981	**0.45**	0.50
Substation electricity	**3,289**	3,274	**1.68**	1.67
WPD Telecoms	**54**	87	**0.03**	0.04
	4,223	4,342	**2.16**	2.21
Total scope 1 & 2	**13,458**	14,415	**6.87**	7.35
Scope 3 (other indirect emissions)				
Business transport	**586**	467	**0.30**	0.24
Operational transport (contractors)	**2,674**	2,197	**1.36**	1.12
Fuel combustion (diesel / gas oil) (contractor)	**2,841**	2,053	**1.45**	1.05
Total scope 1, 2 & 3	**19,559**	19,132	**9.98**	9.76

The Company'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 kWH 4,396,932 (2021: kWH 4,581,325).

Gas energy consumed for the year to 31 March 2022 is kWH 534,564 (2021: kWH 112,704).

Energy consumed for helicopters for the year to 31 March 2022 is kWH 1,909,046 (2020: kWH 1,518,041).

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 ("tCO2e") emissions and takes account of our energy usage from offices, transport emissions (operational and business), fuel combustion and the release of greenhouse gases (SF6). 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.

Streamline energy and carbon reporting ("SECR") (continued)

Methodologies used in calculating energy and carbon reporting data (continued)

- Scope 1 (direct emissions) emissions are those from activities owned or controlled by the Company. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, generators and vehicles; and releases of fugitive emissions, for example SF6.
- 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 Company's energy use, but occur at sources that the Company does 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 Company's activities that occur at sources that are not controlled by the Company and are not classed as Scope 2 emissions. Examples of Scope 3 emissions include business travel by means not owned or controlled by the Company, water supply and materials / services that the Company purchases.

For further details on our methodology please refer to the link below:
https://www.nationalgrid.com/document/146701/download

Where only Group wide data is available, such as business transport, the emission totals have been apportioned according to the following corporate allocation percentages:

South West	25%
South Wales	15%
East Midlands	30%
West Midlands	30%

The corporate allocation percentages are based on the relative size, as measured by RAV, of each DNO.

Measures for increasing Company'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 SF6 gas leaks from our installed equipment and fully utilising the infrared SF6 detection cameras enabling us to quickly pinpoint the source of leaks;
- ensuring that all newly built WPD depots achieve the UK 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.

Directors' report (continued)

For the year ended 31 March 2022

Directors and their interests

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

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

During and at the end of the financial period, no director was interested in any contract of significance in relation to the Company's business other than service contracts. Insurance in respect of directors and officers is now maintained by the WPD Group's ultimate parent, National Grid plc. The insurance, which is third party qualifying indemnity insurance, is subject to the conditions set out in the Companies Acts and remains in force at the date of signing the Director's 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.

This report was approved by the board of directors and signed on its behalf by:

P Swift
Chief Executive Officer

22 July 2022

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

Directors' responsibilities statement

The directors are responsible for preparing the Annual report and the financial statements 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 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 state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

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

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

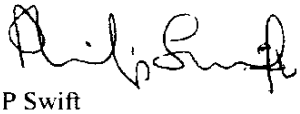
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' 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;
- 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 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 (West Midlands) plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Western Power Distribution (West Midlands) plc (the

- **give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet;
- the statement of cash flows; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 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 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

Key audit matters

The key audit matter that we identified in the current year was capitalisation of overheads:

Within this report, key audit matters are identified as follows:

Newly identified
Increased level of risk
Similar level of risk
Decreased level of risk

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

3. Summary of our audit approach (continued)

Materiality
The materiality that we used in the current year was £11.6m which was determined on the basis of 5% of profit before tax.

Scoping
Audit work to respond to the risks of material misstatement was performed directly by the audit engagement

Significant changes in our approach
There is no significant change in our approach.

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 company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the financing facilities including nature of facilities, repayment terms and covenants;
- 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 Company's disclosures in respect of going concern within the financial statements meet the requirement of IAS1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

The key audit matter identified in the current year, capitalisation of overheads, was also a key audit matter in the prior year. However, in the prior year, a fraud risk was identified in relation to the judgement involved in assessing the value to be capitalised. In the current year, we have not identified a fraud risk, as explained further below.

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.

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 £44.5m (2021: £38.1m), of which £26.4m (2021: £22.6m) has been capitalised to fixed assets.

Refer to Note 2 "Significant accounting policies", Note 3 "Critical accounting judgements and key sources of estimation uncertainty" and note 12: "Tangible fixed assets" in the financial statements for further discussion of the company's policy and judgements in capitalisation of overheads.

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 IAS16 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 whether 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 overheads within the fixed assets balance are reasonable as at 31 March 2022.

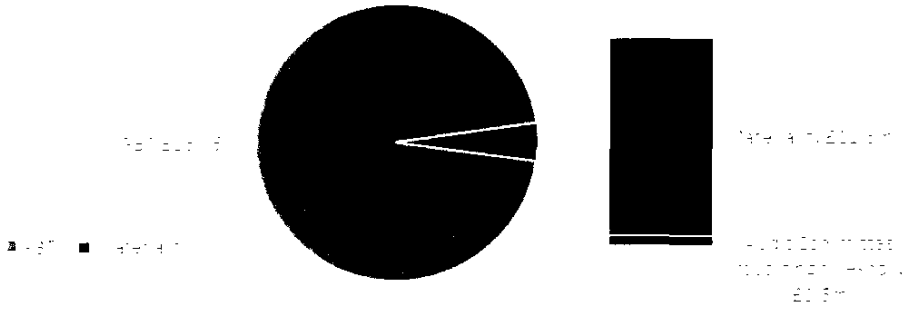
6. Our application of materiality

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.

6. Our application of materiality (continued)

6.1 Materiality (continued)
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality:	Materiality £11.6m (2021: £11.0m).
Basis for determining materiality:	5% of profit before tax. This is consistent with the methodology applied in 2021.
Rationale for the benchmark applied:	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.



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. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- Our cumulative experience from prior year audits;
- The low level of corrected and uncorrected misstatements identified from the prior year audits;
- Our risk assessment, including our understanding of the entity and its environment; and
- Our assessment of the company'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.

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 £0.6m (2021: £0.5m), 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 Scoping
Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

6. Our application of materiality (continued)

7.2 Our consideration of the control environment
We placed reliance on management's relevant controls over the most significant business cycles affecting in scope financial statement line items, including revenue and fixed assets. We tested controls through a combination of tests of inquiry, observation, inspection and re-performance.

The Company's IT landscape contains a number of systems, applications and tools used to support business processes and for financial reporting. We involved our internal IT specialists in performing an independent risk assessment of the systems, applications and tools to determine those which are of greatest relevance to the Company'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 the business cycles in scope to understand whether the purpose of the control was effectively designed to address the IT related risk. We subsequently performed testing of the control across the audit period, to determine whether the control had been consistently applied as designed.

Our procedures enabled us to place reliance on IT controls, as planned, in the audit approach across the business cycles affecting in scope financial statement line items.

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 course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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. 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 Company'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 company'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 involving relevant internal specialists, including tax, pensions and IT specialists 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.

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

11.1 Identifying and assessing potential risks related to irregularities (continued)
We also obtained an understanding of the legal and regulatory frameworks that the Company 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, 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 Company's ability to operate or to avoid a material penalty. These included the Company's operating licence as set out by the energy regulator, Ofgem, were fundamental to the Company'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 audit committee 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

Report on other legal and regulatory requirements (continued)

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

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.

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 audit committee 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

Profit and loss account

For the year ended 31 March 2022

	Note	**2022 £m**	2021 £m
Turnover*	4	**599.0**	537.9
Operating expenses*	5	**(262.5)**	(243.7)
Operating profit	6	**336.5**	294.2
Profit on disposal of fixed assets		**0.3**	-
Profit before interest and tax		**336.8**	294.2
Interest payable and similar charges	7	**(79.5)**	(79.1)
Net finance income relating to pensions and other post retirement benefits	24	**3.0**	4.4
Profit before tax	4	**260.3**	219.5
Tax on profit	8	**(125.4)**	(38.1)
Profit for the financial year		**134.9**	181.4

All activities relate to continuing operations.

The accompanying notes 1 to 30 are an integral part of these financial statements.

*Customer contributions amounting to £13.5m (2021: £13.2m) have been reclassified from operating costs to revenue. Refer note 2 (page 79) for details.

Statement of comprehensive income

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Profit for the financial year		**134.9**	181.4
Other comprehensive gain/(loss):			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Reclassification adjustments for losses on cash flow hedges included in profit or loss (interest payable)		**(0.7)**	(0.8)
Income tax effect		**0.1**	0.1
		(0.6)	(0.7)
Other comprehensive gain/(loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains/(losses) on defined benefit pension plan	24	**314.9**	(71.3)
Income tax effect		**(87.3)**	13.6
		227.6	(57.7)
Other comprehensive gain/(loss) for the year, net of tax		**227.0**	(58.4)
Total comprehensive income for the year, net of tax, attributable to equity holder of the parent		**361.9**	123.0

Statement of changes in equity

For the year ended 31 March 2022

	Note	Share capital £m	Share premium account £m	Other reserves* £m	Profit and loss account £m	Total equity £m
At 1 April 2020		235.1	713.6	1.3	760.5	1,710.5
Profit for the year		-	-	-	181.4	181.4
Other comprehensive loss		-	-	(0.7)	(57.7)	(58.4)
Total comprehensive income for the year		235.1	713.6	(0.7)	123.7	1,071.7
At 31 March 2021		235.1	713.6	0.6	884.2	1,833.5
Profit for the year		-	-	-	134.9	134.9
Other comprehensive (loss)/gain		-	-	(0.6)	227.6	227.0
Total comprehensive income for the year		-	-	(0.6)	362.5	361.9
Equity dividends paid	9	-	-	-	(67.0)	(67.0)
Share based payment	26	-	-	0.2	-	0.2
At 31 March 2022		**235.1**	**713.6**	**0.2**	**1,179.7**	**2,128.6**

* Other reserves consist of hedging reserve and non-cash capital contribution reserve (see note 26).

Balance sheet

As at 31 March 2022

	Note	2022 £m	2021 £m
Non-current assets			
Tangible fixed assets	12	**4,572.2**	4,331.4
Right-of-use assets	13	**2.1**	2.3
Intangible assets	14	**11.5**	10.5
Pension asset	24	**463.5**	143.3
Trade and other receivables	16	**0.5**	0.7
		5,049.8	4,488.2
Current assets			
Stocks	15	**2.1**	2.5
Trade and other receivables	16	**90.6**	117.2
Cash at bank and in hand	17	**4.6**	6.3
		97.3	126.0
Creditors			
Amounts falling due within one year	18	**(318.7)**	(286.1)
Lease liabilities	20	**(0.2)**	(0.2)
Net current liabilities		**(221.6)**	(160.3)
Total assets less current liabilities		**4,828.2**	4,327.9
Creditors			
Amounts falling due after more than one year	18	**(2,240.6)**	(2,208.7)
Lease liabilities	20	**(2.0)**	(2.1)
Provisions for liabilities			
Deferred tax	22	**(443.9)**	(263.7)
Other provisions for liabilities	23	**(12.0)**	(18.8)
Pension liability	24	**(1.1)**	(1.1)
Net assets		**2,128.6**	1,833.5
Capital and reserves			
Share capital	25	**235.1**	235.1
Share premium account	26	**713.6**	713.6
Other reserves	26	**0.2**	0.6
Profit and loss account	26	**1,179.7**	884.2
Equity shareholder's funds		**2,128.6**	1,833.5

The accompanying notes 1 to 30 are an integral part of these financial statements.

The financial statements of the Company (registered number 3600574) on pages 73 to 114 were approved and authorised for issue by the Board of Directors on 22 July 2022 and were signed on its behalf by:

P Swift, Chief Executive

IR Williams, Finance Director

Statement of cash flows

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Operating activities			
Profit for the year		**134.9**	181.4
Adjustments to reconcile profit for the year to net cash flows from operating activities:			
Income tax expense		**125.4**	38.1
Interest payable		**79.5**	79.1
Interest receivable		**(3.0)**	(4.4)
Share based payment		**0.2**	-
Depreciation of tangible fixed assets	6	**81.0**	75.5
Amortisation of customer contributions		**(13.6)**	(12.9)
Amortisation of intangible assets	6	**0.6**	1.6
Gain on disposal of tangible fixed assets		**(0.3)**	-
Difference between pension contributions paid and amounts recognised in the profit and loss account		**(2.3)**	(39.8)
(Decrease)/increase in provisions		**(6.8)**	1.9
Working capital adjustments:			
Decrease in inventories		**0.4**	0.1
Decrease/(increase) in trade and other receivables		**26.9**	(22.2)
Increase/(decrease) in trade and other payables		**23.4**	(18.1)
Interest paid		**(78.1)**	(78.1)
Customers' contributions received		**53.7**	48.6
Income taxes paid		**(31.0)**	(21.6)
Net cash from operating activities		**390.9**	229.2
Investing activities			
Purchase of tangible fixed assets		**(322.3)**	(284.9)
Purchase of intangible assets		**(1.6)**	(3.5)
Proceeds from sale of tangible fixed assets		**0.4**	0.1
Net cash used in investing activities		**(323.5)**	(288.3)
Financing activities			
Net (decrease)/increase in short-term borrowings		**(60.0)**	60.0
Proceeds of loan with ultimate parent company		**58.0**	-
Payment of lease liabilities		**(0.1)**	(0.2)
Dividends or equivalent distributions paid		**(67.0)**	-
Net cash (used in)/from financing activities		**(69.1)**	59.8
Net (decrease)/increase in cash and cash equivalents		**(1.7)**	0.7
Cash and cash equivalents at beginning of year		**6.3**	5.6
Cash and cash equivalents at end of year	17	**4.6**	6.3

Notes to the financial statements

For the year ended 31 March 2022

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Western Power Distribution (West Midlands) 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 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 shown on page 114.

The Company meets the definition of a qualifying entity under FRS 100 "Application of Financial Reporting Requirements".

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with the provisions of the UK Companies Act 2006.

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, standards not yet effective, related party transactions and share based payments.

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in note 30.

The financial statements have been prepared on the historical cost basis, except for 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 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 comparative financial information has been presented on the same basis as the current year financial information.

The principal accounting policies adopted are set out below.

2. Significant accounting policies (continued)

Going concern
The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This is discussed further under 'Financial risk management policies and objectives' within the Directors' report (page 59).

Group financial statements
Group financial statements have not been prepared as the Company has taken advantage of the relief under s400 of the Companies Act 2006. The results of the Company are consolidated in the financial statements of Western Power Distribution plc. These financial statements therefore present information about the Company and not the Western Power Distribution (West Midlands) plc Group.

Impact of prior period restatements
Customer contributions receivable in respect of tangible fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated weighted life of the related assets of 69 years. For the year ended 31 March 2021, customer contributions were credited to the profit and loss account within operating expenses. For the year 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 £13.5m (2021: £13.2m) have been credit to the profit and loss account within turnover instead of within operating expenses. 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 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 the profit and loss account.

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.

2. Significant accounting policies (continued)

Revenue recognition

Distribution Use of System ("DUoS") Revenue

The Company, as a DNO, earns the majority of its turnover from providing distribution use of system services. The services are provided under a Distribution Connection and Use of System Agreements ("DCUSA") with its customers.

There is a single performance obligation under the DCUSA: the DNO is required to use its distribution network to deliver to its customers electricity from metered entry points to exit point. WPD's performance obligations 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) WPD's 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. Output method recognised revenue is based on direct measurements of value transferred to the customer. Accordingly WPD records turnover on a monthly basis, based on the amount of KWh of electricity delivered.

Turnover 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 turnover received or receivable exceeds the maximum amount permitted by regulatory agreement, an adjustment will be made to future prices to reflect this over-recovery; adjustment to future prices 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 revenue

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

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 property, plant and equipment are treated as deferred income, which is credited to the profit and loss account within turnover over the estimated weighted life of the related assets of 69 years.

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"); or as equity instruments designated at FVOCI, as appropriate. Financial assets include cash at bank and in hand, trade and other receivables. 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 the profit and loss account.

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 and in hand excluding the short-term deposits, trade and other receivables including accrued income and investment at amortised cost.

Financial assets at FVTPL
The Company recognises impairment on financial assets following the expected credit loss ("ECL") model in IFRS 9. Financial assets at FVTPL are carried on the balance sheet at fair value with gains or losses recognised in the profit and loss account. 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.

Derecognition of financial assets
The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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.

2. Significant accounting policies (continued)

Impairment of financial assets
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. The Company 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.

The Company 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 ECL results from all possible default events over the life of financial instruments.

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 ability of the customers 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, 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.

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. 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 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 an original 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.

2. Significant accounting policies (continued)

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 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 profit and loss account. 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.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company'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 Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such an exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company 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.

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.

2. Significant accounting policies (continued)

Finance costs
Finance expenses comprise interest payable on borrowings, the release of discount on provisions, and interest on pension scheme liabilities. Interest charges are recognised in the profit and loss account as they accrue, on an effective rate basis.

Leases

WPD West Midlands as a lessee
The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company 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 Company 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 Company'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 Company 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 profit and loss account in the period in which the event or condition that triggers those payments occurs.

2. Significant accounting policies (continued)

Leases (continued)

WPD West Midlands as a lessee (continued)
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 Company has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company 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 West Midlands 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 Company 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 Company has no finance leases.

Assets leased out under operating leases are included in tangible fixed assets 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 profit and loss account 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.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation and impairments. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in International Accounting Standard ("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 capital schemes are capitalised within infrastructure assets together with the cost of materials and an appropriate proportion of overheads.

Contributions received towards the cost of tangible fixed assets, 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 profit and loss account over the estimated economic useful lives of the assets to which they relate.

2. Significant accounting policies (continued)

Tangible fixed assets (continued)
Depreciation is provided on all tangible fixed assets, other than land, on a straight-line basis over their expected useful life as follows:

	Years
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
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

The carrying values of tangible fixed assets 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 tangible fixed assets 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 profit and loss account in the period of derecognition.

Intangible assets
Intangible assets 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.

Computer software
Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the Company is satisfied that future economic benefits will flow to the Company 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.

2. Significant accounting policies (continued)

Impairment of tangible fixed assets and intangible assets
The Company assesses 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 Company 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.

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.

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.

Stocks
Stocks 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 and Customs ("HMRC") and amounts payable to (or receivable from) other UK group companies for losses and other amounts transferred between them ("group relief").

2. Significant accounting policies (continued)

Taxation (continued)
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 Company 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; 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 Company participates in one defined benefit pension plan, which is a section 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 Company also has an unfunded pension liability in respect of previous executives.

The ESPS is a group defined benefit pension plan that shares risks between entities under common control. Under FRS 101, the scheme has been accounted for as a defined benefit scheme by the Company as it has legal responsibility for the plan which it holds jointly with WPD East Midlands. The net defined benefit cost and net surplus or deficit of the plan have been allocated to WPD West Midlands and WPD East Midlands in accordance with pensionable salaries.

The cost of providing benefits under the defined benefit plan is determined 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 amendments or curtailments occur. The current service cost (including administration costs) is allocated to the profit and loss account or capital expenditure as appropriate.

2. Significant accounting policies (continued)

Pension benefits (continued)
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 profit and loss account.

Remeasurement of a 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 pension liability or asset recognised in the balance sheet represents the deficit or surplus in the defined benefit pension plan. Any 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 profit and loss account 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
Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources 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 financial statements in the year in which the dividends are approved by the Company's directors.

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.

Notes to the financial statements

For the year ended 31 March 2022

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.

Critical judgements in applying the Company'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 Company'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.

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 profit and loss account 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 £26.4m (2021: £22.6m). Information on sensitivity to the rate is as below:

	2022	2021
	Profit and loss account +/- £m	Profit and loss account +/- £m
Change in rate +/- 1%	**0.4**	0.4
Change in rate +/- 5%	**2.2**	1.8

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

Pension obligations

The Company has a commitment to pay pension benefits. The cost of these benefits and the present value of the Company's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees 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.

A change in the assumptions used may have a significant effect on the amounts recognised in the profit and loss account, the statement of other comprehensive income and the net asset or liability recognised in the balance sheet. Refer to note 24 for further details and sensitivity information on key estimates.

4. Segmental reporting

Substantially all of the Company's turnover and profit before tax are derived from the delivery of electricity across its distribution network in the United Kingdom and related activities.

Revenue from its five largest customers amounted to £107.4m, £78.8m, £71.6m, £38.9m and £37.9m (2021: £95.0m, £67.2m, £62.4m, £46.2m and £34.8m).

Other sources of revenue are not material and so are not shown separately.

5. Operating expenses

The directors consider that the nature of the business is such that the analysis of expenses shown below is more informative than that set out in the formats specified by the Companies Act 2006.

	2022 £m	2021 £m
Employee costs (note 10)	**48.3**	46.6
Depreciation (note 6)	**81.0**	75.5
Amortisation of intangible assets (note 6)	**0.6**	1.6
Property taxes	**31.4**	31.8
Other operating expenses (i)	**101.2**	88.2
Operating expenses (ii)	**262.5**	243.7

(i) Other operating expenses 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.

(ii) Operating expenses for the year ended 31 March 2021 have been restated. Refer to note 2 (page 79) for details.

Notes to the financial statements

For the year ended 31 March 2022

6. Operating profit

	2022 £m	2021 £m
Operating profit is stated after charging/(crediting):		
Employee costs	**48.3**	46.6
Depreciation (i)	**81.0**	75.5
Amortisation of intangible assets (ii)	**0.6**	1.6
Rent expense (iii):		
Plant, machinery and equipment	**2.5**	2.0
Land and buildings	**1.2**	0.9
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.3
Non audit fee	-	-

Auditor remuneration is included within operating expenses.

(i) Depreciation of fixed assets is stated net of depreciation capitalised of £9.8m (2021: £11.3m) in respect of equipment consumed during the construction of the electricity network. Depreciation includes depreciation on right-of-use-assets amounting to £0.2m (2021: £0.2m).

(ii) Amortisation of intangible assets is stated net of depreciation capitalised of £1.3m in respect of software consumed during the construction of the electricity network.

(iii) Rent expense pertains to short term and low value leases (see note 20).

7. Interest

	2022 £m	2021 £m
Interest payable		
Interest payable on loans from other WPD undertakings	-	0.1
Interest payable on loans from ultimate parent company	**0.2**	-
Interest payable on other loans	**79.7**	77.6
Interest payable on bank loans and overdrafts	**0.9**	1.7
Interest payable on lease liabilities	**0.1**	0.1
Unwinding of discount on provisions	**0.3**	0.3
Less: interest capitalised	**(1.7)**	(0.7)
Total interest payable	**79.5**	79.1

Interest in 2022 was capitalised at a rate of 2.65% (2021: 1.4%), based on the yield on the Company's borrowings

Notes to the financial statements

For the year ended 31 March 2022

8. Tax

Tax charged to the profit and loss account:

	2022 £m	2021 £m
Current tax:		
UK corporation tax on profits for the year (see below)	**33.6**	22.8
Adjustment in respect of prior years	**(1.2)**	-
Deferred tax (note 22):		
Origination and reversal of temporary differences	**13.7**	15.2
Impact of tax rate change	**79.1**	-
Adjustment in respect of prior years	**0.2**	0.1
Tax expense in the profit and loss account	**125.4**	38.1

The tax on the Company'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 £m	2021 £m
Profit before tax	**260.3**	219.5
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**49.5**	41.7
Effects of:		
Net expenses not deductible/(income not taxable) for tax purposes	**(0.2)**	-
Group relief received at non-standard rates	**(2.0)**	(3.7)
Impact of tax rate change	**79.1**	-
Adjustments to tax charge in respect of prior years	**(1.0)**	0.1
Total tax expense reported in the profit and loss account	**125.4**	38.1

The total tax expense as a percentage of profit before tax gives an effective tax rate of 48.2% (2021: 17.3%) 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 individually they are not material. Currently tax losses surrendered to the Company ("group relief") by group companies not owned by the immediate parent undertaking are not paid for and therefore the Company benefits 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 group companies for no payment.

8. Tax (continued)

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised in other comprehensive income.

	2022 £m	2021 £m
Deferred tax:		
On cash flow hedges	**(0.1)**	(0.1)
On re-measurement of pension liabilities	**87.3**	(13.6)
Total tax charge/(credit) in the statement of other comprehensive income	**87.2**	(13.7)

UK corporation tax on profits for the year

The calculation of the amount of UK corporation tax payable on profits for the year is determined by tax legislation. The starting point for the calculation is the profit before tax shown in the profit and loss account 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 return for the year is filed with HMRC.

	2022 £m	2021 £m
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**49.5**	41.7
Adjustments:		
Depreciation and amortisation (note i)	**(11.4)**	(4.1)
Pensions (note ii)	**(1.0)**	(10.9)
Other timing adjustments (note iii)	**(1.3)**	(0.1)
Other adjustments (note iv)	**(0.2)**	(0.1)
Corporation tax payable on profits before group relief	**35.6**	26.5
Group relief (note v):		
Losses received from other group companies payable at standard rate	**-**	(0.4)
Losses received from other group companies for free	**(2.0)**	(3.7)
Corporation tax payable on profits after group relief	**33.6**	22.4

The current tax charge on profits for the year is split as follows:

Corporation tax payable to HM Revenue & Customs	**33.6**	22.4
Group relief payable to other group companies	**-**	0.4
	33.6	22.8

8. Tax (continued)

UK corporation tax on profits for the year (continued)

(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 profit and loss account. As a proportion of the pension expense is capitalised (see note 10), the deduction for contributions paid in a year is greater than the expense in the profit and loss account.

(iii) Adjustments are required for the timing of other deductions. These include interest capitalised (see note 7) and employee benefit expense (see note 10). 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 profit and loss account is not taxable or deductible and is instead replaced with a gain or loss calculated in accordance with tax legislation.

(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.

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%.

9. Dividends

	2022	2021
	£m	£m
Dividends on equity shares:		
Interim dividends - 28.5 pence per share (2021: nil pence per share)	**67.0**	-

9. Dividends (continued)

The WPD Group is structured such that a proportion of the WPD Group's debt is issued by group companies other than WPD East Midlands, WPD West Midlands, WPD South West and WPD South Wales. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WPD East Midlands, WPD West Midlands, WPD South West and WPD South Wales.

10. Employee benefit expense

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

	2022 £m	2021 £m
Wages and salaries	**114.0**	108.1
Social security costs	**13.7**	12.8
Pension costs	**23.6**	18.9
Total employee costs	**151.3**	139.8
Less allocated to capital expenditure	**(103.0)**	(93.2)
Charged to the profit and loss account	**48.3**	46.6

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 Company.

The average number of employees in the year was 1,959 (2021: 1,961), based on monthly numbers. This includes a proportion of other WPD DNO staff who work in part for WPD West Midlands and excludes a proportion of WPD West Midlands staff who work in part for other WPD DNOs. All employees work for the network distribution business.

Employee costs in the year were capitalised at a rate of 68.3% (2021: 66.4%).

11. 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.

11. Directors' emoluments (continued)

	Highest paid director		Total	
	2022	2021	**2022**	2021
WPD Group	**£000**	£000	**£000**	£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
	3,430	2,657	**8,235**	6,403

(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 24), 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 ultimate parent to be settled in the shares of the ultimate parent. No shares were vested during the year.

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For the year ended 31 March 2022

12. Tangible fixed assets

	Non network land & buildings £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
Cost					
At 1 April 2021	15.5	5,607.6	78.9	39.3	5,741.3
Additions	4.6	314.0	8.5	4.4	331.5
Disposals and retirements	-	-	(8.3)	(2.1)	(10.4)
At 31 March 2022	20.1	5,921.6	79.1	41.6	6,062.4
Depreciation					
At 1 April 2021	0.9	1,345.5	40.3	23.2	1,409.9
Charge for the year	0.2	76.0	11.1	3.3	90.6
Disposals and retirements	-	-	(8.3)	(2.0)	(10.3)
At 31 March 2022	1.1	1,421.5	43.1	24.5	1,490.2
Net book value					
At 31 March 2022	**19.0**	**4,500.1**	**36.0**	**17.1**	**4,572.2**
At 31 March 2021	14.6	4,262.1	38.6	16.1	4,331.4

The net book value of land and buildings reported within distribution network assets comprises:

	2022 £m	2021 £m
Freehold	**211.2**	191.2
Short leasehold	**5.7**	5.9

Included within the Company's fixed assets is land at a cost of £99.0m (2021: £94.0m).

Included within the Company's distribution network and vehicles & mobile plant are assets in the course of construction amounting at 31 March 2022 to £65.7m (2021: £54.2m).

Included in additions are staff costs of £103.0m (2021: £93.2m).

13. Right-of-use-assets

	Land & building £m	Radio sites £m	Total £m
At 1 April 2020	2.3	0.1	2.4
Additions	0.1	-	0.1
Depreciation	(0.2)	-	(0.2)
At 31 March 2021	2.2	0.1	2.3
Additions	-	-	-
Depreciation	(0.2)	-	(0.2)
At 31 March 2022	**2.0**	**0.1**	**2.1**

14. Intangible assets

	Computer software £m
Cost	
At 1 April 2021	14.8
Additions	2.9
At 31 March 2022	17.7
Amortisation	
At 1 April 2021	4.3
Charge for the year	1.9
At 31 March 2022	6.2
Carrying amount	
At 31 March 2022	**11.5**
At 31 March 2021	10.5

15. Stocks

	2022 £m	2021 £m
Raw materials and consumables	**1.9**	2.3
Work in progress	**0.2**	0.2
	2.1	2.5

Stock includes critical items ordered in bulk in response to the risk of any potential inventory shortage due to Brexit. The cost of stocks recognised as an expense during the year was £2.4m (2021: £2.6m).

The cost of stocks recognised as an expense includes £nil (2021: £nil) in respect of write downs of stocks to net realisable value and has been reduced by £nil (2021: £nil) in respect of the reversal of such write downs.

16. Trade and other receivables

	2022 £m	2021 £m
Current receivables		
Trade receivables	**86.9**	87.1
Amounts owed by other WPD undertakings	**-**	24.1
Accrued income	**2.0**	2.1
Prepayments	**1.7**	3.9
Total current receivables	**90.6**	117.2
Non-current receivables		
Other receivables	**0.5**	0.7
Total trade and other receivables	**91.1**	117.9

Trade receivables includes unbilled DUoS income of £47.8m (2021: £44.1m).

Amounts owed by other WPD undertakings are unsecured and are repayable on demand. Interest is received monthly at the Bank of England base rate at the end of the month.

17. Cash at bank and in hand

	2022 £m	2021 £m
Cash at bank	**3.5**	4.6
Short-term bank deposits	**1.1**	1.7
Cash at bank and in hand	**4.6**	6.3

Short-term deposits are measured at fair value through profit and loss ("FVTPL"). They are all instant access liquidity funds.

At 31 March 2022, the Company had available £250.0m (2021: £190.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates.

Included in cash and short-term bank deposits are restricted amounts totalling £3.4m (2021: £3.6m) which are not readily available for the general purposes of the Company. The restrictions relate to cash balances that can only be used for Low Carbon Network Fund projects.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 31 March:

	2022 £m	2021 £m
Cash at bank and in hand (from above)	**4.6**	6.3

18. Creditors

	2022 £m	2021 £m
Amounts falling due within one year:		
Short-term borrowing	-	60.0
Loan with parent company	**58.0**	-
Payments received on account	**72.7**	60.7
Trade creditors	**12.5**	16.7
Amounts owed to other WPD undertakings	**28.2**	8.6
Amounts owed to parent company	**1.3**	-
Current tax payable	**3.3**	2.0
Other taxation and social security	**20.8**	19.5
Other creditors	**0.5**	0.6
Deferred contributions	**13.5**	13.2
Deferred income	**3.3**	3.5
Accruals	**104.6**	101.3
	318.7	286.1

The current tax payable balance includes group relief payable.

	2022 £m	2021 £m
Amounts falling due after more than one year:		
Deferred contributions	**765.0**	737.1
Unsecured borrowings repayable:		
£250m 6.0% sterling bond 2025	**249.2**	248.9
£800m 5.75% bonds 2032	**793.2**	792.5
£400m 3.875% bonds 2024	**398.6**	398.0
£30m 0.01% indexed linked bonds 2028	**34.6**	32.2
	2,240.6	2,208.7

The bank loans are unsecured, short term, and drawn from the Company's credit facilities. Amounts owed to other WPD undertakings are unsecured and are repayable on demand. Interest is paid monthly at the Bank of England base rate at the end of the month.

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.

Unsecured borrowings are stated net of unamortised issue costs of £3.1m (2021: £3.6m) and discount on issue of £6.1m (2021: £7.1m) and gross of premium on issue of £0.5m (2021: £0.6m). These costs, together with the interest expense, are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount. All interest on bonds is paid annually.

19. Net debt

	2022 £m	2021 £m
Short-term borrowings	-	60.0
Long-term borrowings	**1,475.6**	1,471.6
Lease liabilities	**2.2**	2.3
Loan with parent company	**58.0**	-
Amounts owed to other WPD undertakings	**28.2**	8.6
Less: Cash at bank and in hand (excluding restricted)	**(1.2)**	(2.7)
Net debt	**1,562.8**	1,539.8

Reconciliation of cash flows to net debt

	2022 £m	2021 £m
Net decrease/(increase) in cash and cash equivalents	**1.5**	(0.9)
Net (decrease)/increase in short-term borrowings	**(60.0)**	60.0
Net increase in loan with parent company	**58.0**	-
Net increase/(decrease) in amounts owed to other WPD undertakings	**19.6**	(33.3)
Payment of lease liabilities	**(0.1)**	(0.2)
Change in debt resulting from cash flows	**19.0**	25.6
Net increase in borrowings due to indexation	**2.5**	0.4
Amortisation of premiums, discounts and issue costs	**1.5**	1.4
Leases acquired during the year	-	0.1
Movement in net debt in the year	**23.0**	27.5
Net debt at beginning of year	**1,539.8**	1,512.3
Net debt at end of year	**1,562.8**	1,539.8

20. Lease liabilities

	2022 £m	2021 £m
At 1 April 2021	**2.3**	2.4
Additions during the year	-	0.1
Payments during the year	**(0.1)**	(0.2)
At 31 March 2022	**2.2**	2.3
of which:		
Current	**0.2**	0.2
Non-current	**2.0**	2.1

20. Lease liabilities (continued)

WPD West Midlands leases various properties including land for substations and radio sites, and also radio site towers under non-cancellable lease arrangements. 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 of expense charged to rent expense pertaining to short term leases amounts to £3.3m (2021: £2.7m) and pertaining to low value leases amounts to £0.4m (2021: £0.2m).

21. Reconciliation of changes in liabilities arising from financing activities

	2022 £m	2021 £m
Borrowings	**1,475.6**	1,531.6
Loan with parent company	**58.0**	-
Lease liabilities	**2.2**	2.3
Gross debt	**1,535.8**	1,533.9

Change in liabilities arising from financing activities

	2022 £m	2021 £m
Net (decrease)/increase in short-term borrowings	**(60.0)**	60.0
Proceeds from loan with parent company	**58.0**	-
Payment of lease liabilities	**(0.1)**	(0.2)
Change in liabilities arising from financing cash flows	**(2.1)**	59.8
Net increase in borrowings due to indexation	**2.5**	0.4
Amortisation of premiums, discounts and issue costs	**1.5**	1.4
Leases acquired during the year	**-**	0.1
Movement in gross debt in the year	**1.9**	61.7
Gross debt at beginning of year	**1,533.9**	1,472.2
Gross debt at end of year	**1,535.8**	1,533.9

22. Deferred tax

The following are the deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior year:

	Accelerated capital allowances £m	Retirement benefit obligations £m	Other £m	**Total £m**
At 1 April 2020	232.6	32.2	(2.7)	262.1
Charge/(credit) to the profit and loss account	7.2	8.4	(0.3)	15.3
Charge/(credit) to equity	-	(13.6)	(0.1)	(13.7)
At 1 April 2021	239.8	27.0	(3.1)	263.7
Charge/(credit) to the profit and loss account	91.0	1.3	0.7	93.0
Charge/(credit) to equity	-	87.3	(0.1)	87.2
Transfer between categories	(2.5)	-	2.5	-
At 31 March 2022	**328.3**	**115.6**	**-**	**443.9**

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 Company's tax payments over a very long period of time mainly due to the long expected useful lives of fixed assets and the Company'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 Company did not recognise deferred tax assets of £59.3m (2021: £45.0m) in respect of capital losses amounting to £237.1m (2021: £237.1m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

23. Provisions for liabilities

	Deferred taxation (note 22) £m	Asset retirement obligations £m	Other £m	Total £m
At 1 April 2021	263.7	17.0	1.8	282.5
Arising/(released) during the year	180.2	(6.3)	0.3	174.2
Utilised during the year	-	(0.6)	(0.2)	(0.8)
At 31 March 2022	**443.9**	**10.1**	**1.9**	**455.9**

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 tangible fixed assets.

The effect of discounting on AROs is not material and is therefore not shown separately.

Other provisions at 31 March 2022 substantially relate to uninsured losses and an expected settlement of liabilities relating to the Electricity Association Technology Limited ("EATL") of £1.2m relating primarily to a pension deficit relating to that company. The liability in respect of the EATL is being settled over a period of approximately nine years; the directors expect the remaining provisions to be settled within the next two years.

24. Pension commitments

Electricity Supply Pension Scheme ("ESPS")

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity industry. One segment of the ESPS (the Central Networks Group segment) relates to WPD West Midlands and WPD West Midlands and most employees of these companies are members of the ESPS. These two companies are liable for the Central Networks Group segment and would benefit from any surplus if wound up. The assets are held in a trustee administered fund.

The Central Networks Group segment of the ESPS is closed to new members except in very limited circumstances; existing members are unaffected. A defined contribution scheme is offered to new employees.

The asset or liability recognised in the balance sheet in respect of the defined benefit pension plan 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 flows 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 scheme is a funded, defined benefit, final salary and cash balance pension plan. The level of benefits provided for final salary members (who make up the majority of the scheme) depends on members' length of service and their salary at their date of leaving the Company. The majority of pensions in payment receive inflationary increases in line with the RPI (Retail Prices Index) inflation (subject to caps and collars, as appropriate). 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 scheme's investment strategy is decided by the Trustees, in consultation with the employer. The Board of Trustees must be composed of representatives of the employer and plan participants in accordance with the scheme's legal documentation.

The net defined benefit cost and net surplus or deficit of the plan have been allocated to WPD West Midlands and WPD East Midlands in accordance with pensionable salaries, currently 52.7% to WPD West Midlands (2021: 53.3%). The figures below show the proportion allocated to WPD West Midlands.

The Company also has an unfunded obligation which relates to previous executives.

24. Pension commitments (continued)

Electricity Supply Pension Scheme ("ESPS") (continued)

The amounts recognised in the WPD West Midlands' balance sheet are determined as follows:

	2022 £m	2021 £m
Present value of obligations	**1,758.5**	1,957.1
Fair value of scheme assets	**(2,222.0)**	(2,100.4)
Surplus of funded plan	**(463.5)**	(143.3)
Unfunded pension obligation (not part of ESPS)	**1.1**	1.1
Total pension asset recognised in the balance sheet	**(462.4)**	(142.2)

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 £m	2021 £m
Current service cost	**19.4**	15.5
Administrative costs	**0.9**	1.0
Operating charge relating to defined benefit plans	**20.3**	16.5
Interest income on plan assets	**(42.2)**	(44.3)
Interest on plan liabilities	**39.2**	39.9
Other finance income	**(3.0)**	(4.4)

The operating charge is allocated to the operating expenses in the profit and loss account or to capital expenditure as appropriate.

Analysis of the amount recognised in other comprehensive income:

	2022 £m	2021 £m
Gain on plan assets excluding amounts included in interest income	**(155.2)**	(168.4)
Loss from change in demographic assumptions	**62.4**	-
(Gain)/loss from change in financial assumptions	**(243.7)**	253.4
Experience losses/(gains)	**20.1**	(15.6)
Change in percentage allocation rate	**1.5**	1.9
Remeasurement (gain)/loss recognised in other comprehensive income	**(314.9)**	71.3

24. Pension commitments (continued)

Electricity Supply Pension Scheme ("ESPS") (continued)

The movement in the net defined benefit obligation over the accounting period is as follows:

	Year ended 31 March 2022			Year ended 31 March 2021		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	**1,957.1**	**(2,100.4)**	**(143.3)**	1,755.7	(1,926.0)	(170.3)
Current service cost	**19.4**	**-**	**19.4**	15.5	-	15.5
Administrative cost	**0.9**	**-**	**0.9**	1.0	-	1.0
Interest (income)/expense	**39.2**	**(42.2)**	**(3.0)**	39.9	(44.3)	(4.4)
	59.5	**(42.2)**	**17.3**	56.4	(44.3)	12.1
Remeasurements:						
Gain on plan assets excluding amounts included in interest income	**-**	**(155.2)**	**(155.2)**	-	(168.4)	(168.4)
Loss from change in demographic assumptions	**62.4**	**-**	**62.4**	-	-	-
(Gain)/loss from change in financial assumptions	**(243.7)**	**-**	**(243.7)**	253.4	-	253.4
Experience losses/(gains)	**20.1**	**-**	**20.1**	(15.6)	-	(15.6)
Change in percentage allocation rate	**(22.7)**	**24.2**	**1.5**	(17.0)	18.9	1.9
	(183.9)	**(131.0)**	**(314.9)**	220.8	(149.5)	71.3
Contributions:						
Employer	**-**	**(22.6)**	**(22.6)**	-	(56.4)	(56.4)
Plan participants	**3.0**	**(3.0)**	**-**	3.0	(3.0)	-
	3.0	**(25.6)**	**(22.6)**	3.0	(59.4)	(56.4)
Payments from plan:						
Benefit payments	**(76.3)**	**76.3**	**-**	(77.9)	77.9	-
Administrative costs	**(0.9)**	**0.9**	**-**	(0.9)	0.9	-
	(77.2)	**77.2**	**-**	(78.8)	78.8	-
Liability/(asset) at 31 March	**1,758.5**	**(2,222.0)**	**(463.5)**	1,957.1	(2,100.4)	(143.3)

24. Pension commitments (continued)

Electricity Supply Pension Scheme ("ESPS") (continued)

The significant actuarial assumptions made were as follows:

	2022	2021
RPI inflation	**3.60%**	3.20%
CPI inflation	**3.10%**	2.70%
Rate of general long-term salary increases	**3.60%**	3.70%
RPI linked pension increases (with 5% cap)	**3.10%**	3.15%
Post-88 GMP pension increases	**2.10%**	2.30%
Discount rate for scheme liabilities	**2.80%**	2.03%

Assumptions relating to future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a member at age 60:

	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	**30.0**	28.9

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	Change in assumption %	Impact on defined benefit obligation £m
Discount rate	-/+0.50%	+142.8 / -126.5
RPI inflation	+/-0.50%	+101.7 / -96.4
Life expectancy	+ 1 year	76.4

The above sensitivity analysis on the discount rate is based on a change in that assumption while holding all other assumptions constant. The change in RPI inflation assumption impacts on the salary increases, 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 in the balance sheet.

24. Pension commitments (continued)

Electricity Supply Pension Scheme ("ESPS") (continued)

The Central Networks Group of the ESPS scheme assets are comprised as follows:

	31 March 2022		31 March 2021	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Equities	**361.6**	**(3.2)**	522.4	-
Global credit	**185.3**	-	154.3	-
Property (i)	**192.7**	**192.7**	63.3	63.3
Macro-orientated	**176.5**	-	162.7	162.7
Multi strategy	**244.1**	-	372.7	-
LDI strategy	**1,063.6**	**1,024.0**	739.6	-
Other	**(1.8)**	**(4.5)**	(79.2)	-
Total	**2,222.0**	**1,209.0**	1,935.8	226.0

There is no self-investment in the Scheme.

Through its defined benefit pension plan, the Company 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 scheme's long-term objectives.
Change in bond yields	A decrease in corporate bond yields will increase the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

24. Pension commitments (continued)

Electricity Supply Pension Scheme ("ESPS") (continued)

Inflation risk	The majority of the scheme's 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 scheme's 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 Scheme uses government bonds, corporate bonds and cash as matching assets in the LDI Strategy holding. The remainder of the assets are used as growth assets.

The employer has agreed that it will aim to eliminate the scheme actuarial deficit (as assessed on the ongoing funding basis) by 31 July 2024.

The current agreed employer contributions 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 £0.9m 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.

Current expected employer contributions to the WPD West Midlands segment of the scheme for the year ending 31 March 2023 are £13.0m. 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 above may be liable to change.

The weighted average duration of the defined benefit obligation is around 15-17 years.

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 and the following relates to the WPD Group as a whole:

(a) a closed section with no active members. All of the active members in this scheme have transferred to the ESPS. 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 across WPD amounted to £13.5m in the year (2021: £10.6m).

25. Share capital	**2022 £m**	2021 £m
Issued and fully paid:		
235,050,000 ordinary shares of £1 each	**235.1**	235.1

26. Reserves

	Share premium account £m	Non-cash capital contribution reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2020	713.6	-	1.3	760.5
Profit for the financial year	-	-	-	181.4
Net movement on cash flow hedges (net of tax)	-	-	(0.7)	-
Dividends paid	-	-	-	-
Actuarial losses on defined benefit pension plan (net of tax)	-	-	-	(57.7)
At 31 March 2021	713.6	-	0.6	884.2
Profit for the financial year	-	-	-	134.9
Net movement on cash flow hedges (net of tax)	-	-	(0.6)	-
Dividends paid	-	-	-	(67.0)
Actuarial gains on defined benefit pension plan (net of tax)	-	-	-	227.6
Share based payment	-	0.2	-	-
At 31 March 2022	**713.6**	**0.2**	**-**	**1,179.7**

The share premium account arose on the issue of shares prior to the acquisition as settlement of intercompany balances within the group at that time.

The hedging reserve is stated net of tax and relates to:
- the effective portion of the cumulative net change in fair value of interest rate derivatives entered into in anticipation of the future issuance of long-term debt.
- the effective portion of the value paid in respect of interest rate derivatives associated with the issuance of existing long-term debt. The interest rate derivatives were settled in prior years and the gain continues to be amortised through the profit and loss account over the term of the debt.

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.

27. Contingent liabilities

WPD West Midlands is party to various legal claims, actions and complaints. Although WPD West Midlands 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 WPD West Midlands' financial statements.

28. Commitments

Capital commitments
Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2022 £m	2021 £m
Tangible fixed assets	**23.9**	38.0

29. Events after the reporting period

Subsequent to the year end no dividend has been paid by the Company.

30. Ultimate parent undertaking

The immediate parent undertaking of the Company is WPD Distribution Network Holdings Limited, which is registered in England and Wales.

The smallest group in which the results of the Company are consolidated is headed by Western Power Distribution plc. Copies of these financial statements may be obtained from the Company's registered office as stated below.

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.

Registered office:

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

Telephone: 0117 933 2000
Fax: 0117 933 2001
email: info@westernpower.co.uk

Registered number 03600574