Registered Number: 9223384

## WESTERN POWER DISTRIBUTION PLC AND SUBSIDIARY UNDERTAKINGS

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2021



## Western Power Distribution plc

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## Strategic report

For the year ended 31 March 2021

The directors present their annual report and the audited financial statements of Western Power Distribution plc ("WPD plc") and its subsidiary undertakings (the "WPD Group", "the Group" or "WPD") for the year ended 31 March 2021. These are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

## Group background

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

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

## Ownership

The WPD Group is owned by Western Power Distribution Plc, which is a public limited company owned by one shareholder, PPL Corporation. PPL Corporation is an electricity utility based in Allentown, Pennsylvania, United States of America.

On 18 March 2021, PPL announced that it has reached an agreement to sell its UK investment, which includes Western Power Distribution plc, to National Grid Plc. This announcement follows the decision by PPL's Board of Directors to strategically reposition PPL as a U.S.-focused energy business. The transaction required National Grid Plc investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of WPD to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

## **Business model**

WPD is the electricity Distribution Network Operator for the Midlands, the South West and South Wales. Our combined network is the largest in the UK, with our four DNOs delivering electricity to approximately 7.9 million (2020: 7.9 million) customers and employing 6,556 (2020: 6,574) staff.

	Customers (million)	Area (sq km)
WPD South West	1.6	14,400
WPD South Wales	1.1	11,800
WPD East Midlands	2.7	16,000
WPD West Midlands	2.5	13,300
	7.9	55,500

Our 7.9 million customers are registered with licensed electricity suppliers, who in turn pay the WPD Group for use of the network. Our costs are regulated and based on an agreed allowance by Office of Gas and Electricity Markets ("Ofgem"); on average GB customers pay £93 per annum (in 2019/20 real prices) (2020: £90 per annum in real 2018/19 price terms) for electricity distribution costs.



## Our main responsibilities are:



Group's network comprises approximately 90,000km (2020:90,000km) of overhead 137,000km (2020:136,000km) of underground cable and 189,000 (2020: 189,000) transformers. We maintain our network assets to ensure safe and reliable distribution of electricity to homes and businesses across our four regions.

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

For the year ended 31 March 2021

## Regulatory framework

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 WPD 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 or not of targets in relation to these activities can result in rewards or penalties.

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

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

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

Looking to the future, RIIO-ED2 covering the period April 2023 to March 2028, is the second price control to be set under the RIIO model. The first draft of our RIIO-ED2 business plan is due for submission to Ofgem's challenge group on 1 July 2021 with the final submission on 1 December 2021. Our business plan is being co-created with our stakeholders, following an enhanced and robust approach to stakeholder engagement and will outline the network investment we propose to deliver for the 5 year period, how much it will cost and detail 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.

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.

Adapting to change and investing in innovation is core to our strategic direction and an integral part of what we do; we are used to adopting technological innovation to create a more cost effective electricity network. The transition to a Distribution System Operator ("DSO") will help WPD to be ready for future challenges. Through the implementation of our DSO Transition Programme, we are building on our Future Networks Programme to ensure that our network, and our business, has the capacity to deliver all the emerging system requirements our customers have, both now and in the future. As a result of the changing energy landscape, we have adopted flexible power as business as usual. We have adapted our network, traditionally designed for 14GW of demand, so that it can now accept a total of 24.8GW of embedded generation. Although the majority of this capacity has been provided through flexible connections, we have also contracted for 440MW as at 31 March 2021 of customer provided flexibility services as the most efficient method. In addition, our digitalisation strategy is the first step towards moving from a legacy analogue system to a modern, digitalised energy system. Digitalisation is critical to enable WPD's transition to build a smart and efficient energy system that supports our commitment to net zero carbon emissions while keeping the lights on.

Our 76 commitments within the RIIO-ED1 business plan fall within the following 6 categories; safety, reliability, environment, connections, customer satisfaction and social obligations. Looking beyond RIIO-ED1, we have combined our commitments into three 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.

Underpinning our strategy are five goals that align directly to our business plan commitments within the RIIO model: Safety, Network Performance & Security, Financial Stability, Environment and Stakeholder Value & Engagement.

## Safety

Safety is the single highest priority at WPD. WPD continuously promotes safe working practices within the Group as well as engaging with stakeholder groups such as school children, land owners and construction operators through activities on safety awareness and education sessions as well as distributing safety related information.

For the year ended 31 March 2021

## Purpose, strategy and goals (continued)

## Safety (continued)

To support this goal robust safety policies are in place that are designed based on the assessment of the hazards and risks involved with a particular activity and are further enhanced in response to incidents that have occurred in WPD, other related businesses and to changes in legislation.

WPD's safety management system is compliant with the requirements of British Standard, OHSAS 18001 (Occupational Health and Safety Assessment Series) and this involves staff continuously looking for opportunities to enhance safety. WPD staff play an active role in many national committees and steering groups which concentrate on the future of safety and training policies and practices across the industry. WPD has engaged NQA to undertake an external audit of its Safety Management System as part of its proposed plan to transition from OHSAS 18001 to ISO 45001 in 2021.

Continuous learning from incidents or near misses is a key objective. Incidents are proactively investigated and suitable changes are put in place to reduce the likelihood of a recurrence.

Our detailed safety policy can be found at:

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

## Network performance & security

WPD is committed to providing a secure, reliable and continuous network connection to its customers. Our network is available 99.999% of the time. We not only look at the physical security aspects of the network but also at preventing any cyber breach incidents. WPD recognises that our information systems and electricity networks are critical and valuable assets that must be protected and thus is focused on maintaining a robust system of cyber security that enables business continuity, minimises operational risk and preserves individual data privacy.

## Financial stability

Delivering solid financial results to ensure long term viability and stability is another of the key goals for WPD. Our revenue is largely fixed across a price control period. It is set at a level that should meet our efficient operating costs and expenses over that period, as well as funding efficient investment, interest on necessary borrowings and the payment of all applicable taxes. In order to encourage investment, revenue includes an allowed cost of equity set at the start of each price control. Ofgem assesses overall financial performance using a measure called Return on Regulatory Equity ("RoRE").

## Environment

WPD is dedicated to conducting its business as a responsible steward of the environment. WPD monitors its impact in terms of carbon footprint, waste recycling and fluid loss. 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 leaks from our equipment. For RIIO-ED2, we believe it is our fundamental responsibility to go further and help achieve the Government's net zero carbon target.

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

As a result of our environmental policies, we have been able to maintain our accreditation to the ISO14001:2015 environmental management standard.

More detailed information on our environmental goals can be found in our published report available at: <a href="https://www.westernpower.co.uk/customers-and-community/environment">https://www.westernpower.co.uk/customers-and-community/environment</a>

## $Stakeholder\ value\ \&\ engagement$

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

## <u>Customers</u>

WPD strongly believes that customer satisfaction and feedback is the key to the future success of the business.

WPD continues to strive for greater efficiency with regard to operating costs, seeking innovative ways to reduce both the time and cost to repair and replace assets. This approach aims to minimise the cost to the customer of running and maintaining the network. Our portion of an average domestic electricity bill is around 17% (2019/20: 17%), charged by suppliers. We are planning to keep this broadly at the same level in RIIO- ED2.

For the year ended 31 March 2021

## Purpose, strategy and goals (continued)

## Stakeholder value & engagement (continued)

## Customers (continued)

WPD's commitment to customer satisfaction is demonstrated by its continued accreditation to the Customer Service Excellence ("CSE") Standard. WPD has held the CSE standard (formerly charter mark) since 1992 - the only energy company in the UK to do so. The CSE assessor visits contact centres and local depots every year and stringently assesses WPD's engagement activities, including delivery, timeliness, information, professionalism and staff attitudes. 57 elements are assessed. WPD is compliant on all elements and has 45/57 (2020: 45/57) at 'compliance plus' level, demonstrating UK-wide best practice.

Customer awareness is a key commitment for WPD and we engage in ongoing communications so that the Group's customers are more informed regarding matters impacting them. WPD conducts an annual customer awareness campaign 'Power for life' that makes contact with every customer using direct mail to homes and businesses, as well as a television campaign, press releases and social media. While reinforcing who we are, what we do, and how well we do it, the campaign also provides information and advice, and explains how we can be contacted in an emergency.

## **Employees**

Our business is built by our people and WPD is fully committed to putting into place such systems and processes, supportive environment, training, rewards and benefits that drive and motivate our employees and provides them with long, rewarding careers.

Equality of opportunity is key to WPD's approach to hiring, training and promoting employees. WPD acknowledges the value that a diverse workforce brings to the organisation. We have an established Equality and Diversity policy demonstrating our clear commitment to empowering an inclusive workplace that offers equal treatment of all existing and future employees and is free from unfair and discriminatory employment practices. During the current year, a new training programme in relation to diversity and inclusion has also been launched. For more information on our commitment to equality and diversity, refer to our website at: <a href="https://careers.westernpower.co.uk/category/why-join-us/equality-and-diversity">https://careers.westernpower.co.uk/category/why-join-us/equality-and-diversity</a>

Employees are selected, treated, 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.

In addition WPD provides an ethics helpline that employees can use to report any concerns.

## <u>Suppliers</u>

We rely on quality, value for money goods and services from reputable suppliers and contractors in order to maintain the highest standards in network reliability and customer service. WPD maintains open and positive communication with all suppliers and contractors and treats them fairly, evenly and with honesty.

## 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 is engaging with Ofgem, to help develop the next price control framework which contains the right customer focused outputs and economic incentives to help deliver the Government's objective.

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, and the RoRE earned for the period. 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 in this regard are:

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

For the year ended 31 March 2021

## Purpose, strategy and goals (continued)

## Stakeholder value & 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. Similarly, WPD also engages with National Resources Wales ("NRW"), as the environmental regulator for South Wales.

## <u>Shareholder</u>

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

## **Business review**

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.

We have reduced the number of customer interruptions and customer minutes lost that customers experience as a result of power cuts, reduced our business carbon footprint, and we have continued to see improvements in our safety record. Once again we have achieved excellent ratings for customer satisfaction in the Broad Measure of Customer Satisfaction ("BMCS") with the Company achieving higher scores compared to our 2019/20 performance. This performance is achieved through a strong business ethos of customer service and our efforts are demonstrated by our connections results where we achieved an overall score of 9.18 (2019/20: 9.11) 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

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 2021 amounts to £1,671.2m (2019/20: £1,723.5m). In the year, there has been a decline in revenue, mainly attributable to reduced energy demand as a result of the Government's restrictions in response to the Coronavirus ("COVID-19") pandemic. This under recovery of revenue is a regulatory timing difference and will be recovered in financial year ending March 2023.

Even though the year 2020/21 has been overshadowed by the impact of COVID-19, the manner in which our staff were able to adapt to these challenges ensured essential services have been delivered with an unwavering focus on customer service. We have had to change the way we work in response to the outbreak but as always, our top priority remains the safety of our colleagues and the communities we serve. Throughout all phases of restrictions we have followed all Government guidance on safety and social distancing, whilst ensuring that our customers can continue to rely on us to provide a safe and secure electricity supply. We reacted quickly to adapt and respond to the needs of vulnerable customers, and utilised the Priority Services Register ('PSR') to target local services in need. Our agile response, coupled with a 'can-do' attitude across WPD, has allowed us to work in many differing ways to the norm. The resilience demonstrated and learning we have gained from the experience of the last 12 months, gives us great confidence that we will continue to deliver excellent service in the remainder of RIIO ED-1 and future price control periods.

In April 2020, the share capital of the Company was reduced from 1,657,592,372 ordinary shares of £1 each to 1,057,592,372 ordinary shares of £1 each by cancelling and extinguishing 600,000,000 ordinary shares of £1 each. This resulted in a credit to retained earnings of £600.0m.

For additional details on our business review, refer to the key performance indicator ("KPI") section below.

## COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic. Since then, the COVID-19 crisis has presented unprecedented challenges and the role that WPD plays in keeping the lights on for customers has never been more crucial. During the last 12 months, a form of restriction or national lockdown have been in place, impacting electricity demand, operational activities and working locations. Amidst all these restrictions and uncertainties, we have continued to work around the clock, 7 days a week to keep power flowing to our 7.9 million customers across our region, ensuring vital energy reaches homes, hospitals, factories, supermarkets and other essential services.

For the year ended 31 March 2021

## **Business review (continued)**

## COVID-19 (continued)

## Impacts on historical performance and year end position

For the year ended 31 March 2021, revenues have been impacted due to a reduced load demand from industrial and commercial customers, slightly offset by an increased demand from domestic customers as a direct result of businesses and the public adhering to government restrictions. The impact of COVID-19 in relation to revenues is estimated to be a reduction of £59.0m, with the highest impact being during the first national lockdown covering April to June 2020. However any impact on revenue is largely a timing issue due to the regulatory regime that ensures that allowed revenue within a price control period is recovered in future years. Due to the sufficient availability of committed financing facilities within the Group, the decline in revenue did not result in any liquidity concerns. For details on the Group's liquidity position and the available headroom in relation to the Group's facilities, refer to page 41 in the Directors' report.

During the first national lockdown, commencing on 23 March 2020, as guided by the regulator, operational work focused on essential activities only. This included fault restoration and repair work, as well as activities of a safety critical nature and critical connection work in support of the response to the COVID-19 pandemic (e.g. connections to care homes, hospitals and other health care facilities, food shops and wholesalers, food production, telecoms and broadband). Subsequent to that, since July 2020, following UK Government advice and industry regulator updates, the Group has resumed the capital operations in relation to nonsafety critical capital programmes, subject to appropriate safety measures. Our actual capital related spend during the period of April-July 2020 was £65.4m lower than planned. A reduction in the capital programme during the year resulted in unproductive labour and other costs of £13.8m in the income statement, which would have otherwise been capitalised.

In June 2020, in response to the cash flow implications of COVID-19 on electricity suppliers, Ofgem, in conjunction with the Energy Networks Association Limited ("ENA"), developed a payment deferral scheme in order to provide relief to cash flow constrained suppliers. Under the scheme, suppliers were allowed to request an extended period for payment of monthly network charges without any additional security. The scheme was only applicable for invoices billed during the period June - September 2020. 16 suppliers applied for the scheme and credit was applied to £8.2m. The outstanding balance in respect of the scheme at 31 March 2021 is £0.7m. The impact of COVID-19 on the expected credit loss ("ECL") of the Group is not material. Ofgem regulations allow for full recoverability of credit losses in relation to revenue from providing distribution use of system services ("DUoS"). DUoS debtors are protected, provided certain credit management protocols are performed in accordance with industry standards as governed by the Distribution and Connection Use of System Agreement ("DCUSA"), thus minimising any potential credit risk to the Group on the majority of its trade receivables.

COVID-19 has impacted the valuation of some properties in the UK. For the year ended 31 March 2021, fair value of investment properties is based on external valuations by performed by independent valuers during the year. The valuation reports include detailed analysis of a market review including impacts of COVID-19, where applicable. Unlike the previous year, the valuations in the current year have not been reported subject to a "material valuation uncertainty" clause. The value of investment properties has declined from £30.1m as at 31 March 2020 to £29.9m as at 31 March 2021. External valuation reports do not separately identify the decline in value pertaining to COVID-19.

In relation to the WPD pension schemes, the Group has an overall surplus on its defined benefit schemes amounting to £402.8m (2020:£595.5m). The key assumptions in relation to the measurement of pension liabilities are in relation to discount rates, inflation rates and mortality rates.

Despite the pandemic, the discount rate assumption during the current year has fallen from 2.31% to 2.01% and the RPI inflation rate assumption has increased from 2.60% to 3.20%. The discount rate as at 31 March 2020 was noticeably higher than the surrounding month ends, accompanied by a fall in inflation expectation. It is likely that this was as a result of the outset of the pandemic and early fears of corporate distress leading to higher credit spreads. As these fears reduced, the discount rates quickly reverted to the previous levels. Because of various other factors, impacting the discount rates such as the central bank support, wider fiscal policy, Brexit, changes in supply/demand of inflation-linked instruments etc, it is not possible to segregate the fluctuations in discount rates due to COVID-19.

The mortality assumptions are unchanged from the previous year and do not reflect any impact of COVID-19. The core projections model of Continuous Mortality Investigation ("CMI") for projecting mortality rates into the future, deliberately placed no weight on deaths experienced during 2020. We consider this appropriate, given the future long term impact of COVID-19 on mortality trends is currently unclear.

Total pension assets of the Group amount to £7,204.3m (2020: £6,635.5m), of which 92% (2020: 92%) of pension assets are quoted in an active market and 8% (2020: 8%) are not quoted in an active market. The value of quoted pension assets has increased from £6,137.6m as at 31 March 2020 to £6,621.3m as at 31 March 2021. The pension assets that are not quoted in an active market amount to £583.0m (2020: £497.9m). £277.80m (2020: £280.2m) pertain to property assets and £305.2m (2020: £217.7m) pertain to hedge fund valued at net asset value ("NAV").

For the year ended 31 March 2021

## **Business review (continued)**

## COVID-19 (continued)

## *Impacts on historical performance and year end position (continued)*

Based on preliminary asset valuations, the returns of pension assets over 12 months to 31 March 2021 have been +11.1%, +9.3% and +0.4% for the CN segment of the Electricity Supply Pension Scheme ("ESPS"), the WPD segment of the ESPS and Western Power Utilities Pension Scheme ("WPUPS") respectively. Despite the pandemic, the Group continues to have a stable pension asset portfolio.

In light of the pandemic, there has been an increase in the purchase of COVID-19 related personal protective equipment ("PPE"), such as hand sanitisers, face coverings and coveralls, which resulted in an increase of £4.9m in the inventory balance as at 31 March 2021.

## Supporting our staff

During these challenging times, the health and wellbeing, including mental health, of our staff has been of paramount importance. Regular updates and guidance is being provided on all relevant topics of health & safety, social distancing and home working arrangements. Our occupational health team is continually engaging with employees through various means in order to ensure that staff can access the help they need in relation to their physical and mental health. Various initiatives such as live work out sessions and mindfulness meditation sessions are held weekly. These sessions are available for staff to access at their own convenience via the intranet.

With frequent school closures, child care has been a challenging area for many working parents. Various provisions such as special paid leave and flexible working arrangements have been made available for those that have child care responsibilities.

Since restrictions commenced in March 2020, regular staff updates from the Chief Executive have taken place, providing information on the actions taken by WPD, updates on government guidelines and our plans going forward. In these updates, the Chief Executive has urged employees to discuss and raise any concerns with their supervisors and managers and to make use of WPD's external support agencies such as the Employee Assistance Programme, to enable WPD to help and support its employees in every possible way. The Chief Executive also encouraged staff to contact him directly with any questions, concerns or suggestions.

Our operational workforce, around 70% of our staff, are classed as essential workers and therefore have to continue working from onsite locations. We have, therefore, worked hard to ensure COVID-19 secure working environments, which involves extensive risk assessments, and focusing on maintaining social distancing and hygiene measures. Our logistics team worked hard to ensure that adequate personal protective equipment ("PPE") was sourced and made available to our operational workforce. Various other measures, such as the hire of additional fleet vehicles have been put in place to ensure that operational staff can socially distance appropriately. We will continue to monitor and apply Government and Public Health advice and guidance and are working collaboratively with our Trade Unions to ensure our workplaces and procedures remain as COVID-19 secure as possible.

On announcement of the UK restrictions, WPD rapidly deployed its incident response procedures to ensure that sufficient laptops, IT hardware and other home working devices were acquired and made available so that our office based staff could commence operating from home immediately. Swift action was taken to secure, build and utilise IT equipment and network capacity within WPD and the IT team worked around the clock to get all home working technology, including networks capacities, up and running.

As part of our overall planning to ensure a secure, safe and continual service to our customers, and with consideration of economic and regulatory factors, the decision was taken to retain our existing staffing levels and not implement any furlough or redundancy arrangements.

WPD continues to consult with trade union and staff representatives to ensure that all staff concerns are being fully captured and addressed. We have established a weekly meeting with the trade union to update them on how we are implementing changes and to discuss any concerns.

## Establishing a network of support

In a bid to support local communities and to help revive the economy we launched our 'In This Together – Community Matters' fund in April 2021, to support those hit hardest by the coronavirus outbreak. We have not simply written one cheque to a single organisation but we have donated £1m to 871 good causes, estimated to benefit over 565,000 people in our communities. The purpose of the fund is to help local organisations to deliver support and services to the most vulnerable in our communities. A diverse range of groups have benefitted from the funding including established charities like foodbanks, hospitals, The Salvation Army, AGE UK and several hospices. In addition, by following a due application process, we were able to assist many small local charities, such as community groups that formed specially to help their local communities through the pandemic, including groups that were delivering food parcels, collecting prescriptions or offering online virtual support to those isolating.

For the year ended 31 March 2021

## **Business review (continued)**

## COVID-19 (continued)

## Establishing a network of support (continued)

We are also providing additional support to the customers on our PSR, many of whom may find it difficult to cope with a power cut or are medically dependent on electricity. During the crisis, we are working closely with local community partners to help PSR customers most in need to access services such as food and prescription deliveries, telephone calls to combat loneliness and advice on energy savings.

We also proactively contacted more than 370,000 PSR customers to inform them about the help and resources we can offer during the coronavirus outbreak. In addition we continue to make telephone calls to customers in vulnerable situations during power cuts, to check on their wellbeing and offer updates. A special coronavirus information portal for PSR customers has been created on our website which includes everything from energy saving tips to home schooling resources and regularly-updated frequently asked questions.

In light of coronavirus, our work to alleviate fuel poverty has also been stepped up to help households manage the financial impact of the pandemic, largely as a result of increased utility and grocery bills. Alongside our community partners, we're helping those who have been most affected by the crisis to access support and advice, including help with arranging online shopping, loneliness and isolation support arranged via befriending schemes, food bank referrals and advice on energy payments schemes.

In order to continue to provide key safety education to schoolchildren during the pandemic, we have adapted our offering and created a series of educational safety videos that were made available to schoolchildren and parents online, while also developing and delivering safety shows virtually via a streaming service.

In these challenging times, we recognise our responsibility to assist in managing the impact of COVID-19 on the energy market and therefore supported Ofgem in the scheme to provide relief to the cash flow constrained suppliers. Under the payment deferral scheme, suppliers without an investment grade rating were able to request an extended period of payment of monthly network charges without any additional security. Refer page 6 for details.

## Joining the fight against COVID-19

As a category 2 responder, we are identified as key workers by the Government and throughout the year it has been an incredible achievement by our staff that our customers have seen little or no disruption to their services as we have continued our role as an essential service provider during challenging times for all of us.

At the start of this crisis, we joined forces with agencies across our regions to be part of the UK's effort to combat coronavirus. This included rapid installation of new connections at several sites, including NHS properties, in response to demands for increased electrical capacity. Our teams pulled out all the stops to complete one emergency connection in less than 48 hours.

After the first national local restrictions ended, construction services resumed and therefore in addition to keeping the lights on, we also continued to deliver our important capital investment activities as well as customer driven works - always after appropriate risk assessment indicated that it was safe to do so and correct control measures can be applied.

We have also been undertaking actions to ensure the resilience of electricity supplies at new and existing hospital locations, as well as to safeguard other essential services such as care homes, factories and other utilities.

In addition, teams throughout WPD have been reassessing how to achieve their goals when their normal face-to-face activity was unavailable. From stakeholder engagement roadshows to apprentice training, we have successfully adapted our annual programme to continue operating in a virtual world. For apprentices and trainees, traditional classrooms were replaced with virtual meetings. The employment start dates were delayed to enable required adjustments to be made; this ensured no apprentices or trainees were furloughed or placed at risk of redundancy. Our stakeholder engagement workshops were also conducted virtually during all the national lockdowns. Despite the format, they were as constructive and vibrant as ever.

We have been able to join this fight against COVID-19 and establish our network of support without availing any financial assistance options introduced by the Government in relation to the pandemic.

For more information on our COVID-19 response, refer to our website at: <a href="https://www.westernpower.co.uk/coronavirus">https://www.westernpower.co.uk/coronavirus</a>

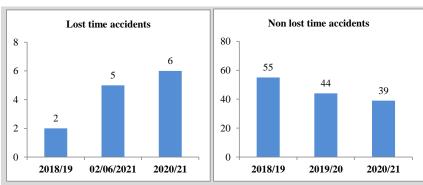
## **Key performance indicators (KPIs)**

WPD utilises KPIs to assess progress against the overall strategy and key goals.

## KPI

## **Number of accidents**

## **Performance and comments**



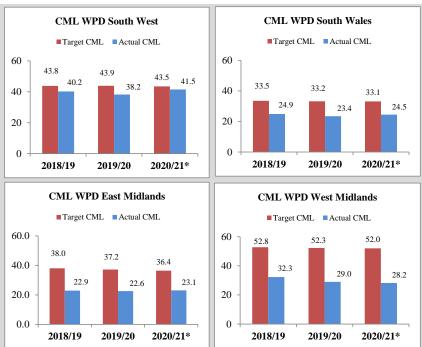
Electricity distribution carries inherent safety risks and the WPD directors are committed to the highest levels of safety in all areas. All accidents are investigated and we ensure that all our planned inspection and maintenance programmes are completed during the year. The WPD Group's rolling lost time accident frequency rate per 100 people as at 31 March 2021 was at 0.092 against a regulatory target of 0.145. The total number of accidents to staff across the WPD Group decreased from 49 in 2019/20 to 45 in 2020/21.

In addition WPD monitors the overall rate of accidents per 100 employees (as reported to Ofgem). The accident rate for the WPD Group for 2020/21 is 0.68 (2019/20: 0.75), 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: <a href="https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1">https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1</a>

## Customer minutes lost ("CML")

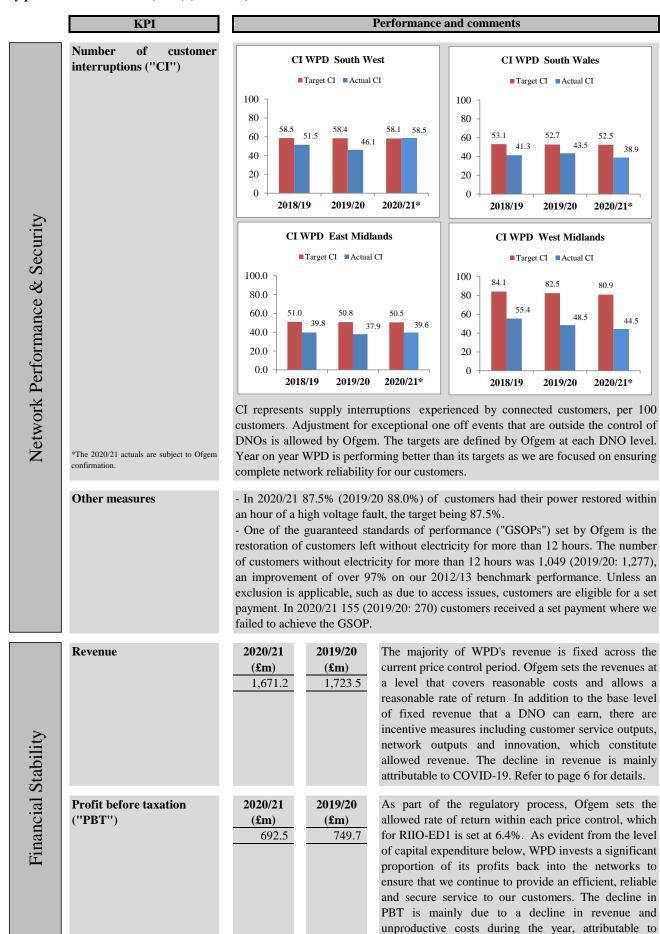


\*The 2020/21 actuals are subject to Ofgem confirmation.



CML represents the average time a customer is without power during the year. It is calculated by taking the sum of customer minutes lost for all incidents, excluding the allowed exceptional events, divided by customers connected. The targets are defined by Ofgem at each DNO level. Year on year WPD is outperforming its targets as we are focused on ensuring complete network reliability for our customers.

Network Performance & Security



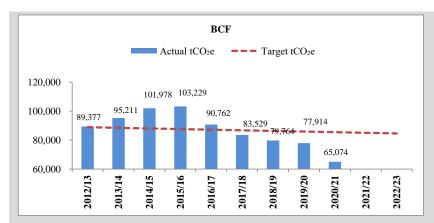
COVID-19. Refer to page 6 for more details.

	KPI	Performance and comments		
	Fixed asset additions  Tangible fixed asset additions	2020/21 (£m) 996.8	2019/20 (£m) 916.3	WPD operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure, as evident from the overall extent of our capital expenditure and increase during the year. Due to the age of the network and technological advancements significant investment is required in capital related activities. During the RIIO-ED1 period to date we have invested £5.8bn in capital related activities. Planned investment in the network for the remainder of the RIIO-ED1 period (until March 2023) is £2.2bn.
Financial Stability	Regulatory asset value ("RAV")	2020/21 (£m) 8,330.5	2019/20 (£m) 7,999.7	RAV is a regulatory concept to represent assets with a long term life. It is essentially equivalent to the net book value of the fixed assets of the business, only calculated in regulatory terms using methodology provided by Ofgem. It is an important measure for all DNOs as the allowed revenue in any year includes a return on RAV and amortisation of RAV as determined by Ofgem. Other important measures, such as gearing ratios and recoverable amounts of DNOs with respect to impairment calculations, are calculated using RAV. Because of timing the RAV used in these calculations is the latest draft and not the finalised value. Movement in RAV is largely driven by additions to our RAV during the year which are based on 80% of our total expenditure ("Totex") calculated in accordance with methodology provided by Ofgem, and after application of the Totex Incentive. It is not possible to perform a reconciliation between RAV and IFRS. The differences between IFRS and regulatory rules have built up over many years and cannot be reconciled.
	Gearing ratio  Net debt* RAV  * Refer to note 24 on page 100 for the calculation of net debt	2020/21 (£m) 6,399.3 8,330.5 77%	2019/20 (£m) 6,199.9 7,999.7 78%	Gearing for WPD is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the revolving credit facility covenants for several of the WPD companies and is used as a key internal measure. To comply with bank covenants as well as the internal KPI, the gearing ratio for the WPD Group does not exceed 85%.
	Interest cover  PBT Finance cost Depreciation Amortisation - intangible assets Amortisation - customer contributions Earnings before interest, taxation, depreciation, and amortisation ("EBITDA") Interest payable Interest cover	2020/21 (£m) 692.5 288.7 251.4 8.9 (47.3) 1,194.2 288.7 4.1	2019/20 (£m) 749.7 301.0 240.8 7.4 (46.1) 1,252.8 301.0 4.2	A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for several of the WPD companies. It is also used as a key internal indicator of the financial health of the DNOs. In order to comply with bank covenants, the interest cover ratio can not fall below 3:1; our interest cover ratio is at an acceptable level and shows a sufficient level of earnings to cover interest payments.  Refer to note 5 for components of EBITDA.

## KPI

## **Performance and comments**

## **Business carbon footprint** ("BCF")



Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO2") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO $_2$ e"). WPD follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") carbon reporting guidance, the 2020 UK Government GHG Conversion Factors for company reporting and ISO14064-3.

WPD's current target is a 5% reduction over the RIIO-ED1 period based on the baseline year of 2012/13. At 2020/21 WPD Group is outperforming the target.

For further details on the 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/environment

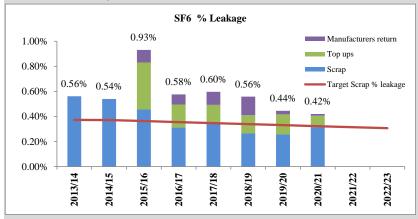
For details on the methodology for the calculation of our BCF refer to page 44.

SF6 emissions (emissions as % of SF6 bank)

Environment

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. We continue to monitor our SF6 emissions.

The amount of SF6 emitted is expressed as a percentage of the overall 'bank' of switchgear containing SF6, 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.



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

## **KPI**

## Performance and comments

## Fluid cable losses

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



WPD's current target is a 75% reduction over the RIIO-ED1 period based on the baseline year of 2012/13.

The losses from WPD's fluid filled cables can vary from year to year dependent on the number of small leaks at disparate locations rather than high volume single events, often caused by third parties. Since 2018/19 WPD has improved its technique for the detection of cable fluid losses as well as introduced a better system for loss reporting; this has resulted in a significant reduction in the volume of losses associated with our fluid filled cables for the current reporting year.

\* 2018/19 data has been updated to provide a more accurate position.

## Other measures

## - Environmental management standard

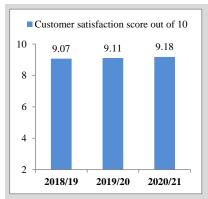
In May 2017, all four DNOs gained certification to the new ISO14001:2015 environmental management standard. ISO14001 sets out the criteria for an environment management system and maps out a framework that an organisation can follow to set up an effective environment management system. A re-certification audit was completed successfully in May 2020 with no major non-conformances raised and the Company's certification has been extended until June 2023. A routine surveillance visit in March 2021 was successfully completed with no major or minor non-conformances raised.

## Customers

# Stakeholder Value & Engagement

Environment

## Overall customer satisfaction



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 22,000 customers are surveyed per year. For the regulatory year 2020/21, all WPD licensees received a score greater than 9 out of 10 overall for customer satisfaction.

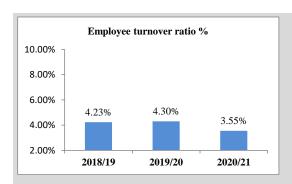
In the current year, WPD has an average speed of response of 5.33 seconds as compared to an average speed of response below 1.63 seconds last year. This decline in response time is due to our advisors working mainly from home at the moment. We have an increase of 4 seconds to deliver the call to the advisors' line from our usual base line. Without this additional required call transfer time, WPD is continuing to operate and perform as before.

## KPI

## Performance and comments

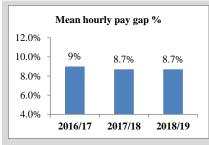
## **Employees**

## **Employee turnover ratio**



There is a decline in year on year turnover ratio. On an overall basis, WPD has a very low employee turnover ratio, indicating high levels of satisfaction and motivation of staff.

## Gender pay gap





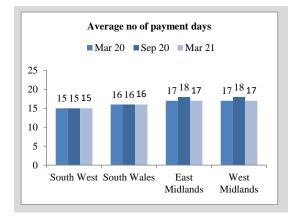
WPD's median gender pay gap for the year ended 31 March 2019 is 10.5%. This is 6.8% below the national gender gap and 13.3% below its industry gender pay gap. Therefore, in relative terms, WPD's gender pay gap is positioned positively compared to its UK-wide industry segment. These comparisons are based on the latest available data. Our median bonus pay gap has continued to remain stable at 0%, while our mean bonus pay gap fell substantially from 59.6% to 13.8% year over year in part due to greater female representation in senior roles. 2019/20 data has not yet been published.

Further information about the WPD gender pay gap could be found at: <a href="https://www.westernpower.co.uk/about-us">https://www.westernpower.co.uk/about-us</a>

## **Suppliers**

Stakeholder Value & Engagement

## Payment performance



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

For the year ended 31 March 2021

## **Future developments**

## Transition to DSO

The UK's electricity system is undergoing a rapid period of change as distribution network customers invest in generation and alter their consumption behaviours to affect a lower carbon future. The recently published Ten Point Plan for a Green Industrial Revolution and the Energy White Paper focus on the changes that we will see. Decarbonisation of heating and transport to reduce carbon emissions remains a key priority. To enable a greater volume of demand, generation and storage to be connected, our networks are becoming smarter and more active. Creating a more efficient and flexible system will benefit all customers and empower them to be at the centre of the energy revolution. We recognise that change is essential to driving performance and efficiency from our network and to ensure it can meet the future energy demands of all our customers. A more flexible network operation which embraces DSO requirements is needed. The enhanced capabilities we are developing will develop markets to give our customers the freedom to access other opportunities within the developing energy system.

As WPD adds DSO roles to existing DNO roles, we will carry out its 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.

To facilitate neutral markets we have identified functions and activities which are specifically related to DSO. We have also identified the functions that a DNO would provide to any DSO, which are described as DSO enablers and cover areas where the DNO roles support a more flexible network operation through a DSO provider. We have already completed organisational changes which segregate our DSO functions from those of the DNO. Each area reports separately to our Operations Director. Within this Strategy we have included two specific sections. The first covers elements related to System Operator, with the second detailing elements of DSO enablers managed by the DNO.

Our DSO forward plan and latest update to our DSO strategy can be found at the link below: <a href="https://www.westernpower.co.uk/smarter-networks/network-strategy/dso-strat

## 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 is required to be presented to Ofgem's Challenge Group with the final submission to be submitted to Ofgem on 1 December 2021. Following an open hearing early in 2022, Ofgem will publish its RIIO-ED2 draft determination in June 2022 and the final determination in November 2022.

Ofgem issued the Electricity Distribution Sector Specific Methodology and the Business Plan Guidance documents in stages between December 2020 and March 2021. These documents contain the following key information for the RIIO-ED2 Business Plan:

- Details of the business plan incentive which includes penalties and rewards associated with the quality of the business plan;
- Gives consumers a stronger voice in setting outputs by introducing a new enhanced engagement model for RIIO-ED2. This involves the establishment of Customer Engagement Group ("CEG");
- Aimed at allowing DNOs to earn returns that are fair and represent good value for consumers, properly reflecting the risks faced in these businesses, and prevailing financial market conditions;
- Setting the length of the price control to five years;
- Using the regulatory framework, or competition where appropriate, to drive innovation and efficiency; and
- Simplifying the price controls by focusing on items of greatest value to consumers.

WPD's CEG was established in April 2019 and has been instrumental in the design of our engagement plan, encouraging us to be ambitious and industry-leading in our approach. We published our first draft business plan in January 2021 and throughout the process, we have held regular meetings with the CEG. The broad range of expertise of our CEG members has proved an excellent source to challenge us throughout the production of the business plan. Feedback from multiple consultations on our first draft business plan, was incorporated into our second draft business plan published in March 2021. Our intention has been to provide our stakeholders the opportunity to review our business plan twice before the submission to Ofgem's Challenge Group on 1 July 2021.

For the year ended 31 March 2021

## **Future developments (continued)**

## RIIO-ED2 (continued)

Similar to RIIO-ED1, our RIIO-ED2 plan is underpinned by core commitments which have been identified by stakeholders as their key priorities and will be reflected across all aspects of our Business Plan. Our core commitments are separated into the following three high level categories which align with Ofgem's output categories:

- Meet the needs of consumers and network users: WPD must deliver a high quality and reliable service to all network users and consumers including those that are in a vulnerable situation;
- Maintain a safe and resilient network: WPD must deliver a safe and resilient network that is efficient and responsive to change; and
- Deliver an environmentally sustainable network: WPD must manage the impacts of it activities on the environment and enable the transition towards a smart flexible, low cost and low carbon energy system for all consumers and network users.

It is important that we provide the services that our customers require. We have listened to stakeholder feedback and incorporated challenging and ambitious commitments into our business plan that go beyond our RIIO-ED1 targets. Our proposed RIIO-ED2 business plan and commitments therefore recognise that we will play a critical role in supporting the UK to move to a net zero carbon future. Network investment requirements are informed by our Distribution Future Energy Scenarios, which provides a forecast of future electricity demands, based upon national scenarios and regional low carbon plans. Growing consumer electricity demand means that we will need to spend more on providing the network capacity required, but we are incorporating the use of lower cost alternatives such as using flexibility services instead of conventional reinforcement.

Our plans take into account the need to work closely with other electricity distribution and transmission companies as well as other utilities and stakeholders. This whole system collaboration is essential to identify solutions in order to make informed investment decisions, tackle the limitations of the network and ensure that data from the network is available to those who need it.

Our performance against our core commitments will be measured annually and will be used to ensure we are delivering what we said we would do. As well as reviewing our progress each year, we will establish an independent RIIO-ED2 Plan Delivery Challenge Group to hold us to account on behalf of our customers. This approach will help ensure that we keep on track to deliver our commitments.

For the most up to date draft of our RIIO-ED2 business plan, refer to our website.

## Green Recovery initiative

Under this initiative, Ofgem has agreed to allow DNOs to unlock investment funding for targeted areas. The investment will be spent on reinforcement of the network, facilitating new connections, including low carbon technologies thereby supporting the green economy across the region. This initiative will allows us to fund the reinforcement work where we have identified some constraints, enabling us to make a major contribution to the government's net zero carbon emissions target and their wish to make green growth a key part of rebuilding the economy following the pandemic.

We conducted an extensive call for evidence in order to target investment to areas with the greatest needs. The call for evidence was extensively promoted to approximately 3000 stakeholders. We also held 4 online webinars and had received over 200 responses to our call for evidence.

We have used the three main criteria (Deliverability, Value for Money and Utilisation) in the selection of schemes. Work on the schemes will continue throughout the rest of ED1 and some will complete during the outage season in 2023 (into the first six months of ED2), due to the lead times for plant and co-ordination of other works and network outages. Deliverability has been an important factor in our decision making.

For more details on the Green Recovery initiative see page 31 and refer to our website at: <a href="https://www.westernpower.co.uk/green-recovery">https://www.westernpower.co.uk/green-recovery</a>

## 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.

For the year ended 31 March 2021

## Network innovation (continued)

WPD has registered 73 network innovation projects covering a broad range of topics. Further details on these projects can be found at the link below:

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

## Risk management and controls

WPD is exposed to various risks in the ordinary course of business that may have an adverse impact on the Group's operations and financial position, thus all such risks require appropriate management. The WPD Board oversees risk management and internal control systems, and monitors the Group's risk appetite in pursuing its strategic goals. It is the responsibility of the Board to ensure alignment of strategy and risk. The Emerging and Ongoing Significant Risk register process records the most significant risks as well as emerging risks. The register is reviewed quarterly by the directors.

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 achieving high levels of employee satisfaction and the development of the talent pool 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. The Internal Audit Charter, defining the purpose, mission and responsibilities of the Internal Audit function, has been approved by the Board and the Board is responsible for:

- Approving the annual audit plan;
- Reviewing the audit results; and
- Ensuring implementation of Internal Audit recommendations.

As, during the year ended 31 March 2021, WPD is owned by a US publicly quoted company, it is subject to the requirements of the US Sarbanes-Oxley Act of 2002 (the "Act"). In accordance with the requirements of the Act, WPD's management 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. 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. Some of the controls in place to satisfy the Act apply to the processes that underpin the IFRS books and records.

The Board is satisfied that there is an appropriate approach to risk management and adequate and effective controls are in operation.

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

### Mitigating actions Goal Risk On site accidents: - WPD has robust safety policies and procedures in place to ensure a safe working Due to the nature of the environment. There is a system for reporting near misses and incidents, and policies business are reviewed and amended accordingly to avoid any future recurrence. there is an inherent safety risk - The safety team actively supports managers with their safety responsibilities and associated with unsafe provides assistance to enable them to maintain a clear focus on safety. During 2021 working practices. the safety team have provided, on a monthly basis, information for managers to use in their team meetings with their staff, which supports the 4 core areas of the 2021 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 10,313 (2020: 9,804) versus a target of 6,348 (2020: 6,003).

## Goal

## Risk

## Mitigating actions

## **Network disruptions:**

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

-WPD has comprehensive emergency plans for network emergencies such as the recovery from a partial or country wide loss of electricity supply, referred to as the System Restoration Plan. WPD maintains a presence on a number of national industry working groups, along with Government Departments such as the Department of Business Energy and Industrial Strategy ("BEIS") and the regulator, Ofgem, which plan and prepare for such events. These groups ensure a consistent approach to resilience and a swift response to network emergencies across the industry.

- -WPD is committed to regular training sessions with its Network Control Centre Engineers to exercise a response to a System Emergency. To supplement this, general awareness sessions have been delivered to staff from the wider business. This ensures everyone is aware of the potential impacts and aids business continuity planning across a range of departments.
- 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.
- Established restoration plans are in place and reviewed with National Grid and contracted power stations.
- Local operational teams undertake desktop exercises to ensure resilience and business continuity plans remain appropriate. All learning is shared across the business.
- 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 as well as being part of the National Grid strategic spares group. Throughout the pandemic, WPD has also procured additional PPE materials and vehicles to ensure the business remains able to respond and assist to the nation's power needs.
- WPD has a resilient IT infrastructure with multi-site running and fault tolerant/mirrored systems with the ability to quickly shift to home working when required.
- Flood resilience plans are in place for major substations and other critical sites.
- There are reciprocal arrangements in place with other network operators for backup support through the North East West South Area Consortium ("NEWSAC") . This allows for the sharing of physical labour, materials and/or plant amongst the industry when required.
- In order to better support customer's 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.

# Network Performance & Security

## Goal

Network Performance & Security

## Risk

## Mitigating actions

## **Cyber breach threat:**

Unauthorised access to our key networks and systems.

- 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 HTTPS, SFTP, TLS and SSH.
- Regular security drills are performed involving the Information Resources department and other 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 COVID-19 relating to a high number of employees working from home. Users have been advised of security measures to follow when using WPD assets from home, along with guidance to ensure the safe use of video conference facilities. Extra monitoring controls have been implemented around the Group's externally facing systems and the Group's VPN/RDP 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 continues at a heightened rate due to COVID-19.
- WPD took part in a ransomware simulation exercise to test our readiness to a significant ransomware event at WPD.
- 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.
- As a result of an attempted cyber breach in the year, where an unknown attacker attempted and failed to gain control of WPD Telecoms management severs, WPD unknowingly installed an infected vendor supplied update file to its management servers but due to WPD's existing Cyber controls the malware failed to execute resulting in no actual compromise or loss of data. An expert third party forensic response team were engaged and validated WPD's incident impact assessment. A further update file from the vendor then removed the malware and allowed the management servers to be returned back into operation. A full lessons learned document was produced which resulted in increased levels of system logging and analysis has been implemented in the affected area.

## Financial Stability

## Interest rate risk:

WPD has had both shortterm and long-term external debt during the year, at floating and fixed rates of interest, which exposes it to interest rate risk.

- WPD's interest rate risk management policy seeks to achieve the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows.
- An element of the long-term debt is index linked which creates a natural hedge against WPD's regulated income, which is also index linked.
- WPD also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for any future planned issuance of debt.

Credit risk:

## Goal

Financial Stability

## Risk

## Mitigating actions

## A customer or counterparty to a financial instrument will fail to perform and pay the amount due causing financial loss to the WPD Group.

- WPD is exposed to credit risk on its billed and unbilled portion of customer contributions in relation to any capital work undertaken. WPD maintains credit policies and procedures with respect to counterparties. Depending on the creditworthiness of the counterparty, WPD may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees.
- WPD has minimal credit risk in relation to debtors pertaining to revenue from providing distribution use of system services ("DUoS"). DUoS debtors are protected by Ofgem regulations, provided credit management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the Distribution and Connection Use of System Agreement ("DCUSA").

## **Exchange rate risk:**

Negative currency fluctuations on foreign currency denominated debt.

Where long-term debt is denominated in a currency which is not sterling, the WPD Group's policy is to hedge exposure to fluctuations in exchange rates through cross-currency swaps.

## **Inflation risk:**

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

## Regulatory changes:

Changes in legislation relating to environmental and other matters are not adopted by WPD.

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

## 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, 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 carefully monitors its SF6 equipment and employs the external ENA Engineering Recommendations for the reporting of SF6 banks, emissions and recoveries.
- Following best practices and complying with various guidelines in connection with environmental practices 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.

## Environment

## Mitigating actions

## Goal

## 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 2020/21. 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 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 to allow them the opportunity to assure themselves the effectiveness of interactions between the Board and the business plan delivery team.
- Annually WPD hosts workshops 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 2021, the Group held two rounds of workshops. Nine virtual events were attended by a record 479 stakeholders from a range of different backgrounds (including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors). This included five topicspecific workshops in February 2021 which allowed us greater scope to obtain granular feedback from stakeholders who proposed focus areas and actions across WPD's key delivery strategies for RIIO-ED2.

## Lack of skilled employees:

Failure to attract, retain and develop employees.

- WPD maintains good practices and safe working conditions.
- WPD's employees have access to pension schemes (Defined Contribution Schemes 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 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 last 20 years, WPD has been recruiting approximately 100 new apprentices each year.

## **Reliance on suppliers:**

WPD 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's ability to operate the network.
- Most of the electricity which enters WPD's network is carried on the National Grid's network and connects with the WPD network at grid supply points. The WPD Group is dependent on National Grid. National Grid is the electricity transmission and electricity system operator ("ESO") regulated by Ofgem and thus the risk of a major failure is considered very remote.
- All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity.

Goal

## Risk

## Mitigating actions

# Stakeholder Value & Engagement

## Regulatory risk:

WPD's revenue is regulated and is subject to a review at the end of each price control period. Thus WPD is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the next RIIO-ED2.

- 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 engages with its shareholder on all changes and encourages investor dialogue between PPL, its shareholders, and Ofgem.
- WPD actively engages with Ofgem in relation to all industry initiatives such as Green Recovery Initiative which involved unlocking investment for green projects.

## Other current risks

## COVID-19

In response to the COVID-19 pandemic, globally, governments had to take a variety of extensive actions to contain the spread of the virus including quarantines, stay-at-home orders, travel restrictions, reduced operations or closures of businesses, schools and government agencies and legislative or regulatory actions to address health or pandemic related concerns. The spread of the virus and the measures to contain it has disrupted the world economies and presented extraordinary challenges to businesses, communities, workforces and markets in the past year.

WPD responded to the risks arising due to COVID-19 by initiating a WPD Pandemic Review Group ("PRG") in January 2020, when the threat of the COVID-19 virus became apparent. Some of the key risks for the Group pertained to the failure of critical business operations, key staff losses and shortages of crucial stock items.

The PRG includes the WPD Operations Director, senior business managers and the Group Trade Union Safety Committee chair. The PRG provides the strategic direction around which the wider business implements our operational response to COVID-19.

WPD is a Category 2 Responder under the Civil Contingencies Act 2004 and therefore operational and other key support roles staff are designated as Key Workers under the UK Government's plans to keep the country operating in the event of a national emergency.

Throughout the pandemic and associated lockdowns, the PRG group have continued to meet regularly to develop the WPD strategic response to both new and amended Government guidance, industry specific advice and/or business specific operational concerns. The PRG has, as a result, implemented various measures which have enabled WPD to continue providing a safe, secure and reliable supply of energy to our customers.

Some of the actions initiated by the PRG and implemented through our operational teams, throughout various stages of the pandemic restrictions are outlined below:

- Implementing COVID secure measures across the business in order to maintain customers electricity supplies in line with our Category 2 responder obligations:
  - Identifying at an early stage of the pandemic who were our 'Key workers' and ensuring they could continue supporting our response to COVID-19 throughout the various lockdowns; and
  - Reviewing, amending and updating our working practices to ensure these were appropriate for COVID-19 to minimise the risk of transmission for our key workers.
- Developing and publishing a WPD generic COVID-19 secure risk assessment as well as individual COVID-19 risk assessments for all WPD operational sites and offices.
- Providing guidance for staff, visitors and contractors to ensure they remain COVID-19 secure whilst working at any WPD workplace.
- Ensuring that all of the COVID-19 guidelines published by the Governments were reviewed, communicated and implemented across the whole organisation.
- Enacting weekly meetings with key trade unions and implementing joint communications to staff where necessary.
- Working with national bodies such as the ENA to align our COVID-19 responses.

For the year ended 31 March 2021

## Risk management and controls (continued)

## Other current risks (continued)

## COVID-19 (continued)

- Developing and monitoring key item stock levels including pandemic safety related stock such as face coverings, PPE, coveralls
  and sanitisers.
- Working closely with the purchasing team in order to ensure that the supply chain of the Group is managed with minimum interruptions. Actions included engaging with all strategic suppliers as 'essential WPD providers'. This engagement identified them as essential key workers and allowed them to continue operating.
- Working with the purchasing team as well as the safety team to identify and evaluate any new suppliers, if possible.
- Hiring extra vehicles to allow operational staff to travel in a COVID-19 secure environment.
- Coordinating with distribution managers in order to ensure that the stock is carefully monitored and is available at the right storage places across our regions.
- Providing capability for all staff who were not designated as Key Workers to work from home including the provision of technology solutions to allow them to continue to be effective.
- Monitoring sickness rates and absenteeism to ensure operational capability was not compromised.
- Ensuring pro-active internal track and trace programmes were implemented to reduce the potential for inter staff transmission.
- Complying with all Public Health of England/Wales advice and ensuring cases are duly reported and communicated.
- Provided staff and managers with safety and health advice including posters, frequently asked questions and other COVID-19
  related information which is regularly reviewed, amended and updated as this advice changes.

## Brexit

Following the European Union referendum vote on 23 June 2016, the UK formally left the EU on 31 January 2020 and the transition period ceased on 31 December 2020. Brexit did not materially impact the WPD Group. All of the Group's revenue is generated in the UK and thus is not exposed to any risks from the EU marketplace. However some of the Group's strategic suppliers are EU based resulting in a potential risk of supply chain disruption. In response to this risk, before the end of the transition period, management had identified and ordered in bulk, critical inventory that merited stockpiling.

After the end of the transition period, some delays have been noted in receiving inventory items from the EU. However there has been no operational disruption within the Group due to these delays. Our existing inventory, which includes our stockpiled Brexit specific inventory, has allowed us to manage any lead times. Also, multi sourcing of strategic contracts protect our operations from a single point of supply failure. The management expects the delays to be temporary and does not expect Brexit to have a permanent impact on the lead times. Our purchasing team continues to work closely with suppliers to ensure contingency and business continuity plans are in place. No significant cost increases in relation to our inventory purchases have been identified.

Uncertainty around Brexit did result in the weakening of sterling; however WPD's revenues and assets are principally sterling denominated, thus minimising any foreign currency risk for WPD. Any foreign currency debt is fully hedged by cross currency swaps.

With regards to our staff, Brexit did not cause any increase in our employee turnover ratio. All our effected employees were able to apply for settlement successfully. No additional employment costs were incurred by the Group in relation to this.

## Ofgem investigation into compliance with Priority Services Register obligations

Ofgem opened an investigation in February 2020 into whether WPD had breached standard licence condition 10, which sets out WPD's obligations in relation to customers on the priority services register ("PSR"), and subsequently licence conditions 9, relating to the arrangements for visiting customers premises, and 30, regarding the sufficiency of resources. We are working with Ofgem and have provided responses to all received information requests demonstrating how we have complied with the licence requirements. Ofgem has stated that the opening of this investigation does not imply that they have made any findings about non-compliance by WPD and we await their initial findings.

## Corporate and social responsibility

We care about our customers and our communities, the way we 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. In the year to March 2021, WPD assisted 90 (2020: 276) separate charitable and non-charitable organisations as part of a £83,000 (2020: £259,000) commitment. This included support for an electricity exhibition that combined art with science, sponsorship of a regional Science, technology, engineering and mathematics ("STEM") Challenge and support for the Duke of Edinburgh's Diversity Programme for underprivileged children.

For the year ended 31 March 2021

## Corporate and social responsibility (continued)

## Social and community (continued)

The reduction during the year is due to Covid-19, largely attributable to the urgent focus on supporting groups impacted by the pandemic and partially also due to the challenge of providing certain commitments during the pandemic. Due to COVID-19, WPD moved quickly to adapt its efforts towards supporting charities, councils and community groups that were directly supporting vulnerable people and communities affected by the pandemic. £1million of funding was provided to 871 organisation to aid efforts such as food and medical supply deliveries, online services for those in isolation and PPE for hospitals.

While maintaining these core themes, we have also continued to tailor our support to align, where appropriate, with the feedback from our stakeholders and customer opinion research from our customer awareness activity.

## - Vulnerable customers

WPD is required to hold a Priority Services Register ("PSR") that records details about vulnerable customers so that additional support can be provided when the customer contacts WPD or when their supply is interrupted. Specifically help is provided for vulnerable customers during power cuts and where possible advice is provided to enable them to be prepared should a power cut occur

WPD has established a dedicated team of people to proactively contact customers and check the detail held about them. This is a process that will be repeated every two years to ensure that the register remains up to date. WPD is also developing 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 has recently trialled receiving data from two of them. Links have been established with many organisations such as the British Red Cross to improve the understanding of the needs of vulnerable customers. These partners work with WPD to improve the services that are provided and we will continue to work with them.

## - Fuel poverty and energy affordability

Some customers on low incomes cannot afford to effectively heat their properties. Whilst WPD does not have a direct obligation to provide energy efficiency advice/support, in 2013 we introduced a social obligations strategy that is updated and reviewed by our Chief Executive annually and includes actions WPD will take to address fuel poverty by helping customers to access information and key support. In recent years we have worked with expert partners such as the Centre for Sustainable Energy, Citizens Advice and with the Energy Saving Trust to provide information for our customers on the causes of and solutions for fuel poverty.

WPD has been working with four charitable organisations, one in each of our licence areas, to deliver an innovative fuel poverty referral scheme called 'Power Up'. The project helps customers by offering income and energy efficiency advice, such as benefits and tariffs advice and energy saving schemes. Based on feedback from our Customer Panel customers are offered free, independent, confidential and impartial advice on various measures. 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 our, 'Affordable Warmth' schemes work in a similar way but for customers not already known to us. Partner organisations, such as Marches Energy Agency and Nottingham Energy Partnership, help us identify hard-to-reach fuel poor customers and they provide the same support as detailed above and then refer customers to WPD's PSR.

In 2020/21, in the midst of a global pandemic the focus of our fuel poverty support included supporting the shielding or isolated, arranging food parcels or delivering prescriptions. In total WPD supported over 22,000 (2020: 18,000) fuel poor customers across its four regions, leading to estimated annual savings of £10m (2020: £10m) for these customers. Details on our priority services can be found at:

https://www.westernpower.co.uk/customers-and-community/priority-services

## - Deaf awareness chartermark

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

For the year ended 31 March 2021

## Corporate and social responsibility (continued)

## **Taxation**

WPD is committed to comply fully with the UK tax legislation and endeavours to pay the right amount of tax at the right time, taking a reasonable approach where there is any uncertainty. WPD does not engage in any aggressive or artificial tax planning to reduce its tax liabilities. WPD values an open working relationship with HM Revenue & Customs and keeps it aware of any major business developments. The WPD Board takes ultimate responsibility for the management of taxation affairs in the UK, including the management of risk, the compliance process and the control environment in which the tax department works.

WPD adopts a responsible approach to its tax practices and intends to enhance its tax reporting in line with best practice through the publication of a separate annual report on tax, with the first such report to be issued within the next few months.

For details of the Group's effective tax rate see note 10. For our tax strategy refer to the link below: <a href="https://www.westernpower.co.uk/about-us/financial-information">https://www.westernpower.co.uk/about-us/financial-information</a>

## Human rights

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

For our Modern Slavery Act 2015 statements refer to the link below: https://www.westernpower.co.uk/modern-slavery-act

## Anti-corruption and anti-bribery

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

## Climate change

Our 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 has been verified externally for accuracy and compliance with international business carbon footprint standards, the Greenhouse Gas ("GHG") reporting protocol and ISO14064-1. Refer to page 43 in the Directors' report for our BCF data.

We understand and acknowledge that the greater our BCF is, the greater our impact is on our environment and the sustainability of future generations. We are therefore committed, to ensuring we meet all of our compliance obligations while minimising the overall impact that our activities have on the environment in which we work and operate.

During RIIO-ED1 we have committed to achieve the following environmental improvements (outputs) throughout our business to reduce our BCF and to reduce harm to the environment from the escape of harmful substances:

- A reduction in technical network losses;
- Installing oversized transformers when replacing assets at highly loaded locations.
- Using larger sized cables when installing new network in Low Carbon Technology ("LCT") hotspots.
- Undertaking innovation projects specifically related to reducing technical losses.
- A reduction in our carbon footprint;
- The introduction of electric vehicles into the WPD operational fleet.
- Ensuring all new or refurbished WPD buildings achieve a minimum rating of 'Excellent' for new build and 'very good' for refurbishment under the Building Research Establishment Environmental Assessment Method ("BREEAM") rating.
- Reducing the amount of waste we produce and send to landfill.
- Reduction in the leaks from our equipment, specifically;
- The volume of oil lost through leaks from fluid filled cable.
- The volume of SF6 gas that is lost from switchgear.
- Installing effective oil containment 'bunds' around plant containing high volumes of oil.

For the year ended 31 March 2021

## Climate change (continued)

For our progress in relation to our RIIO-ED1 environmental outputs, refer to our environment and innovation report at the below <a href="https://www.westernpower.co.uk/customers-and-community/environment">https://www.westernpower.co.uk/customers-and-community/environment</a>

Looking beyond RIIO-ED1, our draft business plan for RIIO-ED2, identifies achieving net zero (across scope 1 and 2 emissions and excluding network losses) in our internal business carbon footprint by 2028 as a core commitment. Net zero means achieving a balance between the greenhouse gases put into 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. Some of the key actions that have been recognised in this regard are:

- Install Low Carbon Technology ("LCT") generation at all suitable depots and offices to produce electricity to meet operational demand:
- Purchase all building energy from a renewable source and account for this in our reported BCF;
- Reduce energy use in our buildings;
- Ensure that all new WPD buildings achieve an 'Excellent' BREEAM rating;
- Replace a minimum of 89% of our existing 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;
- Include only non-carbon technology cars in our company car scheme by 2025;
- Reduce business travel by encouraging more remote working and virtual meetings; and
- Increase use of small scale battery powered generation, where appropriate reducing reliance on diesel generation, helping to reduce our carbon footprint when restoring customer supply.

The key actions to be taken to reduce harm caused to the environment by the escape of harmful substances will be:

- Reduce the volume of oil leaked from fluid filled cables by 50% by 2028 compared to the volume recorded during RIIO-ED1;
- Replace 90km of the worst leaking circuits with non-oil alternatives; putting WPD on track to remove all oil-filled cables by 2060;
- Deliver a 20% reduction in SF6 losses from RIIO-ED1 and collaborate with industry partners to develop technological alternatives to reduce overall volumes of SF6 on the system.

Community energy is the delivery of community-led renewable energy, energy demand reduction and energy supply projects with the underlying objective of addressing climate change. Community projects also deliver collective social, environmental and economic benefits to the local community. WPD published a Net Zero Communities strategy which summarises the work we have done in collaboration with community energy groups over the past 7 years and highlights what we plan to do next to support our communities to get to net zero. During RIIO-ED2, we expect to dedicate community energy resources to support communities in their delivery of projects.

Current and future climate change presents a major challenge for all DNOs and their assets. The effects of both extreme whether events and gradual climate change directly affects the Group's objective of providing a safe, reliable and efficient electricity supply to our customers. Ensuring our own sustainability and climate change resilience is a key priority.

The main impacts on our network from the climate change projections will be those caused by temperature increases, extreme weather events such as wind, lightning and flooding. We have incorporated our key mitigating and adaption responses in our business plans and we report on various adaption actions such as substation flooding resilience programmes and storm weather responses to Ofgem as part of our normal reporting requirements. Our understanding of climate changes risks and suitable adaptation actions is aided by sharing information and best practice with other electricity companies via the ENA. All energy sector companies are designated as reporting authorities and develop national guidance where we share common issues. During RIIO-ED2, we will continue to improve our understanding of the risks and impacts of climate change to our network.

Our business strategies that underpin our analysis of impacts and risks of climate change are driven by a number of factors such as the absolute need to keep our customers, public and our employees safe, ensuring that our customers receive a very high level of service, our regulatory framework and our asset life cycles. A particular aspect of our network is that many of our assets have long useful lives and therefore it is important to ensure that we take account of predicted climate change impacts when planning new installations or safeguarding existing key equipment. Thus, for example, flood protection currently being provided to our key assets, is designed to be resilient to the end of this century.

Further details in relation to our climate change adaptation analysis and response can be found in our reports at the link below: <a href="https://www.westernpower.co.uk/customers-and-community/environment/carbon-impact-and-climate-change">https://www.westernpower.co.uk/customers-and-community/environment/carbon-impact-and-climate-change</a>

The three rounds of our climate change adaptation reporting at the link above were produced in response to the requirements set by The Department for Environment, Food and Rural Affairs ("DEFRA") and the Climate Change Act 2008.

For the year ended 31 March 2021

## Non-financial information statement

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

## - Business model

Refer to page 1.

## - Environment

Refer to pages 3 and 25-26 for details on our policy regarding the environment.

Refer to pages 12 and 13 for details of the impact of our activities on the environment and our performance in this area.

Refer to page 20 for our principal risks in relation to the environment and our actions to mitigate those risks.

## - Employees

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

Refer to page 14 for our performance in relation to employee satisfaction.

Refer to page 21 for our principal risk in relation to employees and our actions to mitigate that risk.

## - Social matters

Refer to pages 23-25.

## - Human rights

Refer to page 25.

## - Anti-corruption and anti-bribery matters

Refer to page 25.

## **Section 172 Statement**

Refer to pages 36-40 for our Section 172 statement.

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

P Swift

Chief Executive

30 June 2021

## Western Power Distribution plc

Avonbank

Feeder Road

Bristol BS2 0TB

## Corporate governance statement

For the year ended 31 March 2021

For the year ended 31 March 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, Western Power Distribution ("WPD") has adopted the Wates Corporate Governance Principles for Large Private Companies.

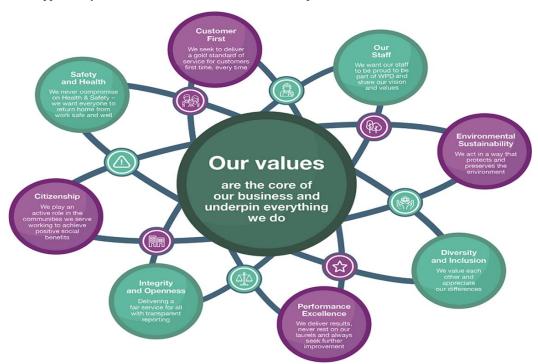
The principles below have been applied throughout the year ended 31 March 2021.

## 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. During the current year, the Board has been focused on reaffirming the Group's purpose and values.

Our purpose is to deliver exceptional service and support environmental and social well-being for the communities we serve.

This purpose is supported by our values that have been defined and are presented in WPD's Values matrix.



WPD's values matrix was unveiled by the executive team to senior management at the first of two senior leadership conferences during the year. Our senior leadership conferences help strengthen our values and support open dialogue between the executives and the senior management team. This is an effective way of cascading key messages by the executive directors throughout the organisation. Due to the pandemic the two leadership conferences were conducted virtually, however they were as constructive as ever with over 80 participants.

The Board is confident that they have defined and articulated the purpose and values that goes to the heart of WPD in that we are a purpose led Group with our values developed in conjunction with our workforce and other stakeholders over many years. The Board is determined to ensure that the Group's culture is aligned with our purpose and values. As a step towards this, one of the initiatives launched during the year to drive the Group towards fulfilling its values and to continue building trust within the workforce was an extensive diversity and inclusion programme. The Board is committed to allocating the resources necessary to ensure that present and future workforces are treated with equality and are reflective of society.

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 7.9 million 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.

Further to fulfilling our purpose the Board have signposted their intention to reduce the Group's internal carbon footprint to net zero by 2028 (excluding network losses) which is 22 years ahead of the Government's UK wide target.

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. For further details on how the Board engages with its employees, refer to the 'Stakeholder relations and engagement' section below.

For the year ended 31 March 2021

## **Board composition**

The WPD plc Board comprises four executive directors and five non-executive directors. The non-executive directors are part of the senior management team of the WPD Group shareholder, PPL. See page 1 of the Strategic report for details on ownership.

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

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

Independent oversight responsibilities lie with the non-executive directors. The non-executive directors fulfil their responsibility in offering constructive challenge by regularly attending board meeting of the Company. In addition, the non-executive directors 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 non-executive directors are provided with timely information and given access to relevant updates, including invitations to meeting, on which they are encouraged to offer constructive feedback.

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

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

The Chief Executive is appointed by the Group shareholder, PPL. The Governance and Nominating Committee ("GNC") of PPL seeks candidates with a broad range of demonstrable abilities and accomplishments beyond that of corporate leadership. These abilities include sufficient skills and expertise to provide sound and prudent guidance in respect of the Group's operations and interests. When making appointments, the GNC takes into consideration skills, expertise, background, professional experience, education, and a variety of other attributes that contribute to the Board's collective strength. Further a separate committee of PPL, the Compensation Committee ("CC"), is responsible for the succession planning of the Chief Executive.

Other executive directors and non-executive directors are nominated by the shareholder in consultation with the Chief Executive, and elected and formally appointed by the existing Board members. The process followed for nomination of the directors involves consideration of the relevant skills, expertise, experience, professional background and various other personal attributes.

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

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. In the current year, due to the pandemic, these trainings, meetings and engagements were conducted virtually. 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 current information.

## Directors' responsibilities

## Accountability and discharge of responsibilities

There are well-defined policies, as approved by the Board, clearly establishing the overall duties and liabilities of the directors, the areas of responsibility and accountability for each director, the process for delegation of authority by the Board and the matters reserved for the Board. 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 four principal DNO Board meetings each year. If the need arises, the directors can call additional meetings at any time, organised through the Company Secretary. Due to the pandemic, all meetings in the current year were conducted virtually. The Board receives and is updated on all key and important business information by the executive directors at the Board meetings. The Board is supported by the Company Secretary to provide guidance on key governance requirements.

For the year ended 31 March 2021

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

## Accountability and discharge of responsibilities (continued)

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

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

The executive directors are responsible for the organisational performance of their directorate and are accountable to the Chief Executive and the Board. Executive directors regularly meet with their respective senior management teams to discuss matters impacting the Group. 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. In the current year, the directors had a detailed training program in relation to their duties and responsibilities so that they continue to lead with high standards of business conduct and good governance.

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.

## **Integrity of information**

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

Key financial information is taken from the Group's financial systems. Our finance team is appropriately qualified to ensure the integrity of this information and necessary training is provided to keep them up to date with statutory, regulatory and financial reporting requirements. As WPD is owned by a US publicly quoted company, it is subject to the requirements of the US Sarbanes-Oxley Act of 2002 (the "Act"). 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 information submitted. Data is compiled from source systems that have appropriate validation checks and is prepared, reviewed and approved by WPD's experienced personnel.

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

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

For the year ended 31 March 2021

## Opportunity and risk

## **Opportunity**

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

The Board is constantly engaged in considering technological advances and is invested in the development of smarter ways of working throughout the business. Publication of our DSO forward plan (which is regularly monitored for progress against the DSO strategy) and the launching of a new brand, 'Flexible Power,' to seek market-provided sources of flexibility (which will allow us to accommodate increasing demand for electricity without having to build a larger network), are recent examples of how innovation and technology can be harnessed to create business opportunities through efficiently meeting the needs of our stakeholders.

Further, as a DNO with an increasing DSO function, we have a fundamental responsibility to help deliver, and not just facilitate, the Government's 2050 net zero target. Stakeholders don't want us to be passive; instead, they believe we should be a key driver and innovator of the changes needed. Recognising this, the Board is aiming to reduce the Group's internal carbon footprint to net zero by 2028 (excluding network losses); 22 years ahead of the Governments UK wide target. Achieving a net carbon future brings with it many new challenges during the next price control period, RIIO-ED2 (April 2023- March 2028), such as the need to ensure capacity is available for charging vehicles, powering heat pumps, and allowing more connection of distributed generation and energy storage.

With a view of furthering these exciting transformations across the energy sector, some of the key initiatives undertaken by the executive directors during the year are as follows:

• Electrification – Low carbon technologies such as electrical vehicles ("EV") and heat pumps are a key part of the UK's plan to achieve net zero by 2050. We became the first DNO Group to publish our EV and heat pump strategy in 2020. Our EV strategy describes the challenges we face to prepare our network for millions of electric vehicle drivers who will want to charge their EVs at a time and place that suits them. It also outlines the ways in which we plan to harness innovation and other solutions to meet these challenges. The strategy explains the rationale behind our innovation projects and initiatives, as well as how we are incorporating some solutions into our business as usual activities. Our heat pump strategy sets out how WPD will enable heat pump owners to connect to the network in a way that suits them, using innovation and other initiatives to make this happen. The strategy documents are available on our website at:

https://www.westernpower.co.uk/smarter-networks/electric-vehicles https://www.westernpower.co.uk/smarter-networks/heat-pumps

• Net Zero Communities Strategy – We recognise that the community energy organisations play a vital role in driving the net zero transition because they work from the ground up, as trusted intermediaries, bringing their friends, neighbours and wider communities with them. We will not be able achieve a transition at the speed and scale necessary to meet net zero by 2050 without bringing people with us. Therefore we published a Net Zero Communities strategy which summarises the work we have done in collaboration with community energy groups over the past seven years and highlights what we plan to do next to support our communities to get to net zero. The strategy and the resulting action plan will be reviewed and updated annually. The strategy is a working document that our communities can continue to influence through our events and online forums. Details of this can be found at:

https://www.westernpower.co.uk/customers-and-community/community-energy/communities-strategy

• UK Green Recovery initiative – Under this initiative, Ofgem has agreed to allow DNOs to unlock investment funding for targeted areas. We will be investing up to £59.1m in the electricity grid across the Midlands, South West England and South Wales to boost green growth and jobs across our region over the remainder of ED1. To help target this network investment we called on community groups, local authorities, developers and green investors to submit evidence of any 'ready to go' green projects that require a connection to the electricity network via an industry 'call for evidence'. WPD is keen to ensure that investment is directed to the network areas where investment will be most effective, and supports the move to a net zero carbon emission economy. Thus, the required evidence shaped WPD's submission to Ofgem of the proposed network upgrades.

For the year ended 31 March 2021

## Opportunity and risk (continued)

## Opportunity (continued)

• Flexible Power collaboration – We launched Flexible Power in 2017 as a way of helping to manage constraints on the networks and ultimately saving customers money. Since 2018, we have adopted Flexible Power as business as usual and have also continued to refine it based on feedback from users. A "flexible first" strategy was also adopted so that we always seek a flexible solution for a network constraint before moving to traditional network reinforcement. It also delivered on the 'Flexibility First' commitment made by all DNOs to fully test the market ahead of undertaking conventional reinforcement. In the current year, this initiative has moved further ahead as now the WPD Group has joined forces with three other DNOs to provide flexibility services providers with a direct path to multiple networks and WPD's platform will be used to achieve this. Other DNOs will be using our Flexible Power platform to advertise and operate their flexibility needs. This Flexible Power collaboration will streamline the process for providers by enabling them, for the first time, to view flexibility locations, requirement data, procurement notices and documentation published by all participating DNOs on one platform. Meanwhile, WPD is now running further innovation projects looking at the impact of flexibility services on the wider market.

## Risk

The WPD Board oversees the risk management of the Group and develops the Group's overall risk appetite whilst in pursuit of its strategic goals. 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 website to assist the managers with establishing an appropriate control environment. We consider the involvement of qualified and competent employees with the appropriate level of expertise throughout the business a key factor for implementing an effective internal control environment.

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

An Enterprise Risk Management process is in operation, with a focus on recognising emerging and significant risks. Consideration of significant and emerging risks and related decisions, are undertaken by the Executive Council. The Executive Council exercises suitable judgement as to any control decisions that merit Board attention. Emerging and significant risks are regularly reported to the Board, facilitating the oversight of the risk management process of the Group. Pages 17 to 23 of the Strategic report outline the key risks and the related mitigating actions for the WPD Group.

We have an established Internal Audit function reporting directly to the Chief Executive. The Head of Internal Audit also attends and reports directly to the WPD Group Board members at their quarterly meetings. The WPD Internal Audit function also reports into the Audit Committee of the shareholder, PPL. For the purpose of the Group's US GAAP reporting as at 30 November, the Internal Audit approach follows a recognised audit framework to ensure the Group is compliant with relevant legislation e.g. Sarbanes-Oxley Act 2002 (as required by our US shareholder). The Internal Audit Charter, defining the purpose, mission and responsibilities of the Internal Audit function, has been approved by the Board. The Board is also responsible for approving the annual audit plan, reviewing audit results and monitoring the implementation of Internal Audit recommendations. Regular updates, including the progress of Internal Audit testing are provided to the Board.

## Remuneration

The remuneration policy applicable to the role of Chief Executive is set by the PPL Compensation Committee ("CC"). The policy is reviewed annually by PPL at its Annual General Meeting and is detailed in PPL's Annual Proxy Statement. PPL's latest statement can be found at:

https://pplweb.investorroom.com/proxy

The CC uses an independent consultant to ensure that the executive compensation programme is reasonable and consistent with competitive industry practices. The consultant reviews the remuneration policy in line with market compensation data and information on pay practices from the utility and general industry comparators. After considering the advice from the consultant, the CC arrives at compensation packages that are aligned with achievement of the PPL Group's purpose, long and short term goals that include operational and financial targets and overall strategic priorities.

Remuneration of the other executive director roles is approved by the shareholder PPL, with input from the WPD Chief Executive, following the review of an internal benchmarking exercise of base salary plus long and short term incentives covering operational and financial targets. Elements of directors' remuneration is directly linked to the Group's performance targets which align to the Group's purpose and values.

For the year ended 31 March 2021

## **Remuneration (continued)**

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

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.

## Stakeholder relations and engagement

The Board believes that the overall success of the business is dependent upon the way we work with our stakeholders and is fully committed to fostering effective stakeholder relationships that are aligned to the Group's purpose and strategy. Our key stakeholders are customers, other network users, employees, regulators, suppliers and our shareholder; the Board actively promotes engagement and transparency with all these stakeholder groups and the executive directors ensure that a fair and balanced view of the Group's position is communicated to the relevant stakeholders. This is evident from the various stakeholder engagements that are conducted for all our key initiatives and business commitments.

Some recent examples are as follows:

- Extensive stakeholder engagement before the release of our first and second draft RIIO-ED2 business plan in January 2021 and March 2021 respectively. To date we have engaged with over 19,000 stakeholders (6,400 of these were direct, in-person engagements) so far; more than ever before. Customers have shaped the outcomes themselves, leading to the identification of our core commitments which can be used to measure our performance throughout RIIO-ED2. Further details on this can be found on pages 38-40 in the S172 statement.
- Staff engagement has also been specifically requested on our RIIO-ED2 business plan, with staff being invited to share their views
  via email and our Intranet pages. Two leadership workshops were held on RIIO-ED2 plans and the plans were shared with trade
  unions at every iteration.
- Stakeholder engagement has been launched across community groups, local authorities, developers and green investors to ensure effective network investment in relation to our UK Green Recovery initiative. Further details on this can be found in the Opportunities section above on page 31.
- Since 2016/17, each year, WPD creates Distribution Future Energy Scenarios ('DFES') for all its licence areas. The outputs of these studies are used by WPD to inform long term strategic planning and flexibility analysis. The annual publication of these projections on our website follows unprecedented engagement with local authorities and other stakeholders across our region. These publications are a testimony to the fact that the directors are keen on actively utilising stakeholder engagement for the benefit of the Group, 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.

Further 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 four times a year with members, who 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.

Annually, we host workshops to understand the needs of our stakeholders so that they are aligned with the strategic priorities of the Group. The directors participate in these workshops and improvement actions identified are subsequently considered and, where appropriate, implemented. This year the workshops were held virtually and with attendance of 479 stakeholders, were as productive as ever.

The newly created CEG, as part of RIIO-ED2's enhanced engagement, fulfils a vital role to ensure customers are placed at the heart of our plans for the future and that actions and decisions made by us are truly positioned to deliver in the long-term interests of customers. The CEG is independent and has the ability to challenge us on various areas such as our priorities, proposed outputs and expenditure, our approach to sustainability, resilience and innovation; our transition to DSO; the stakeholder engagement process; and vulnerable customer strategies. Recommendations from the CEG group are reviewed and considered by the Executive Council and in turn by the Board.

For the year ended 31 March 2021

## Stakeholder relations and engagement (continued)

## Customers (continued)

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 British Standards Institution ('BSI') Standard for Inclusive Service Provision (BS18477). For CSE, WPD is the top UK performer out of 600 companies, achieving 45 out of 57 'Compliance Plus' Ratings. WPD was the first network group to achieve the BSI and has achieved 8 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 further details on engagement with customers please refer to page 3, 4, 13 and 21 of the Strategic report.

For details on engagement with vulnerable customers refer to page 24 of the Strategic report.

## **Employees**

Senior leadership conferences conducted by the executive directors and our internal communications through our in-house magazine, news bulletins and direct email updates from executive directors are effective tools in engaging all employees. Through these communications, employees are kept informed about WPD's goals, objectives, performance, plans and importantly how individuals are able to contribute towards WPD's purpose and strategy. In multiple recent internal publications and emails, engagement from employees on RIIO-ED2 was invited, a demonstration that the directors are proactively seeking employees' views on key business areas. In the leadership conferences in the current year, the directors provided the senior management team with a detailed update on the proposed RIIO-ED2 plan and openly invited feedback and comments.

The Board utilises staff opinion surveys as a key tool for assessing the effectiveness of communication and engagement across the workforce. Results of employee surveys are discussed at Board level and actions plans communicated to staff. In the current year, due to the pandemic, the main focus of the employee survey was home working arrangements. Further, in response to these challenging times, the Chief Executive engaged with all employees through direct emails and encouraged the employees to contact him directly with any questions, concerns or suggestions. In response to this, several queries were received and responded to by the Chief Executive.

Various statements were delivered to employees to emphasise key priorities of the Group. During the year, the Chief Executive and Operations Director issued statements to highlight and promote the importance the Board places on the safety of its workforce, contractors, customers and any member of the public, with particular reference to the impact of the additional measures required due to the Covid-19 pandemic. In addition a Safety, Health and Environment Conference for non-operational staff was also conducted providing a broad insight into the safety culture of WPD and other utilities.

The Board also recognises that the workforce may wish to raise concerns anonymously. An ethics helpline provides employees with the opportunity to report any concerns. A defined policy is in place for resolution of any concern reported through the helpline.

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.

## <u>Regulators</u>

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

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

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

# **Corporate governance statement (continued)**

For the year ended 31 March 2021

# Stakeholder relations and engagement (continued)

#### Regulators (continued)

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.

During the pandemic, we proactively engaged with our regulators to support them in managing the impacts of COVID-19 on the energy industry. We diligently followed the advice of Ofgem in relation to the priority of works during the first lockdown. Subsequently, following the advice published by the Government as well as BEIS, in an effort to support the UK construction sector and to assist in the economy revival, we have fully resumed our activities to provide connections and upgrades to the network.

Along with other industry members, we engaged with Ofgem to decide on a COVID-19 monitoring reporting framework. All industry participants agreed to report weekly to Ofgem such KPIs that are most relevant in meeting the overarching objective of ensuring that customer needs are met, particularly those most vulnerable to this situation. In addition to diligently fulfilling the weekly reporting requirements, we also ensured to provide to Ofgem early updates in relation to any potential operational or financial issues that may in any way affect our regions.

Recognising our role in assisting the industry in these times of crisis, we supported Ofgem's initiative to provide relief to cash flow constrained suppliers by enabling them to defer up to three months charging relating to the use of the distribution network.

# **Suppliers**

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

Due to the pandemic, the purchasing team faced and successfully overcame many challenges in relation to the supplier engagement and continuity of the supply chain. The purchasing team engaged with all strategic and critical suppliers as an 'essential WPD service provider' and provided them with a template letter identifying them and their staff as having key worker status. This allowed many suppliers to remain open and to continue to manufacture, produce and deliver during the first lockdown and thereafter. Early coordination and communication with these suppliers was the key to ensuring continuity of our supply chain with minimum possible interruption. In one particular case, our engagement with a supplier in Italy in relation to a critical stock item had a direct impact on the re-opening of the manufacturing facility in Italy.

During this time our purchasing team quickly adapted and obtained increased understanding of the whole supply chain process with contracted suppliers so that they could identify the critical points in the process and offer assistance, where possible. Following our directions, contracted suppliers increased the buffer stock at their premises for high demand critical items.

We also carry out payment performance reporting for suppliers, details of which can be found on page 14 of the Strategic report.

#### **Shareholder**

The Board actively engages with our single shareholder, PPL, on all key matters. As stated above, the non-executive board members of WPD plc are part of PPL's senior management team. PPL's senior management has regular contact and dialogue with WPD's executive directors and senior management and all key information is fed back to the PPL Board on a timely basis. Regular financial and regulatory update meetings are conducted with PPL's management team to provide updates on any key accounting, business, and legal issues. Additionally WPD's financial plan is presented to PPL for detailed review and approval on an annual basis.

#### Environment

For the benefit of all its current and future stakeholders, the Board is dedicated to conducting its business as a responsible steward of the environment. Our draft 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.

The Board actively monitors its impact in terms of carbon footprint, waste recycling and fluid loss. For details on WPD's environmental KPI performance as well as various actions to mitigate any key environment risks refer to pages 12, 13 and 20 of the Strategic report.

#### **Section 172 Statement**

For the year ended 31 March 2021

The directors of all UK companies must act in accordance with their duties under the Companies Act 2006. This includes a fundamental duty to promote the success of the Company for the benefit of its members as a whole. This duty has been central to the WPD Board's decision-making processes and outcomes over many years. The Board has well-established policies defining the Board's duties and responsibilities including those under Section 172.

The information below describes how, in performing their duties during the year, the directors have had regard to the matters set out in Section 172(1) (a) to (f) of the Act, and constitutes the Board's Section 172 Statement.

# Strategy and long-term decision-making

Our purpose and our strategy as defined on the page 2 of the Strategic report, clearly reflects that the Board is focused on promoting the success of the business by delivering customer focused performance in a manner that is environmentally sustainable, provides long term stability and meets the stakeholders' needs. Five key goals underpin our long term strategy: Safety, Network Performance & Security, Financial Stability, Environment and Stakeholder Value & Engagement. These goals form the basis of all of the Board's key decisions and the risk management framework of the Group is linked to the achievement of these goals. The key goals are monitored by the Board through established key performance indicators ("KPIs"), as detailed in the Strategic report on pages 9 to 14.

The Board devolves day-to-day management and decision-making to its senior management team, and maintains oversight of the Company's performance, and reserves specific matters for approval. Policies are in place defining the powers of delegation by the Board, the matters reserved for the Board and the areas of responsibilities and accountability of each executive director. 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.

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 the risk management framework of the Group and the Board ensures the alignment of strategy and the appetite for risk. For the purposes of business resilience, the Board satisfies itself that there is an appropriate risk management approach and that reasonable mitigations are in place for the key risks of the Group. For details on the Group's risk management approach refer to page 32 in the Corporate governance statement.

# **Employee interests**

Our business is built by our people and we are committed to ensuring that employee interests are taken into consideration while promoting the success of the Group.

One example of this during the current year was the development of a formal home working policy in response to employee feedback received in a staff survey. Due to the pandemic and in response to the Government's guidance, nearly 2,000 employees of the Group transitioned to remote home working successfully. The survey sought to seek the view of employees in relation to their experience of working from home, returning to the office and the future of home working. 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 home 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.

For additional details relating to employee engagement and key KPIs pertaining to our employees refer to page 34 of our Corporate governance statement and pages 4, 14 and 21 of the Strategic report.

For details on our support for our employees during COVID-19 refer to page 7 of the Strategic report.

# Stakeholder engagement

Our key stakeholders are customers, other network users, employees, regulators, suppliers and our shareholder. Our stakeholder engagement strategy is approved by the Executive Council annually. Detailed engagement with our stakeholders and regular reporting to them is conducted on our business plans, both reporting on our RIIO-ED1 commitments and in developing 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.

For the year ended 31 March 2021

# Stakeholder engagement (continued)

During the year the directors directly, and indirectly through the senior management team, despite the restrictions on in-person events, engaged with over 37,000 (2020: 40,000) stakeholders via a range of methods and delivered 356 (2020: 300) improvement actions based on feedback received. These actions cover a variety of stakeholder groups including the important areas of vulnerable customers and smart networks. Specifically in relation to our draft RIIO-ED2 business plan, we have engaged with more than 19,000 stakeholders (over 6,400 via direct in-person engagement), at over 250 engagement events to date, including electricity customers, local authorities, charities and other energy providers.

Further detail on engagement with each of our key stakeholders is detailed on pages 33 to 35 of the Corporate governance statement. Also refer to the 'key decisions' section below on pages 38 to 40, which highlights the initiatives undertaken by the Board to ensure that stakeholder engagement is a key cornerstone in determining the strategic direction of the Group.

Further there are KPIs and actions mitigating risks associated with each of these stakeholders that ensure that stakeholder relations are duly monitored by the Board. These can be found on pages 13 to 14 and 21 to 22 of the Strategic report.

#### Impact on communities and 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. In the current year, we achieved environmental, social and governance ("ESG") corporate rating of Prime status. This rating by the Institutional Shareholder Services ("ISS") is only given to companies with an ESG performance above the ambitious threshold for the sector set by ISS. The rating reflects the Board's commitment to incorporating sustainability and wider environmental and social considerations into our decision making, as we carry out our work to keep the power flowing and to meet the energy challenges of the future.

WPD's longstanding approach to consumer vulnerability has focused on helping customers to cope during a power cut. In recent years, with the help of our stakeholders, we have extended our range of services to recognise and address the broad and multidimensional nature of vulnerability. This includes taking steps to address fuel poverty. During the current year, we have supported over 22,000 (2020: 18,000) fuel poor customers in making £10m (2020: £10m) annual savings. Further details on our corporate social responsibility, including vulnerable customers, can be found on pages 23 to 25 of the Strategic report.

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), 22 years ahead of the Government's UK-wide target. The directors remain focused on fostering an environment that supports innovation and creativity for ensuring that technology is utilised to best effect to meet the changing demands placed upon our network. During the current year, we launched the Net Zero Communities Strategy and the UK Green Recovery Initiative. Both these initiatives will allow us to make a contribution to the Government's net zero carbon emissions target and to their ambitions for making green growth a key part of rebuilding the economy following the pandemic.

Additionally in the current year, we also launched an energy affordability fund competition of £90,000. The scope of the competition as well as the score of the applicants was defined in conjunction with WPD's customer panel. The aim of the fund is to support new projects pertaining to delivery of innovative affordable warmth and/or provision of PSR services, whilst adapting to COVID-19 and developing effective new ways of working with vulnerable customers. Initiatives such as this illustrate the Board's commitment to supporting our communities and environment, whilst promoting the success of the Group.

The directors recognise our responsibility to operate in a way that minimises our impact on the environment, evident from the fact that environmental sustainability is one of our key goals. Details on this goal, related KPIs and mitigating actions for all key risks can be found on pages 3, 12, 13 and 20 of the Strategic report. Further details are also available in our Environment & Innovation report available on our website at:

 $\underline{https://www.westernpower.co.uk/customers-and-community/environment}$ 

For details on our support for our communities during COVID-19 refer to pages 7 and 8 of the Strategic report.

#### Reputation for high standards and 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. The Board ensures that the strategy and goals of the Group support this. Our engagement with all stakeholder groups reflects that this aim is embedded across the business and impacts the decisions taken throughout the organisation.

For the year ended 31 March 2021

# Reputation for high standards and business conduct (continued)

Regular internal communications and senior leadership conferences are instrumental in driving a customer focused approach within each level of the organisation. Details of these engagements can be found on pages 33 and 34 of our corporate governance statement.

Our vision and values are also communicated to each employee individually in their annual performance appraisals. Our vision and values statement clearly sets out business priorities including the interests of our shareholder, our customers, the environment and the communities we serve, as key areas of focus for the Group. These areas are akin to the factors that need to be considered (as per section 172) in decision making throughout the organisation.

Annual training on 'Standards of integrity', as endorsed by the Board, is mandatory for all employees including the executive directors. The main theme of this training is to reinforce to all staff the importance of acting with integrity and to conduct our business in accordance with our ethical standards. This training covers various topics such as dealing fairly with stakeholders, anti-bribery and anti-corruption considerations, conflicts of interest, preventing and detecting fraud, the Modern Slavery Act 2015, the Equality Act 2010 and awareness of anti-bullying and harassment. During the current year, a new training programme in relation to diversity and inclusion has also been launched.

Our commitment to excellent business conduct is also evidenced by WPD earning four category awards at the International Engage Customer Service Awards in December 2020. The awards celebrate companies that have demonstrated excellent performance in customer and employee engagement. WPD fought off competition from many reputable household names to take home three gold awards and a bronze award as well as being shortlisted for a further category with an honourable mention from the lead judge. This achievement is a validation of the emphasis placed by the Board on the quality of our services for our customers, especially in light of this year's pandemic.

We have continued to ensure customer satisfaction with our connections service, using customer feedback to develop our work plan for improving provision of connection services and we have an overall customer satisfaction score of 9.18 out of 10.

Our dedication to conducting our business to the highest standards is also demonstrated by the emphasis placed by us 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.

# Examples of 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)

WPD's RIIO-ED2 business plan outlines how the Group will invest £6 billion in its network to meet the future needs of communities, businesses and energy consumers, while committing to help them deliver net zero by 2050. With active engagement from the WPD Board, the business plan has been co-created in partnership with our broadest range of stakeholders, including perspectives from bill paying customers and future customers.

The Board has been keen on following an ambitious process to negotiate our business plan with stakeholders, to ensure that it meets the different, wide ranging needs and expectations of the customers and communities we serve. In January 2021, WPD became the first DNO to publish its business plan with an accompanying stakeholder consultation, 10 months ahead of its final submission to Ofgem. We did this to provide full transparency to stakeholders and maximise their opportunity to have an input into our planning process. To arrive at our first draft, we engaged with 7,341 stakeholders (over 4,500 via direct, in-person engagement), over a period of 2 years. Since then, we have received a large number of responses to aspects of our consultation from a wide cross section of stakeholders. This included a mix of qualitative and quantitative engagement methods.

Stakeholder feedback led to significant changes in the core commitments proposed in the second draft Business Plan. We have:

- Streamlined our key deliverables, from 67 (as included in first draft of business plan) to 58 core commitments;
- Raised the ambition of 35 of the core commitments (60%);
- Introduced four entirely new commitments; and
- Reworded 11 commitments to ensure they deliver clearer outcomes.

Feedback received from stakeholders since the second draft of the Business Plan was published told us that they felt that the number of core commitments should be further streamlined. In response they have now been reduced to 45, with previous actions now recategorised.

For the year ended 31 March 2021

# Examples of key decisions during the year (continued)

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

We adopt the widest possible definition of the term 'stakeholder', which means we strive to engage with anyone who has an interest in, or is impacted by, our operations. This can present its own challenges as each group brings a unique perspective and set of priorities. The key to overcoming this has been to work closely with our stakeholders, balancing the various considerations and reaching a consensus that works for everyone, wherever possible. 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 governments, community energy groups, highways agencies, universities and research institutions, customers including vulnerable customers, environmental groups, flexibility service provider groups, transmission companies, supply chain and contractors, gas distribution networks, WPD employees, trade unions and our shareholder.

Our stakeholder engagement approach has been guided by six key principles:

- Inclusive: Our plans take into account all stakeholders, including the hard-to-reach and seldom heard voices;
- Transparent: This means publishing all feedback we have received and the actions that resulted;
- Proactive: We identify and reach out to stakeholders; they do not need to seek us out; however we welcome all views and will not
  exclude any group;
- Tailored: We use a wide variety of engagement methods to suit the audience, avoiding a 'one-size-fits-all' approach;
- **Purposeful:** Engagement needs to lead to action. The intention of every engagement is to learn, improve and involve stakeholders in the co-creation of our plans; and
- Expert-led: Our engagement programme is headed up by those best suited to the job, with appropriate expertise, experience and responsibility for acting on insight

Every stage of our business planning and decision-making process for RIIO-ED2 has been scrutinised by our independent challenge body, the CEG. We followed a robust, independent and transparent process to appoint all members of the CEG. As part of this, we sought ratification and approval to proceed from Ofgem on five occasions, including direct oversight of, and input into, the Chair interview shortlisting process. This reflects the Board's commitment towards constructive engagement with the regulator on all key matters.

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 to allow them the opportunity to assure themselves on the effectiveness of interactions between the Board and the business plan delivery team.

The core commitments, as included in our business plan, fall within three key headings driven by Ofgem. These focus on meeting the needs of consumers, network users, maintaining a safe and resilient network, and delivering an environmentally sustainable service. Every core commitment in our draft business plan is in response to an area of focus identified as a priority by stakeholders. Some of the key commitments include:

- 90% on average for customer satisfaction.
- 1.2 million customers in vulnerable situations offered a smart energy advice plan every two years.
- Supporting 113,000 fuel poor customers to save £60m over 5 years.
- Lowest ever power cut levels (improve the current average customer experience of one power cut lasting 24 minutes every two
  vears).
- 70 schemes benefitting 8,260 Worst Served Customers.
- School children safer at 780 sites by undergrounding, insulating or diverting overhead lines crossing school play areas.
- Ready for up to 1.5 million electric vehicles; affordable Low Carbon Technology connections when required by our customers.
- Net Zero by 2028 for WPD's own business carbon footprint, and ready to enable local authorities to achieve Net Zero by as early as 2030.
- Community Energy Surgeries to be held for local energy groups.

Throughout the process, the executive directors have also been seeking active engagement of employees. 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. At each stage of the planning process, through email communications and news bulletins, employees are encouraged to participate in consultations on the business plan or to otherwise provide feedback in relation to it.

This process, through which our business plan is being 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. The core commitments within our proposed business plan are reflective of the fact that our priority remains to maintain an electricity network that supports the ever-changing needs of all our customers, including vulnerable customers, and best meets their expectations in terms of providing operational excellence, ensuring the safety and resilience of the network and doing this in a manner that is affordable, environmentally sustainable and meets the ambitions for the future of electricity in the UK.

For the year ended 31 March 2021

# Examples of key decisions during the year (continued)

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

For further details on our draft published business plan and our consultation process refer to: https://yourpowerfuture.westernpower.co.uk/have-your-say/riioed2-business-plan-consultation

#### Digitalisation strategy

Moving from a legacy analogue system to a modern, digitalised energy system is a critical step in enabling WPD's future transition to build a smart and efficient energy system that supports the UK's clear commitment to net zero carbon emissions while keeping lights on for customers. The requirements of our network are changing, driven by customer needs, including decentralised generation connected to our network and decarbonisation focused on the increasing transition of electrification of transportation and heating. As a step towards meeting these requirements, with active engagement from the Board, we launched our first digitalisation strategy and action plan in the current year. The key stakeholders in relation to this strategy are our customers, energy suppliers, technology providers/suppliers, local communities and regulators such as Ofgem, plus central Government via the BEIS.

The strategy focuses on improving data management, increasing insight into our network and improving business efficiency. Together these aims will help us make the most of the network that we already have in order to provide a more efficient and economic service for customers while supporting the Government's net zero carbon emissions goal.

We also released the first wave of network data using the Common Information Model ("CIM"). CIM means that for the first time information is in one place, the Energy Data Hub on WPD's website, in a format that allows public access. With this initiative, we have become the first UK DNO to provide real-time access to demand and generation data for on the network to customers and stakeholders. This is a key step in harnessing network data and utilising it in an open, transparent and centralised system. The CIM programme is one of several digitalisation projects in progress and more projects that develop on the foundations for digitalisation will be launched in coming months.

For our networks to evolve and inform investment decisions, we will increasingly need to work with a wider range of stakeholders. These steps towards digitalisation and setting the industry standard for increased data transparency, clearly evidence the fact that the directors are focused on the long-term benefits of all its key strategic decisions. The motivation for all the key initiatives, including this one, remains to create value for shareholders in a manner that is most beneficial to our customers, our industry, our communities and our environment. For example, through the CIM programme, low carbon technology developers or community energy groups will be able to identify neighbourhoods which could benefit from additional flexibility through battery storage or access a quick map of WPD's network areas with the capacity of additional solar or wind generation. Alternatively, CIM data could be used by innovators to investigate new network operating regimes, further reducing the risk of power outages during storms or spikes in demand.

The directors are also focused on engaging with all relevant regulators as we continue to achieve our goals for the network. This is evidenced by the fact that the key elements for our digitalisation strategy as well the CIM project have been based on the expectations and recommendations from the Energy Data Taskforce's report. The Energy Data Taskforce has been created by BEIS to advise the Government, Ofgem and the industry on how to unlock value from data within the UK energy system.

# Declaration of dividend

During the year the Board has declared cash dividends of £60.2m and a non-cash dividend in specie of £161.0m (2020: £200.1m). Since the year end a dividend of £140.0m has been paid. In considering capital distributions, the Board is mindful of stakeholders' views and takes account of our latest financial position, the long-term sustainability for the WPD Group in addition to the allowed rate of return and any incentive rewards received. In its capacity of providing oversight for the operational performance of the business, the Board also takes account of the prevailing performance against customer performance targets, other 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 11 of the Strategic report), we reinvest a significant portion of our profits back into the network to ensure an efficient, reliable and environmentally sustainable network. The Board ensures that it understands and takes account of the views of our shareholder in order to preserve positive investor relations. The Board acts in the shareholder's best interests by proposing an amount of dividend in accordance with the financial parameters of our regulatory allowance whilst maintaining strong financial health metrics.

#### Directors' report

For the year ended 31 March 2021

The directors present their annual report on the affairs of the WPD group, together with financial statements and auditor's report, for the year ended 31 March 2021.

# Results and dividends

The WPD Group reports a profit for the financial year of £571.4m (2020: £548.6m). Profit before tax is £692.5m (2020: £749.7m).

The WPD Group also reports other comprehensive losses, which were posted directly to capital and reserves, of £256.8m (2020: £224.6m gain). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

Dividends of £221.2m have been paid during the year, being £60.2m in cash and £161.0m as a non-cash dividend in specie for the transfer of an investment (2020: £200.1m).

All dividend payments are made out of the distributable reserves of the Company.

# Political affiliations, donations and expenditure

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

WPD does not engage in any lobbying activities with the Government. As part of the RIIO-ED2 business planning process, WPD 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, including COVID-19 pandemic support. The Group can potentially access an additional 10% of its Apprenticeship Levy payments in order to fund approved training programmes for apprentices; however, for the year ended 31 March 2021, the payments into the fund by the Group were in excess of the funding the Group reclaimed.

#### Financial risk management objectives and policies

WPD does not undertake transactions in financial derivative instruments for speculative purposes.

For further details of risks in relation to treasury operations, see the "Risk management and controls" section of the Strategic report.

# Liquidity and going concern

The following credit facilities were in place at 31 March 2021, in respect of which all conditions present had been met at that date.

				Letters of	Unused
	Expiration	Capacity	Borrowed	credit issued	capacity
	date	£m	£m	£m	£m
WPD plc - Syndicated Credit Facility	Jan. 2023	210.0	83.0	-	127.0
WPD South West - Syndicated Credit Facility	May 2023	220.0	75.0	-	145.0
WPD East Midlands - Syndicated Credit Facility	May 2023	250.0	-	-	250.0
WPD West Midlands - Syndicated Credit Facility	May 2023	250.0	60.0	-	190.0
WPD South Wales - Syndicated Credit Facility	May 2023	125.0	-	-	125.0
Uncommitted Credit Facilities		100.0	-	3.5	96.5
Total Credit Facilities		1,155.0	218.0	3.5	933.5

WPD Group debt balances, cash and short term deposits as at 31 March 2021 and 31 March 2020 are as follows:

	External debt				Cash and short term		
	Long-term (due after 12 months)		Short-term (	Short-term (due within		deposits (excluding	
			12 months)		restricted cash)		
	<b>2021</b> 2020		2021	2020	2021	2020	
	£m	£m	£m	£m	£m	£m	
WPD South West	1,025.20	1,020.00	97.6	113.6	26.6	39.8	
WPD South Wales	755.1	507.6	-	151.6	18.1	0.5	
WPD East Midlands	1,659.5	1,658.3	-	-	48.2	106.8	
WPD West Midlands	1,474.8	1,473.7	60.0	-	2.7	1.8	
Western Power Distribution plc	1,035.1	1,451.4	433.0	161.0	4.5	10.3	
Other subsidiaries	-	-	-	-	25.9	28.6	
	5,949.7	6,111.0	590.6	426.2	126.0	187.8	

For the year ended 31 March 2021

#### Financial risk management objectives and policies (continued)

Liquidity and going concern (continued)

Short-term debt includes bank overdrafts of £22.6m (2020: £13.5m). Short term deposits are considered corporate assets and can be accessed by any entity within the Group.

The Group has net current liabilities of £744.1m (2020: £490.5m). The increase in the net current liabilities during the year is primarily due to a 6 month short term loan of £350.0m due in August 2021. The loan was obtained during the year to finance the early repayment of \$500.0m debt on 1 March 2021. The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing facilities and issuances of long-term debt. The only borrowing due for repayment within the next 12 months from the date of signing of the accounts is the short term loan of £350m. This loan was repaid and refinanced on 14 June 2021 on the date of change of ownership. It has been replaced with a short term intercompany loan from National Grid plc, with a maturity date of 31 March 2022. The Group can access either short or long term borrowings in order to finance repayment of the loan. The Group also has sufficient head room available, under existing committed facilities, to meet all cash flow needs, including repayment of the £350m loan.

The directors have considered the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of WPD, the existing and future forecasted covenant compliance of the Group, which includes the gearing ratio and the anticipated ability of 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 17 to 23) and have taken the impacts of COVID-19 and related uncertainties into consideration in arriving at the going concern assumption for the preparation of the financial statements.

Several different test scenarios have been modelled by management as part of reviewing the going concern period. This included reasonable possible changes to revenue and expenses, as well as the impact of changes to planned debt issuances. Under all of these scenarios sufficient head room was available.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across our regions continue to receive electricity. The work of WPD is an essential part of the country's response to COVID-19, as what we do is crucial for the continuation of existing services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Therefore, even in these unprecedented times, where many business sectors are impacted severely, WPD has a continuing licence obligation to be a sustainable business and to continue to provide essential services to our customers. Our allowed revenues are fixed over a price control period and no significant slowdown in cash receipts of the Group has been noted. Thus COVID-19 has not materially impacted the liquidity position of the Group. For further details on COVID-19 impacts, refer to the business review section on pages 5 to 8 in the strategic report.

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

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

#### Group debt

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

#### **Corporate governance statement**

The Group's Corporate governance statement is detailed on pages 28 to 35.

#### **Employee engagement statement**

Details of the directors' engagement during the year with employees and consideration of employees' interests can be found in the Corporate governance statement on page 34.

# Business relationships statement

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

For the year ended 31 March 2021

# **Business relationships statement (continued)**

#### Customers

- Strategic report see pages 3, 4, 13 and 21;
- Corporate governance statement see pages 33-34; 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 38 to 40.

#### Suppliers

- Strategic report see page 4 and 14; and
- Corporate governance statement see page 35.

# Regulators

- Strategic report see page 4 and 22; and
- Corporate governance statement see pages 34 and 35.

# 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 15 and 16;
- an indication of activities of the Group in the field of research and development see page 16;
- a statement on the policy for disabled employees see page 4; and
- employee policies see page 4.

# Streamline energy and carbon reporting ('SECR')

Total annual quantity of emissions using equivalent tonnes of carbon dioxide ("tCO2e") - including own use

	tCO <sub>2</sub> e		tCO₂e per employ	
	2021	2020	2021	2020
Scope 1 (direct emissions)				
Operational transport	18,041	21,233	2.75	3.23
SF6 gas	8,678	9,005	1.32	1.37
Fuel combustion (diesel / gas oil)	2,750	3,181	0.42	0.48
Buildings	216	211	0.03	0.03
	29,685	33,630	4.53	5.13
Scope 2 (energy indirect emissions)				
Buildings electricity	4,575	5,289	0.70	0.80
Substation electricity	14,198	12,129	2.17	1.84
WPD Telecoms	576	804	0.09	0.12
	19,348	18,222	2.94	2.76
Total scope 1 & 2	49,033	51,852	7.47	7.88
Scope 3 (other indirect emissions)				
Business transport	1,558	3,606	0.24	0.55
Operational transport (contractors)	8,427	16,388	1.29	2.49
Fuel combustion (diesel / gas oil) (contractor)	6,056	6,068	0.92	0.92
Total scope 1, 2 & 3	65,074	77,914	9.92	11.84

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

Aggregate in kWH of annual quantity of energy consumed for business activities and own use Electricity energy consumed for the year to 31 March 2021 is kWH 22,093,087 (2020: kWH 23,259,982).

Gas energy consumed for the year to 31 March 2021 is kWH 1,177,215 (2020: kWH 1,150,183).

Energy consumed for helicopters for the year to 31 March 2021 is kWH 4,181,588 (2020: kWH 4,478,197).

For the year ended 31 March 2021

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

Methodologies used in calculating energy and carbon reporting data

Our BCF details the impact that our operational activities have on the environment in terms of tonnes of equivalent carbon dioxide ("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.

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

Measures for increasing the Group's efficiency during the year

During 2020/21, 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 Building Research Establishment Environment Assessment Method ("BREEAM") standard of 'Excellent' as a minimum and that refurbished existing depots achieve the 'Very Good' standard; and
- the on-going replacement with more modern and energy efficient heating and cooling systems throughout our property portfolio plus undertaking an energy efficiency review at many of our non-operational and operational sites including employee energy awareness campaigns.

#### **Subsequent events**

Subsequent to the year-end, on 15 April 2021, the Company paid a dividend of £140.0m to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited).

On 18 March 2021, PPL announced that it has reached an agreement to sell its UK investment, which includes the Company, to National Grid Plc. The transaction required National Grid Plc investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of WPD to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

#### **Directors and their interests**

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

P Swift, Chief Executive

GR Halladay, Operations Director

IR Williams, Finance Director

AJ Sleightholm, Resources and External Affairs Director

V Sorgi, Non-executive Director, PPL (resigned 15 June 2021)

AJ Torok, Non-executive Director, PPL (resigned 31 August 2020)

GN Dudkin, Non-executive Director, PPL (resigned 14 June 2021)

JH Raphael, Non-executive Director, PPL (resigned 31 May 2021)

JP Bergstein Jr, Non-executive Director, PPL (resigned 14 June 2021)

AW Elmore, Non-executive Director, PPL (appointed 1 September 2020, resigned 14 June 2021)

For the year ended 31 March 2021

# **Directors and their interests (continued)**

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

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

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

# Statement of disclosure to independent auditor

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

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

# **Independent auditor**

Deloitte LLP have expressed their willingness to continue in office and a resolution proposing their reappointment will be put before the Annual General Meeting.

Registered Number: 09223384

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

P Swift

Chief Executive

30 June 2021

Western Power Distribution plc

J'. L. J

Avonbank Feeder Road Bristol BS2 0TB

#### Directors' responsibilities statement

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the Group and the parent Company and of the profit or loss of the Group for that period.

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis, and to enable them to ensure that the individual and consolidated financial statements comply with the Companies Act 2006 and, with regard to the Group financial statements, article 4 of the IAS regulation. They are also responsible for the system of internal control, for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the Company's website is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

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

P Swift

Chief Executive Officer

30 June 2021

# Report on the audit of the financial statements

#### 1. Opinion

In our opinion:

- the financial statements of Western Power Distribution Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB");
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard ("FRS") 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheet;
- the consolidated and parent Company statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

# 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("the FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent Company for the year are disclosed in note 5 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

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

# 3. Summary of our audit approach

-	
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
	Similar level of risk
	Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £34.6m (2020: £37.5m) which was
	determined on the basis of 5% (2020: 5%) of profit before tax.
Scoping	Based on our assessment, we focused our Group audit work on four components which were subject to
	a full scope audit of their financial information. Our full scope audit covered substantially all of the
	Group's revenue, profit before tax and net assets.
Significant changes in our	We have not identified any new key audit matters in the current year. We identified key audit matters in
approach	the prior year related to pension asset valuations and goodwill impairment. We have concluded that
	these are not key audit matters for this year's audit.
	The basis for materiality and the components within scope remain consistent with last year and we have
	continued to take a controls reliance approach for the group audit.

#### Independent auditor's report

to the members of Western Power Distribution plc (continued)

# 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

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

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

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

#### 5. Key audit matters

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

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

We identified key audit matters in the prior year related to the impairment of goodwill and pension asset valuations. We have concluded that neither of these are key audit matter for this year's audit given the level of risk has decreased as at 31 March 2021.

5.1. Capitalisation of overheads



# Key audit matter description

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

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

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

Due to the estimation required in assessing the value to be capitalised, we have determined that there was a potential for fraud through possible manipulation of capitalisation rates.

Total corporate overheads are £127.1m in the year (2020: £122.3m), of which £75.4m (2020: £73.5m) has been capitalised to fixed assets.

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

# 5. Key audit matters (continued)

#### 5.1. Capitalisation of overheads (continued)

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

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

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

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

#### Key observations

Based on the work performed we are satisfied that the assumptions made in respect of the capitalisation rates applied to capitalised overheads within the fixed assets balance are reasonable as at 31 March 2021.

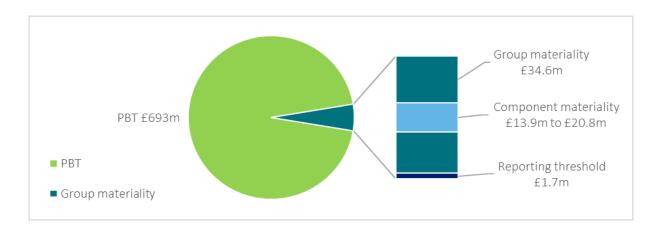
# 6. Our application of materiality

# 6.1 Materiality

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

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

-	Group financial statements	Parent Company financial statements
Materiality	£34.6m (2020: £37.5m)	£13.9m (2020: £15.1m)
	5% of profit before tax. This is consistent	Parent Company materiality equates to less
	with the methodology applied in 2020.	than 1% of net assets, which is capped at
Basis for determining materiality		40% of Group materiality. This is
		consistent with the methodology applied in
		2020.
	We have determined materiality based on	We have determined materiality based on
	profit before tax as this is the key metric	net assets as the Company holds the
Rationale for the benchmark applied	used by management, investors, analysts	investments for its subsidiary companies.
	and lenders, with shareholder value being	Therefore a balance sheet basis is to be
	driven by the result.	appropriate.



# 6. Our application of materiality (continued)

#### 6.2 Performance materiality

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

	Group financial statements	<b>Parent Company financial statements</b>
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent Company materiality
Basis and rationale for determining performance materiality	<ul><li>audits;</li><li>Our risk assessment, including our under</li><li>Our assessment of the group's overall of</li></ul>	ted misstatements identified from prior year

# 6.3. Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £1.7m (2020: £1.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

# 7. An overview of the scope of our audit

#### 7.1. Identification and scoping of components

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

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

Those four components represent the principal business unit within the Group and account for over 98% (2020: 98%) of revenue, profit before tax and net assets. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work of the four components was executed at a level of materiality applicable to the individual component and was lower than Group materiality.

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

# 7.2. Our consideration of the control environment

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.

In limited situations where we were not able to take a controls reliance approach due to controls being deficient and there not being sufficient mitigating or alternative controls we could rely on instead, we adopted a non-controls reliance approach. Where we identified control deficiencies, these were communicated to management.

The Group's IT landscape contains a number of IT 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.

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

# 7. An overview of the scope of our audit (continued)

#### 7.2. *Our consideration of the control environment (continued)*

In order to evaluate operating effectiveness of IT controls, 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 a number of 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 audit, or otherwise appears to be materially misstated.

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

#### We have nothing to report in this regard.

#### 9. Responsibilities of directors

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

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

#### 10. Auditor's responsibilities for the audit of the financial statements

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the Board of Directors about their own identification and assessment of the risks of irregularities;

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

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

- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, IT, treasury and real estate 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 and identified the greatest potential for fraud relating to inappropriate capitalisation of overheads. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

#### 11.2. Audit response to risks identified

As a result of performing the above, we identified the capitalisation of overheads as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

# Report on other legal and regulatory requirements

# 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

# Independent auditor's report to the members of Western Power Distribution 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

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

#### 13.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

# 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 five years, covering the years ending 31 March 2017 to 31 March 2021.

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

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

# 15. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Delyth Jones (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
30 June 2021

# Western Power Distribution plc consolidated income statement

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Revenue	3	1,671.2	1,723.5
Operating costs	5	(724.1)	(684.8)
Other operating income	6	3.9	0.5
Other operating expense	6	(2.1)	(2.0)
Operating profit	3	948.9	1,037.2
Finance income	7	20.3	11.5
Finance costs	7	(288.7)	(301.0)
Net finance income relating to pensions and			
other post-retirement benefits	27	12.0	2.0
Profit before income tax		692.5	749.7
Income tax expense	10	(121.1)	(201.1)
Profit for the year attributable to equity holders of the parent		571.4	548.6

All operations are continuing.

The accompanying notes 1 to 34 are an integral part of these financial statements.

# Western Power Distribution plc consolidated statement of comprehensive income

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Profit for the year		571.4	548.6
Other comprehensive income:			
Other comprehensive (expense)/income to be reclassified to profit or los	ss in subsequent pe	riods:	
(Loss)/profit arising on cash flow hedges during the year		(80.1)	40.4
Reclassification adjustments for losses/(gains) on cash flow hedges			
included in profit or loss (finance costs)		57.8	(32.6)
Income tax effect	10	4.2	(1.4)
		(18.1)	6.4
Other comprehensive (expense)/income not to be reclassified to profit of	r loss in subsequen	t periods:	
Re-measurement (losses)/gains on defined benefit pension plan	27	(307.2)	284.9
Income tax effect	10	68.5	(66.7)
		(238.7)	218.2
Other comprehensive (expense)/income for the year, net of tax		(256.8)	224.6
Total comprehensive income for the year, net of tax, attributable to equity holders of the parent		314.6	773.2

# Western Power Distribution plc consolidated statement of changes in equity

For the year ended 31 March 2021

		Share capital	Merger reserve	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m
At 1 April 2019		1,657.6	(963.1)	(5.2)	4,023.4	4,712.7
Profit for the year		_	-	-	548.6	548.6
Other comprehensive income		-	-	6.4	218.2	224.6
Total comprehensive income for the year		-	-	6.4	766.8	773.2
Equity dividends paid	11	-	-	-	(200.1)	(200.1)
At 31 March 2020		1,657.6	(963.1)	1.2	4,590.1	5,285.8
Profit for the year Other comprehensive expense		-	- -	(18.1)	571.4 (238.7)	571.4 (256.8)
Total comprehensive income for the year		-	-	(18.1)	332.7	314.6
Share capital reduction	29	(600.0)	-	-	600.0	-
Equity dividends paid	11	<u> </u>	-	-	(221.2)	(221.2)
At 31 March 2021		1,057.6	(963.1)	(16.9)	5,301.6	5,379.2

# Western Power Distribution plc consolidated balance sheet

As at 31 March 2021

As at 31 Water 2021		2021	2020
	Note	2021 £m	2020 £m
ASSETS	11010	æiii	ziii
Property, plant and equipment	12	13,930.2	13,224.6
Right-of-use asset	13	9.3	10.0
Investment property	14	29.9	30.1
Intangible assets	15	1,300.8	1,298.3
Investments	16	, -	161.9
Trade and other receivables	18	5.2	2.0
Derivative financial instruments	25	26.2	156.0
Retirement benefit assets	27	402.8	595.2
Non-current assets		15,704.4	15,478.1
•	17	A.C. 19	20.5
Inventories	17	46.7	38.5
Trade and other receivables	18	326.8	307.8
Derivative financial instruments	25	1.8	7.5
Cash at bank and in hand	19	139.2	201.0
Current assets		514.5	554.8
Total assets	3	16,218.9	16,032.9
LIABILITIES			
Loans and other borrowings	22	590.7	426.2
Trade and other payables	20	650.6	601.7
Lease liabilities	21	1.5	1.5
Current tax liabilities	21	5.3	0.6
Derivative financial instruments	25	-	4.9
Provisions	28	10.5	10.4
Current liabilities	20	1,258.6	1,045.3
Net current liabilities		(744.1)	(400.5)
Net current natinues		(/44.1)	(490.5)
Loans and other borrowings	22	5,949.7	6,111.0
Deferred tax liabilities	26	766.8	785.5
Trade and other payables	20	2,687.4	2,588.7
Lease liabilities	21	7.9	8.6
Retirement benefit liabilities	27	7.6	-
Provisions	28	161.7	208.0
Non-current liabilities		9,581.1	9,701.8
Total liabilities	3	10,839.7	10,747.1
Not exects		5 270 2	£ 295 9
Net assets		5,379.2	5,285.8
EQUITY			
Share capital	29	1,057.6	1,657.6
Merger reserve	30	(963.1)	(963.1)
Hedging reserve	30	(16.9)	1.2
Retained earnings	30	5,301.6	4,590.1
Total equity		5,379.2	5,285.8
Total Cquity		J9J 1 70M	3,203.0

The financial statements on pages 54 to 119 were approved and authorised for issue by the Board of Directors on 30 June 2021 and signed on its behalf by:

P Swift
Chief Executive

IR Williams Finance Director

	Note	2021 £m	2020 £m
Operating activities - continuing operations			
Profit for the year		571.4	548.6
Adjustments to reconcile profit for the year to net cash flow			
from operating activities:			
Income tax expense		121.1	201.1
Finance costs		276.7	299.0
Finance revenue		(20.3)	(11.5)
Depreciation of property, plant and equipment	5	251.4	240.8
Amortisation of customers' contributions	5	(47.3)	(46.1)
Amortisation of intangible assets	5	8.9	7.4
Gain on disposal of property, plant and equipment		(0.3)	(0.3)
Loss/(Gain) on disposal of investment properties		0.1	(0.1)
Fair value gains on investment properties		(1.0)	(0.2)
Fair value losses on investment properties		2.1	1.5
Difference between pension contributions paid and amounts			
recognised in the income statement		(146.1)	(150.5)
Increase in provisions		4.8	5.6
Debt modification		(2.4)	-
Working capital adjustments:			
Increase in inventories		(8.2)	(14.3)
Increase in trade and other receivables		(25.9)	(11.0)
Increase in trade and other payables		25.5	0.9
Interest paid		(280.5)	(299.5)
Interest received		11.5	12.0
Customers' contributions received		177.0	158.1
Income taxes paid		(61.5)	(104.3)
Net cash from operating activities		857.0	837.2
Investing activities			
Purchase of property, plant and equipment		(951.2)	(864.6)
Proceeds from sale of property, plant and equipment		0.5	0.9
Proceeds from sale of investment properties		-	0.4
Purchase of intangible assets		(11.4)	(12.0)
Net cash used in investing activities		(962.1)	(875.3)
			(2.2.2.7
Financing activities			
Net increase in short-term borrowings		307.0	9.0
Payment of lease liabilities		(1.7)	(1.5)
Proceeds from long-term borrowings		246.0	296.7
Repayment of long-term borrowings net of related swaps		(456.9)	-
Issue costs of long-term borrowings		-	(1.7)
Dividends paid		(60.2)	(200.1)
Net cash from financing activities		34.2	102.4
Net (decrease)/increase in cash and cash equivalents		(70.9)	64.3
Cash and cash equivalents at beginning of year	19	187.5	123.2
Cash and cash equivalents at end of year	19	116.6	187.5

For the year ended 31 March 2021

# 1. Significant accounting policies

The financial statements of Western Power Distribution plc (the "Company") and its subsidiaries (the "WPD Group" or "WPD") for the year ended 31 March 2021 were authorised for issue by the Board of Directors on 30 June 2021 and the balance sheet was signed on the Board's behalf by P Swift and IR Williams. The Company is a public limited company, limited by shares and incorporated and registered in England and Wales. The address of the Company's registered office is stated on page 130.

#### Basis of preparation

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

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

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

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

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

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

# Going concern

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

The Group has net current liabilities of £744.1m (2020: £490.5m). The increase in the net current liabilities during the year is primarily due to a 6 month short term loan of £350.0m due in August 2021. The loan was obtained during the year to finance the early repayment of \$500.0m debt on 1 March 2021. The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing facilities and issuances of long-term debt. The only borrowing due for repayment within the next 12 months from the date of signing of the accounts is the short term loan of £350m. This loan was repaid and refinanced on 14 June 2021 on the date of change of ownership. It has been replaced with a short term intercompany loan from National Grid plc, with a maturity date of 31 March 2022. The Group can access either short or long term borrowings in order to finance repayment of the loan. The Group also has sufficient head room available, under existing committed facilities, to meet all cash flow needs, including repayment of the £350m loan.

The directors have considered the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of WPD, the existing and future forecasted covenant compliance of the Group, which includes the gearing ratio and the anticipated ability of 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 17 to 23) and have taken the impacts of COVID-19 and related uncertainties into consideration in arriving at the going concern assumption for the preparation of the financial statements.

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Going concern

Several different test scenarios have been modelled by management as part of reviewing the going concern period. This included reasonable possible changes to revenue and expenses, as well as the impact of changes to planned debt issuances. Under all of these scenarios sufficient head room was available.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across our regions continue to receive electricity. The work of WPD is an essential part of the country's response to COVID-19, as what we do is crucial for the continuation of existing services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Therefore, even in these unprecedented times, where many business sectors are impacted severely, WPD has a continuing licence obligation to be a sustainable business and to continue to provide essential services to our customers. Our allowed revenues are fixed over a price control period and no significant slowdown in cash receipts of the Group has been noted. Thus COVID-19 has not materially impacted the liquidity position of the Group. For further details on COVID-19 impacts, refer to the business review section on pages 5 to 8 in the strategic report.

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

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

# Basis of consolidation

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

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

# Impact of new International Financial Reporting Standards

The following new standards are effective for accounting periods beginning on or after 1 January 2020:

- Definition of Material amendments to IAS 1 and IAS 8;
- Interest Rate Benchmark Reform, Phase 1 amendments to IFRS 9, IAS 39 and IFRS 7;
- Definition of a Business amendments to IFRS 3; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

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

#### Not yet adopted

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

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

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

*Not yet adopted (continued)* 

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 amendments in relation to Interest Rate Benchmark Reform, Phase
   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;
- Amendments to IFRS 3 reference to the conceptual framework, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 amendments regarding proceeds before intended use, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 amendments regarding onerous contracts cost of fulfilling a contract, effective for annual periods beginning on or after 1 January 2022;
- Annual improvements to IFRS standards 2018 2020 cycle effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 1 amendments in relation to the classification of liabilities as current or non-current, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 12 amendments regarding deferred tax related to assets and liabilities arising from a single transaction, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 8 amendments regarding issuance of definition of an accounting estimate, effective for annual periods beginning on or after 1 January 2023;
- IFRS 17 Insurance Contracts, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 10 ad IAS 28 amendments in relation to sale or contribution of assets between an investor and its associate
  or joint venture. The effective date of these amendments is yet to be set.

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

#### Business combinations and goodwill

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

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

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

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

# Foreign currencies

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

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

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

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Revenue recognition

Distribution Use of System ("DUoS") Revenue

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

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

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

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

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

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

#### Finance income

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

# Rental income

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

# Engineering recharges

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

# Customer contributions

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

# Other operating income and expense

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

# Finance costs

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

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Leases

#### WPD Group as a lessee

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

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

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

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

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

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

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

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

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

#### WPD Group as a lessor

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

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

#### Property, plant and equipment

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

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Property, plant and equipment (continued)

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

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

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

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

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

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

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

# Investment property

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

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

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

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

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Intangible assets

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

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

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

#### Contracts

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

#### Computer software

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

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

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

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

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

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

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

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

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

The WPD Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the recoverable amount of cash-generating units, specifically in relation to cash flows, discount rate and estimated fair value less cost to dispose. At 31 March 2021, the carrying value of goodwill amounted to £1,254.1m (2020: £1,254.1m).

#### Inventories

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

#### **Taxation**

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

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

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

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

Deferred tax is recognised on all temporary differences except:

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

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

# Pension benefits

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

For the year ended 31 March 2021

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

# Pension benefits (continued)

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

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

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

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

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

#### Share-based payments

The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established at each balance sheet date from grant date until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the year.

#### **Provisions**

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

# Dividend distribution

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

#### Financial assets

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

# 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.

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Financial assets (continued)

Financial assets at FVTPL

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

#### Financial assets at FVOCI

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

Derivatives designated as hedging instruments in an effective hedge

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

#### Derecognition of financial assets

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

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

#### Impairment of financial assets

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

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

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

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

Trade and other receivables including accrued income

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

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

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

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, 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.

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Impairment of financial assets (continued)

#### Investments at amortised cost

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

# Cash at bank and in hand

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

# Cash and cash equivalents

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

#### Financial liabilities

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

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

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

#### Financial liabilities measured at amortised cost

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

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

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

#### Derecognition of financial liabilities

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

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

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

# Derivative financial instruments and hedging activities

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

For the year ended 31 March 2021

# 1. Significant accounting policies (continued)

#### Derivative financial instruments and hedging activities (continued)

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

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

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

# Cash flow hedges

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

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

#### Fair value hedges

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

#### Fair value measurement

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

# Offsetting of financial assets and liabilities

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

# **Borrowing costs**

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

#### Share capital

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

#### Merger reserve

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

For the year ended 31 March 2021

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

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

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

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

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

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

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

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

#### Uncertain tax positions

The Group's current tax expense and current tax liability reflect management's best estimate and judgement regarding the amount of UK corporation tax payable for the current and previous periods that remains to be agreed with HMRC. The UK tax legislation contains detailed and complex rules which are regularly updated. Management monitors any changes to the UK tax legislation and assesses their impact on the Group's tax position. In particular, the OECD Base Erosion and Profit Shifting ("BEPS") project resulted in the Government enacting complex legislation relating to the amount of finance costs that may be deducted from taxable profits, such as the Corporate Interest Restriction rules and the Hybrid and other mismatches rules, for both of which HMRC guidance and practical experience is still developing. Some of these rules may not directly apply to the Group, but apply to finance costs of PPL affiliate companies which may impact the amount of group relief available to the Group. Management has assessed the impact of this legislation on the Group's tax position and has taken necessary actions to ensure that the Group is compliant with the rules.

Management evaluates uncertain tax items which are subject to interpretation and agreement of the position with HMRC which, due to the complexity of the matters, may not be reached for a number of years. Management uses its judgement to determine the expected amount of finance costs that may be deducted, taking into account any progress in discussions with HMRC, together with in-house and third party advice on the potential outcome and recent developments in case law, tax authority practices and previous experience. The amount that may ultimately be deducted upon agreement with HMRC may differ to that recorded in the financial statements, but management does not expect that any adjustments would have a material impact on the Group's financial results and positions.

# Key sources of estimation uncertainty

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

# $Capitalisation\ of\ overheads\ -\ capitalisation\ rate$

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

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

For the year ended 31 March 2021

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

Key sources of estimation uncertainty (continued)

Capitalisation of overheads - capitalisation rate (continued)

The total amount of overheads capitalised at 31 March 2021 is £75.4m (2020: £73.5m). Information on sensitivity to the rate is as below:

	2021	2020
	Income	Income
	statement	statement
	(before tax)	(before tax)
	+/- <b>£m</b>	+/- £m
Change in rate +/- 1%	1.2	1.1
Change in rate +/- 5%	6.0	5.5

#### Pension obligations

The WPD Group has a commitment, mainly through the Electricity Supply Pension Scheme ("ESPS"), to pay pension benefits. The costs of these benefits and the present value of the WPD Group's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees which is based on inflation rate and the discount rate at which the future pension payments are discounted. Based on advice from external actuaries, WPD 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.

Despite the pandemic, the discount rate assumption during the current year has fallen from 2.31% to 2.01% and the RPI inflation rate assumption has increased from 2.60% to 3.20%. The discount rate as at 31 March 2020 was noticeably higher than the surrounding month ends, accompanied by a fall in inflation expectation. It is likely that this was as a result of the outset of the pandemic and early fears of corporate distress leading to higher credit spreads. As these fears reduced, the discount rates quickly reverted to the previous levels, resulting in an overall surplus on the Group's defined benefit schemes of £402.8m (2020: £599.5m).

The long term mortality rates may also be impacted to some extent by COVID-19 but the future long term impact of COVID-19 on mortality trends is currently unclear and therefore has been excluded from life expectancy assumptions used in the valuation of pension liabilities. This is a conservative approach, as increase in the mortality rate would reduce the pension liabilities and increase the surplus on defined benefit plan.

In light of the COVID-19 pandemic, the valuation of pension assets not quoted on active market has been identified as an additional area of estimation uncertainty that impacts the Company's position as at 31 March 2021. The balance of pension assets invested in assets not quoted in active market amounts to £583.0m (2020: £497.9m), which represents 8% (2020: 8%) of total pension assets. £277.8m pertains to property and £305.2m pertains to macro-orientated.

See Note 27 for further details and information on sensitivities.

### 3. Operating segment information

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

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

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

For the year ended 31 March 2021

# 3. Operating segment information (continued)

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

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

a) Revenues	Total re	evenue	Inter-segmen	t revenue	External	revenue
	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	357.9	381.7	(0.4)	(0.4)	357.5	381.3
South Wales	248.0	263.6	(0.2)	(0.1)	247.8	263.5
East Midlands	512.6	526.3	(0.4)	(0.4)	512.2	525.9
West Midlands	524.7	525.4	(0.3)	(0.3)	524.4	525.1
	1,643.2	1,697.0	(1.3)	(1.2)	1,641.9	1,695.8
Other businesses	61.3	59.6	(32.0)	(31.9)	29.3	27.7
	1,704.5	1,756.6	(33.3)	(33.1)	1,671.2	1,723.5

## Information about major customers

Revenues from the WPD Group's largest five customers amounted to £256.4m, £222.2m, £214.9m, £169.0m and £128.4m (2020: £275.0m, £220.9m, £214.6m, £209.0m and £183.5m) arising from sales reported across the South West, South Wales, East Midlands and West Midlands segments.

### b) Segment profit

a) segment prom	2021	2020
	£m	£m
Distribution network systems		
South West	206.6	222.7
South Wales	141.4	159.1
East Midlands	309.1	335.8
West Midlands	302.5	334.8
	959.6	1,052.4
Other businesses	10.3	8.1
Corporate and unallocated*	(21.0)	(23.3)
Operating profit	948.9	1,037.2
Finance revenue	20.3	11.5
Finance costs	(288.7)	(301.0)
Net finance income relating to pensions and other post-retirement benefits	12.0	2.0
Profit before tax	692.5	749.7
Taxation		
South West	(27.2)	(44.8)
South Wales	(18.5)	(31.8)
East Midlands	(40.8)	(66.1)
West Midlands	(38.1)	(65.3)
Other businesses	3.5	6.9
	(121.1)	(201.1)
Profit for the year attributable to equity holders of the parent	571.4	548.6

<sup>\*</sup> Corporate and unallocated comprises primarily current service pension costs (net of capitalisation).

For the year ended 31 March 2021

## 3. Operating segment information (continued)

## c) Assets, liabilities, and capital expenditure

	Segment assets (i)		Segment liabilities (ii)		Capital expenditure (iii)	
	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	3,244.9	3,080.0	725.7	692.5	235.6	235.5
South Wales	2,299.8	2,175.8	482.8	451.8	164.1	139.2
East Midlands	5,157.3	4,934.1	1,206.1	1,161.7	304.7	298.9
West Midlands	4,826.2	4,600.4	860.9	805.2	301.9	255.3
	15,528.2	14,790.3	3,275.5	3,111.2	1,006.3	928.9
Other businesses	202.1	219.0	36.0	31.1	6.6	4.2
Corporate and unallocated	488.6	1,023.6	7,528.2	7,604.8	(4.7)	(4.8)
	16,218.9	16,032.9	10,839.7	10,747.1	1,008.2	928.3

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

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

d) Depreciation and amortisation	property, p	Depreciation on property, plant and equipment (Note 12)		property, plant and intangible a		olant and intangible assets (Note	
	2021	2020	2021	2020			
	£m	£m	£m	£m			
Distribution network systems							
South West	64.9	61.7	4.0	3.5			
South Wales	45.0	42.8	0.8	0.6			
East Midlands	93.2	89.1	1.7	1.4			
West Midlands	86.6	83.3	1.6	1.2			
	289.7	276.9	8.1	6.7			
Other businesses	0.3	1.9	0.8	7.4			
	290.0	278.8	8.9	7.4			
Less: recapitalised to property, plant and equipment	(40.0)	(39.3)	-	-			
Charged to consolidated income statement	250.0	239.5	8.9	7.4			
4. Revenues							
		2021		2020			
		£m		£m			
Revenue from customer contracts		1,691.0		1,743.0			
Lease income		13.5		13.6			
		1,704.5		1,756.6			
The following table shows revenues from contracts with customers di	isaggregated by custome	er class:					
		2021		2020			
		£m		£m			
Licensed energy suppliers - DNO		1,549.8		1,614.1			
Other customers - DNO		93.4		82.9			
Other businesses customers		47.8		46.0			
		1,691.0		1,743.0			

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

For the year ended 31 March 2021

### 4. Revenues (continued)

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

Network assets with a net book value of £13.6bn (2020: £12.9bn) are used to fulfil the contract with customers.

#### 5. Operating costs

WPD Group operating costs can be analysed as follows:	2021	2020
	£m	£m
Employee benefit expense (Note 8)	158.8	152.1
Depreciation of property, plant and equipment	251.4	240.8
Property taxes	99.5	98.6
Other operating charges*	214.4	193.3
	724.1	684.8

<sup>\*</sup> Other operating charges includes costs in relation to engineering recharges, National Grid exit charges, tree cutting, inspections and maintenance and wayleaves, as well as other overheads incurred.

WPD Group operating profit is stated after charging/(crediting) the following items:

	2021	2020
	£m	£m
Employee benefit expense (Note 8)	158.8	152.1
Depreciation of property, plant and equipment *	251.4	240.8
Amortisation of intangibles	8.9	7.4
Rent expense**:		
Plant, machinery and equipment	11.3	8.9
Land and buildings	0.5	0.5
Amortisation of customer contributions	(47.3)	(46.1)
Research expenditure ***	0.1	0.1
Net other operating expenses/(income) (Note 6)	1.8	(1.5)

<sup>\*</sup> Depreciation of property, plant and equipment is stated net of depreciation capitalised of £40.0m (2020: £39.3m) in respect of equipment consumed during the construction of the electricity network. It also includes depreciation of right-of-use-assets amounting to £1.4m (2020: £1.3m).

# Services provided by the WPD Group's auditor

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

	2021	2020
	£m	£m
Audit fees		
Annual audit of the Company and consolidated financial statements	0.1	0.1
Audit of subsidiary companies	0.8	0.7
Other audit related services	0.2	0.2
	1.1	1.0
Non-audit fees		
Audit related assurance services	0.1	0.1
	0.1	0.1
Total fees within operating costs *	1.2	1.1

<sup>\*\*</sup> Rent expense comprise of short term and low value leases (refer to note 21).

<sup>\*\*\*</sup> Research costs above exclude expenditure on Low Carbon Network and Network Innovation Allowance projects which is capitalised together with associated funding received.

For the year ended 31 March 2021

### 5. Operating costs (continued)

In addition, fees in respect of audit-related assurance services of £0.3m (2020: £0.3m) payable to Deloitte LLP were born by PPL Corp (the ultimate parent company) and so are excluded from this disclosure.

6. Other operating income and expense	2021	2020
	£m	£m
Other operating income		
Net gain on disposal of property, plant and equipment	0.4	-
Increase in fair value of investment properties	1.0	0.2
Debt modification*	2.4	-
Income from fixed asset investments	0.1	0.3
	3.9	0.5
Other operating expense		
Net loss on disposal of property, plant and equipment	-	(0.5)
Reduction in fair value of investment properties	(2.1)	(1.5)
Net other operating expense	1.8	(1.5)

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

7. Net finance costs	2021	2020
	£m	£m
Finance income		
Interest on bank deposits	0.4	1.4
Interest on loans to PPL affiliate (Note 33)	7.5	10.1
Foreign exchange gain on US\$ denominated financial liabilities*	12.4	
Total finance income	20.3	11.5
Finance costs		
Interest payable on bank loans and overdrafts	<b>(7.8)</b>	(2.8)
Interest payable on other loans	(282.3)	(298.2)
Interest payable on lease liabilities	(0.3)	(0.3)
Foreign exchange gain/(loss) on US\$ denominated financial assets and liabilities	57.0	(32.7)
Transfers from the hedging reserve in relation to cash flow hedges	(57.8)	32.6
Less: interest capitalised	2.5	0.4
Total finance costs	(288.7)	(301.0)
Net finance costs	(268.4)	(289.5)

<sup>\*</sup> During the year ended 31 March 2021, the WPD Group investment of \$200m 6.42% Eurobonds issued by PPL UK Resources Limited, was transferred to the Group's parent company as a dividend in specie. As a result, the borrowings of \$200m under a committed credit facility were also repaid to eliminate the Group's exposure to any future exchange rate fluctuations. The repayment of the \$200m borrowings in the current year resulted in a foreign exchange gain during the year. Unlike previous year, this was not offset by the exchange movement on the \$200m Eurobonds, as the transfer of the \$200m Eurobonds to the parent company was effected on a different date.

Interest in 2021 was capitalised at a rate of 1.6% (2020: 1.7%), based on the yield on the Group's borrowings.

<sup>\*</sup> Total audit fees include £0.2m in relation to the prior year UK statutory audit.

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## 8. Employee benefit expense

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

	2021	2020
	£m	£m
Wages and salaries	355.5	359.5
Social security costs	41.8	41.0
Pension costs	66.8	72.2
	464.1	472.7
Less: amounts capitalised as part of property, plant and equipment	(305.3)	(320.6)
Charged to the income statement	158.8	152.1

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

The average number of employees during the financial year (including directors) analysed by activity was:

	2021	2020
	Number	Number
Electricity distribution	6,397	6,421
Other activities	159	153
	6,556	6,574

Employee costs in the year were capitalised at a rate of 67.0% (2020: 69.2%).

# 9. Directors' emoluments

The service contracts for the executive directors are with WPD South West. However, the emoluments detail given in this note represents total emoluments of the directors for all services provided to WPD companies as a whole. The total costs below are apportioned between WPD South Wales, WPD South West, WPD West Midlands and WPD East Midlands.

	Highest pai	d director	Total	
WPD Group	2021	2020	2021	2020
	£000	£000	£000	£000
The emoluments of the executive directors comprised:				
Base salary (note i)	442	423	1,315	1,266
Performance dependent bonus (note ii)	1,102	316	2,585	820
Pension compensation allowance (note iii)	197	217	508	374
Sub-total directors' remuneration	1,741	956	4,408	2,460
Long term incentive plan (note iv)	916	749	1,895	1,435
Fees to the independent non executive directors (note v)	<u>-</u>	-	100	100
	2,657	1,705	6,403	3,995

<sup>(</sup>i) Base salary also includes benefits in kind.

<sup>(</sup>ii) The amount of the annual bonus is based on WPD's financial performance, the reliability of the electricity network, and other factors. The 2021 bonus includes a transition incentive payment in relation to the announcement on 18 March 2021 of the sale of the WPD Group to National Grid plc, the cost of which was covered by PPL.

<sup>(</sup>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 27). 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).

For the year ended 31 March 2021

### 9. Directors' emoluments (continued)

- (iv) Under a long term incentive plan, the executive directors were granted phantom stock options. The option price is set at the quoted share price of WPD's parent in the US, PPL Corporation, at the date the phantom options were granted. Options outstanding may be exercised during fixed periods and the gain is payable through the payroll. The values above include any payments made to the executive directors in respect of gains in value of phantom options exercised in the year. None of the executive directors was granted new options in either year; none of the executive directors exercised options (2020: none). In addition, the executive directors receive annually a grant of PPL Corporation shares which cannot generally be accessed for three years; the pay-out value of some of these shares is dependent on the achievement of certain performance criteria which may or may not be met and thus the final value may be considerably less. The value of the shares granted in the year is shown within this line.
- (v) The independent UK non executive directors of the DNOs are entitled to fees as determined by the appropriate Board. No emoluments are paid to US based non-executive directors, who are officers of PPL, in respect of their services as directors to the WPD Group.
- (vi) During the year, four executive directors (2020: four) were members of the defined benefit ESPS.

#### 10. Income tax expense

The major components of income tax expense are:	2021	2020	
•	£m	£m	
Current tax			
Current tax expense (see below)	67.3	77.1	
Adjustments in respect of prior years	(0.2)	(1.1)	
Deferred tax (Note 26)			
Origination and reversal of temporary differences	53.8	56.7	
Impact of tax rate change	-	68.4	
Adjustments in respect of prior years	0.2	-	
	121.1	201.1	

The tax on the WPD Group's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2020: 19%) as follows:

2020. 1770) us follows.	2021 £m	2020 £m
Profit before income tax	692.5	749.7
Profit before income tax multiplied by standard rate of		
corporation tax in the UK of 19% (2020: 19%)	131.6	142.4
Effects of:		
Net (income not taxable)/expenses not deductible for tax purposes	(3.9)	0.5
Group relief received at non-standard rates	(6.6)	(9.1)
Impact of tax rate change	-	68.4
Adjustments to tax charge in respect of prior years	-	(1.1)
Total taxation (continuing operations)	121.1	201.1

The total taxation expense as a percentage of profit before income tax gives an effective tax rate of 17.5% (2020: 26.8%) compared to the standard rate of 19% (2020: 19%) due to the effects of the items stated above. Expenses not deductible and income not taxable have been netted off as generally individually they are not material, however in the current year, this net amount has been impacted by the non-taxable foreign exchange gain on transfer of an investment to the Group's parent (see Note 7). Currently tax losses surrendered by PPL affiliates to the Group ("group relief") are not paid for and therefore the Group benefits by the tax value of these losses. The impact of the tax rate change in the previous year was due to the reversal of the tax rate reduction that was expected to apply to the future years when the majority of deferred tax temporary differences were expected to reverse (see the change in corporation tax rate note below). Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HMRC and additional group relief received from PPL affiliates for no payment.

For the year ended 31 March 2021

## 10. Income tax expense (continued)

Tax relating to items (charged) or credited to other comprehensive income:	2021 £m	2020 £m
Deferred tax:		
Revaluation of cash flow hedges	4.2	(1.4)
Re-measurement of pension liabilities	68.5	(66.7)
	72.7	(68.1)

### Current tax expense

The current tax expense for the year is the aggregate of the amounts of UK corporation tax payable by each Group company on its profit for the year. The calculation of the amount of UK corporation tax payable is determined by tax legislation. The starting point for the calculation is the profit before tax shown in the income statement and adjustments required by the legislation are made to arrive at the profit chargeable to corporation tax. The calculation of the amount of corporation tax expected to be paid for the year is shown below. The actual amount payable will be determined following further detailed analysis at the time when the tax returns for the year for each Group company are filed with HMRC.

	2021 £m	2020 £m
Profit before income tax multiplied by standard rate of		
corporation tax in the UK of 19% (2020: 19%)	131.6	142.4
Adjustments:		
Depreciation and amortisation (note i)	(14.0)	(13.2)
Pensions (note ii)	(40.0)	(42.6)
Other timing adjustments (note iii)	(1.4)	(0.6)
Other adjustments (note iv)	(2.3)	0.2
Corporation tax payable on profits before group relief	73.9	86.2
Group relief (note v):		
Losses received from other group companies for free	(6.6)	(9.1)
Corporation tax payable on profits after group relief	67.3	77.1
The current tax charge on profits for the year is split as follows:		
Corporation tax payable to HM Revenue & Customs Group relief payable to other group companies	67.3	77.1
	67.3	77.1

<sup>(</sup>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").

<sup>(</sup>ii) The expense of providing pensions to employees is deductible from taxable profits at the time when contributions are paid into the pension schemes and not when the expense is charged to the income statement. As a proportion of the pension expense is capitalised (see Note 8), the deduction for contributions paid in the year is greater than the expense in the income statement.

For the year ended 31 March 2021

## 10. Income tax expense (continued)

Current tax expense (continued)

- (iii) Adjustments are required for the timing of other deductions. These include interest capitalised (see Note 7) and employee benefit expense (see Note 8). A proportion of interest expense is included in tangible fixed asset additions, but the tax legislation provides for this expense to be deducted against profits for the year. Contrary to this, a deduction for employee benefit expense must be deferred until the year of payment if the payment is not made within nine months of the year end.
- (iv) Other adjustments are required for costs that are not deductible, such as legal fees relating to certain property transactions, and non-taxable income, such as dividends received from investments that have already paid tax on their income. In addition, the profit or loss on disposal of tangible fixed assets shown in the income statement is not taxable or deductible and is instead replaced with a gain or loss calculated in accordance with tax legislation.
- (v) The tax legislation allows a company that incurs a loss to surrender it to other companies within the same group to deduct from their taxable profits. Payment may be made up to the value of the loss without tax consequence.
- (vi) All undertakings within the Group are tax resident in the UK, except for Aztec Insurance Limited which is tax resident in Guernsey where the statutory tax rate is 0%. However, the results of Aztec Insurance Limited are included in the UK corporation tax returns filed by its parent company, WPD Distribution Network Holdings Limited. Therefore, all of the group's activities are subject to UK taxation rules and the group's current tax charge comprises solely of UK tax.

#### Change in corporation tax rate

The Finance Act 2016 had reduced the standard rate of corporation tax from 19% to 17% effective from 1 April 2020, but this reduction was reversed by the Finance Act 2020 so the rate remained at 19%. As this reversal was substantively enacted on 17 March 2020, 19% has been used in the calculations of deferred tax for the prior year and the current year. The Finance (No.2) Bill 2021 published on 11 March 2021 increases the standard rate of corporation tax to 25% effective from 1 April 2023. As this rate increase was not substantively enacted until 24 May 2021, it will only affect calculations of deferred tax in future years. Based on the temporary differences at 31 March 2021, the estimated impact of the rate increase would be to increase the deferred tax liability by £243.9m, with £221.2m being charged to the income statement and £22.7m being charged to other comprehensive income.

## 11. Dividends

	2021	2020
	£m	£m
Equity dividends - 20.92 pence (2020: 12.07 pence) per £1 share	221.2	200.1

The above includes a non-cash dividend in specie paid to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) in December 2020 of £161.0m. This was in relation to the transfer of an investment (see Note 16).

# 12. Property, plant and equipment

		<b>Distribution</b>	Non-network land &	Fixtures &	Vehicles & mobile	
	Generation	network	buildings	equipment	plant	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2019	0.5	14,785.0	156.7	289.2	133.2	15,364.6
Additions	-	863.6	8.4	31.0	13.3	916.3
Transfers	-	-	0.8	(0.8)	-	(0.0)
Disposals and retirements	-	(2.0)	-	(40.8)	(5.2)	(48.0)
At 1 April 2020	0.5	15,646.6	165.9	278.6	141.3	16,232.9
Additions	-	917.7	9.1	54.1	15.9	996.8
Transfers	-	-	(1.0)	-	-	(1.0)
Disposals and retirements	-	(79.2)	-	(33.7)	(3.8)	(116.7)
At 31 March 2021	0.5	16,485.1	174.0	299.0	153.4	17,112.0
Accumulated depreciation						
At 1 April 2019	0.1	2,551.1	17.5	145.1	63.1	2,776.9
Depreciation charge for the year	-	223.7	2.4	39.2	13.5	278.8
Disposals and retirements	-	(2.0)	-	(40.8)	(4.6)	(47.4)
At 1 April 2020	0.1	2,772.8	19.9	143.5	72.0	3,008.3
Depreciation charge for the year	-	234.8	2.5	39.0	13.7	290.0
Disposals and retirements	-	(79.2)	-	(33.7)	(3.6)	(116.5)
At 31 March 2021	0.1	2,928.4	22.4	148.8	82.1	3,181.8
Net book value At 31 March 2021	0.4	13,556.7	151.6	150.2	71.3	13,930.2
At 31 March 2020	0.4	12,873.8	146.0	135.1	69.3	13,224.6
At 31 March 2019	0.4	12,233.9	139.2	144.1	70.1	12,587.7

Included in distribution network and vehicles & mobile plant at 31 March 2021 was an amount of £180.8m (2020: £124.5m) relating to expenditure on assets in the course of construction.

Included in additions are staff costs of £305.3m (2020: £320.6m), general overheads of £75.4m (2020: £73.5m) and interest of £2.5m (2020: £0.4m).

### 13. Right-of-use asset

	Land & buildings £m	Fibres £m	Radio sites £m	Total £m
At 1 April 2019	7.5	2.9	0.4	10.8
Additions	0.4	0.1	-	0.5
Depreciation	(0.5)	(0.7)	(0.1)	(1.3)
At 31 March 2020	7.4	2.3	0.3	10.0
At 1 April 2020	7.4	2.3	0.3	10.0
Additions	0.6	0.1	-	0.7
Depreciation	(0.6)	(0.7)	(0.1)	(1.4)
At 31 March 2021	7.4	1.7	0.2	9.3

#### 14. Investment property

14. Investment property				
	Retail	Office	Industrial	Total
	£m	£m	£m	£m
Fair value				
At 1 April 2019	21.9	5.3	5.3	32.5
Valuation gains	0.1	-	0.1	0.2
Valuation losses	(1.0)	(0.2)	(0.3)	(1.5)
Transfers to property, plant and equipment	-	-	(0.8)	(0.8)
Disposals	(0.3)	-	-	(0.3)
At 1 April 2020	20.7	5.1	4.3	30.1
Valuation gains	0.1	-	0.9	1.0
Valuation losses	(1.8)	-	(0.3)	(2.1)
Transfers from property, plant and equipment	-	-	1.0	1.0
Disposals	(0.1)	-	-	(0.1)
At 31 March 2021	18.9	5.1	5.9	29.9

The fair value of the investment property has been arrived at on the basis of a valuations carried out by external independent valuers. The valuers are regulated by the Royal Institution of Chartered Surveyors ("RICS") and follow the rules, codes, and guidance in the RICS Rules of Conduct for Firms. The valuations have been prepared in accordance with IFRS 13 Fair Value Measurements and represent the 'highest and best use' of the property.

In arriving at the valuation, tenancy details and market evidence of transaction prices for similar properties are taken into consideration. Investment properties generating rental revenue are valued using an investment approach and vacant buildings are valued using the comparison method of valuation. Where land is being held for development, the valuation technique is based either on the comparison method or residual method.

The amounts recognised in the income statement for rental income from investment property are £2.4m (2020: £2.6m).

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during the period of occupation. This service charge amounted to £0.5m (2020: £0.5m) for which a similar amount is included within operating costs.

In determining the appropriate classes of investment property the Group has considered the nature, characteristics and risks associated with its properties. As a consequence the Group has identified the following classes of assets:

- Retail representing a single investment in a supermarket store in Cwmbran, South Wales, occupied by J Sainsbury.
- Other retail representing a portfolio of other retail properties across Wales and the South West of England.
- Office representing a portfolio of office buildings across WPD's region.
- Industrial representing a portfolio of industrial and storage facilities across WPD's region.

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## 14. Investment property (continued)

The tables below show details for the larger properties. Within other assets, recorded at £4.6m (2020: £4.6m), are a further 24 (2020: 24) investment properties with an average value of £193,250 per property (2020: £192,000), valued by the WPD Group's internal qualified surveyor.

COVID-19 and measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists. Thus, the valuation reports have taken into consideration all market evidence, including impacts of COVID-19, if applicable. Unlike previous year, the valuations in the current year are not reported as being subject to "material valuation uncertainty" due to COVID-19.

All of the valuations fall within Level 3 of the fair value hierarchy (see Note 24). The table below provides details by class of property of the fair value ascribed to each class of asset, an indication of the key inputs used in deriving the valuation, together with other key features which inform the valuation process. In light of the immaterial nature of the other assets below to the financial statements as a whole, the directors have elected not to provide the equivalent detailed information in respect of these valuations.

The valuations are sensitive to movements in key variables, notably the yields applied to valuations based on income capitalisation which can change due to general market conditions and also an assessment of the quality of the underlying tenant. Broadly, a 0.5% increase/decrease in an assumed yield of 5% will result in a 10% decrease/increase in the value of a property, whilst a 0.5% increase/decrease in an assumed yield of 10% will result in a 5% decrease/increase in the value of a property.

Unobservable and observable inputs used in determination of fair values

Other key information

Class of property	Carrying amount/Fair value 2021 £m	Valuation technique	Input	Range (weighted average) 2021		Range 2021
Retail	15.7	Income	> Length of leases in place	8y	> Age of building	27y
Level 3		capitalisation	(in years)		> Remaining useful life of	20+
			> Yield	5.2%	building	201
			> Passing rent (per sqm p.a.)	£201.4	> Square metres	5,308
			> Long term vacancy rate	0%		
Other retail	2.2	Income	> Net rent (per sqm p.a.)	£0 - £230	> Age of building	50+
Level 3		capitalisation	> 1 tet fent (per squi p.u.)	(£95)	> Remaining useful life of	20+
			> Length of leases in place	0y - 4y	building	
			(in years)	(1.5y)	> Square metres	2,175
			> Yield	0% - 11.0%	> Actual vacancy rate	0%-100%
			> Long term vacancy rate	0%-100% (44%		
Office	5.0	Income	> Net rent (per sqm p.a.)	£0 - £119	> Age of building	23y - 38y
Level 3		capitalisation	> 1 tet fent (per squi p.u.)	(£29.1)	> Remaining useful life of	20+
			> Length of leases in place	0y - 9.5y	building	201
			(in years)	(1.2y)	> Square metres	8,224
			> Yield	0% - 7%	> Actual vacancy rate	0% - 60%
			> Long term vacancy rate	0% - 60% (55%	5)	
Industrial	2.4	Income	> Net rent (per sqm p.a.)	£36- £76	> Age of building	65y
Level 3		capitalisation	> Net tent (per squi p.a.)	(£63)	> Remaining useful life of	20+
			> Length of leases in place	1y - 21y	building	20+
			(in years)	(13y)	> Square metres	3,106
			> Yield	10%	> Actual vacancy rate	0%
			> Long term vacancy rate	0%		
Total	25.3					
Other assets	4.6					

29.9

Total fair value

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# 14. Investment property (continued)

Unobservable and observable inputs used in determination of fair values

Other key information

Class of property	Carrying amount/Fair value 2020 £m	Valuation technique	Input	Range (weighted average) 2020		Range 2020
Retail	16.5	Income	> Length of leases in place	9v	> Age of building	26y
Level 3		capitalisation	(in years)	•	> Remaining useful life of	20+
			> Yield	5.2%	building	
					> Square metres	5,308
			> Long term vacancy rate	0%		
Other retail	2.9	Income	> Net rent (per sqm p.a.)	£93 - £230	> Age of building	50+
Level 3		capitalisation		(£160)	> Remaining useful life of	20+
			> Length of leases in place	0y - 5y	building	201
			(in years)	(1.9y)	> Square metres	2,175
			> Yield	7.3% - 8.0%	> Actual vacancy rate	0%
			> Long term vacancy rate	0%		
Office	4.0	Income	> Net rent (per sqm p.a.)	£50 - £165	> Age of building	22y - 37y
Level 3		capitalisation	> Net Tent (per squi p.a.)	(£86)	> Remaining useful life of	20+
			> Length of leases in place	0y - 9y	building	20⊤
			(in years)	(6.7y)	> Square metres	6,619
			> Yield	1% - 7%	> Actual vacancy rate	0% - 97%
			> Long term vacancy rate	0% - 97% (84%)	)	
Industrial	2.1	Income	Not want (non cam n a)	£36- £76	> Age of building	64y
Level 3		capitalisation	> Net rent (per sqm p.a.)	(£63)	> Remaining useful life of	20+
			> Length of leases in place	2y - 22y	building	20+
			(in years)	(15y)	> Square metres	3,106
			> Yield	10%	> Actual vacancy rate	0%
			> Long term vacancy rate	0%	-	
Total	25.5					
Other assets	4.6					
Total fair val	ue 30.1					

For the year ended 31 March 2021

Coodwill	Computer	Customer	Total
			£m
	53.1	6.2	1,633.8
, -	12.0	-	12.0
-	0.8	-	0.8
1,574.5	65.9	6.2	1,646.6
, -	11.4	-	11.4
-	(1.5)	-	(1.5)
1,574.5	75.8	6.2	1,656.5
320.4	15.7	4.8	340.9
-	6.7	0.7	7.4
320.4	22.4	5.5	348.3
-	8.2	0.7	8.9
-	(1.5)	-	(1.5)
320.4	29.1	6.2	355.7
1,254.1	46.7	-	1,300.8
1,254.1	43.5	0.7	1,298.3
1,254.1	37.4	1.4	1,292.9
	1,574.5  1,574.5  320.4  320.4  320.4  1,254.1	Goodwill £m         software £m           1,574.5         53.1           -         12.0           -         0.8           1,574.5         65.9           -         11.4           -         (1.5)           1,574.5         75.8           320.4         15.7           -         6.7           320.4         22.4           -         8.2           -         (1.5)           320.4         29.1           1,254.1         46.7           1,254.1         43.5	Goodwill £m         software £m         contracts £m           1,574.5         53.1         6.2           -         12.0         -           -         0.8         -           1,574.5         65.9         6.2           -         11.4         -           -         (1.5)         -           1,574.5         75.8         6.2           320.4         15.7         4.8           -         6.7         0.7           320.4         22.4         5.5           -         8.2         0.7           -         (1.5)         -           320.4         29.1         6.2           1,254.1         46.7         -           1,254.1         43.5         0.7

Goodwill acquired through business combinations has been allocated for impairment testing purposes to three cash-generating units ("CGUs"), East Midlands, West Midlands, and South Wales, which are also operating segments. These represent the lowest level within the WPD Group at which goodwill is monitored for internal management purposes.

At 31 March 2014, an impairment loss of £186.2m and £62.2m was recognised in East Midlands and West Midlands, respectively. The impairment was mainly as a result of changes in cash flow projections, largely following the agreement of the RIIO-ED1 price control during that year. A further impairment loss of £72.0m was recognised at 31 March 2015 in West Midlands. This impairment had largely arisen as a result of changes to the short-term inflation assumption which had reduced both the operating cash flows and the terminal value used in the discounted cash flow model. This was partly offset by higher than previously anticipated levels of capital expenditure in that year, increasing both the future operating cash flows and the terminal value, and reducing the discount rate. For the East Midlands CGU, the increase in anticipated levels of capital expenditure was such that no overall impairment loss was recognised in the year.

Carrying amount of goodwill allocated to cash-generating units ("CGUs")	2021 £m	2020 £m
East Midlands	518.8	518.8
West Midlands	614.4	614.4
South Wales	120.9	120.9
Carrying amount of goodwill	1,254.1	1,254.1

In assessing whether goodwill has been impaired, the carrying amount of the CGU (including goodwill) is compared with the recoverable amount of the CGU. The recoverable amount is the higher of fair value less costs to dispose and value in use.

For the year ended 31 March 2021

### 15. Intangible assets (continued)

For the year ended 31 March 2021, the WPD Group has calculated the recoverable amount as the fair value less cost to dispose. On 18 March 2021, the WPD Group's shareholder, PPL, announced it had reached a definitive agreement to sell the WPD Group to National Grid Plc for £7.8bn. The transaction is an all-cash transaction valued at £14.3bn, including the assumption of approximately £6.5bn debt. The transaction required National Grid investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of WPD to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

The price of £14.3bn is publicly announced and reflects a purchase price that the market participants are willing to exchange for the WPD Group in an orderly transaction at the measurement date under the current market conditions. Based on the actual costs incurred to date in relation to the sale transaction, the WPD Group has estimated the total cost to dispose as 0.5% of the purchase price. Thus the total fair value less cost to dispose for the WPD Group is calculated as £14.3bn.

The WPD Group mainly comprises of the four DNOs, delivering electricity to approximately 7.9 million customers in the Midlands and the South West of England and South Wales. In addition, the Group also consists of other smaller subsidiaries including WPD Smart Metering Limited, WPD Telecoms Limited and South Western Helicopters Limited. The primary purpose of these businesses is to support the DNO 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. Several holding companies also form part of the WPD Group. The primary assets and liabilities of these holding companies are internal to the Group i.e. intercompany balances.

For the purposes of the goodwill impairment assessment of the three CGUs, the fair value less cost to dispose of £14.3bn has been allocated to all the entities within the Group.

The allocation of the fair value less cost to dispose for subsidiaries, excluding the four DNOs, is based on the fair value calculation for each subsidiary. The fair value of each subsidiary is determined in accordance with IFRS 13 'Fair Value Measurements' and is calculated using a combination of the income approach and the cost approach. The income approach uses a discounted cash flow model for the trading companies, which includes some assumptions that are not supportable by observable market prices or rates. For non-trading companies, the fair value is estimated on the net asset basis following the cost approach. The fair value less cost to dispose allocated to the subsidiaries excluding the four DNOs is calculated as £0.2bn.

The remaining fair value less cost to dispose of £14.1bn is attributable to the four DNOs within the Group and is allocated to each DNO based on its Regulated Asset Value ("RAV"). The RAV is a generally accepted and widely used industry method for measuring asset value and for defining the fair value of a business in terms of the premium to RAV. The allocation of fair value less cost to dispose to each CGU amounts to £4.4bn, £4.4bn, £2.1bn and £3.1bn for East Midlands, West Midlands, South Wales and South West respectively.

Due to the timing of the impairment test, the 31 March 2021 RAV is not available and therefore the RAV as at 31 March 2020 is used for the calculation of the premium to RAV. This is also consistent with the share purchase agreement between PPL and National Grid Plc dated 17 March 2021, which defines the 31 March 2020 as the locked box date.

At 31 March 2021, the East Midlands', West Midlands', and South Wales' recoverable amounts exceeded their carrying amounts by £492.3m, £473.1m, and £375.4m (2020: £156.0m, £141.1m and £89.4m), respectively.

The increase in the headroom during the year is due to the change in the basis of the recoverable amount. In previous years, due to a lack of sufficient observable transactions in the market in relation to identical assets, the recoverable amount for the WPD Group was determined to be the value in use, being the highest of the fair value less cost to disposal and value in use. The fair value loss cost to disposal in the previous years was estimated based on past transactions. However, in the current year, due to the announced sale transaction, a purchase price is publicly available and therefore the recoverable amount is based on fair value less cost to dispose. This compelling market indicator reflects the price that would be received to sell the WPD Group in an orderly transaction between willing market participants at the measurement date.

As the carrying value should be determined in a manner that is consistent with the calculation of the recoverable amount, this year it has been based on the net assets of the CGU, adjusted for debt and goodwill. In the prior year it was based on the segmental asset and liabilities of the CGU, excluding deferred tax, pensions and debt.

The fair value is based on directly observable inputs and falls within the level 2 of the fair value hierarchy. An observable market rate that is used in measuring an asset or liability is not itself a subjective or complex assumption about the future or other source of estimation uncertainty and therefore in the current year there is no subjectivity in relation to any assumptions in determining the recoverable amount of the three CGUs.

For the year ended 31 March 2021

### 16. Investments

#### (a) Investment at amortised cost

	2021	2020
	£m	£m
Lucy and the DDL of City of the		161.0
Investment in PPL affiliate debt	-	161.9

In February 2011, the WPD Group purchased \$200m nominal at a premium price of \$21m from PMDC Chile of the \$400m 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited. In December 2020 the investment was transferred to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), the Group's immediate parent, as a dividend in specie.

The expected credit loss on investments at amortised cost as at 31 March is as follows:

	2021	2020
	£m	£m
At 1 April	0.1	0.1
Provision for impairment	(0.1)	
At 31 March	-	0.1

### (b) Details of WPD Group undertakings

A list of investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest, is given in Note 4 to the Company's separate financial statements.

#### 17. Inventories

	2021	2020
	£m	£m
	44.0	27.5
Raw materials	44.9	37.5
Work in progress	1.8	1.0
	46.7	38.5

Inventory as at 31 March 2021 and 31 March 2020 includes critical stock ordered in bulk in response to the risk of any potential inventory shortage due to Brexit and COVID-19.

The cost of inventories recognised as an expense during the year was £9.3m (2020: £8.8m). The cost of inventories recognised as an expense includes £1.1m (2020: £0.5m) in respect of write downs of inventory to net realisable value and has been reduced by nil (2020: £0.4m) in respect of reversal of such write downs.

For the year ended 31 March 2021

18. Trade and other receivables	2021	2020
	£m	£m
Current receivables		
Trade receivables	285.4	275.9
Other receivables	2.7	4.7
Accrued income	7.1	6.2
Prepayments	31.6	21.0
Total current receivables	326.8	307.8
Non-current receivables		
Other receivables	1.1	1.0
Reimbursement asset re unfunded pension liability	3.1	-
Prepayments	1.0	1.0
Total non-current receivables	5.2	2.0
Total trade and other receivables	332.0	309.8

The carrying amount of trade and other receivables and loan to related party is considered to approximate their fair value.

Trade receivables includes unbilled DUoS income of £141.2m (2020: £139.7m).

Other receivables relate primarily to insurance claims and the non-current balances that are expected to be recovered over the next three years.

WPD South Wales has an unfunded obligation in relation to previous executives. This is subject to reimbursement by Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), and therefore a corresponding reimbursement asset is stated on the balance sheet and matches the liability recorded under IAS 19 (Note 27).

As at 31 March 2021, trade receivables and accrued income at a nominal value of £3.5m (2020: £3.0m) were impaired and fully provided for. Movements in the provision for impairment were as follows.

	2021 £m	2020 £m
At 1 April	3.0	3.3
Provision for impairment	3.0	1.9
Amounts written off as uncollectable	(1.1)	(0.9)
Amounts recovered during the year	(1.4)	(1.3)
At 31 March	3.5	3.0

The WPD Group considers 100% of its credit risk to be with counterparties in related industries. The maximum credit risk exposure is represented by the carrying value as at the balance sheet date.

As at 31 March, the aged analysis of trade receivables is as follows:

	N	either past due		Past o	due but not im	paired	
	Total	nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
	£m	£m	£m	£m	£m	£m	£m
							_
2021	285.4	266.5	5.4	1.2	-	0.8	11.5
2020	275.9	260.6	5.8	1.5	0.6	0.6	6.8

For the year ended 31 March 2021

## 18. Trade and other receivables (continued)

Trade receivables that are neither past due nor impaired relate largely to charges made to electricity suppliers for the use of WPD's distribution network. Credit risk management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the credit rules within the DCUSA.

The impact of COVID-19 on ECL has been assessed and is not material. 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 DCUSA, thus minimising any potential credit risk to the Group. Further, no material slowdown in receipts has been noted.

In order to minimise exposure to debt, the DCUSA requires WPD to monitor electricity suppliers' (WPD's customers) indebtedness ratios daily to ensure it does not exceed 85%. The indebtedness ratio is defined as 'Value at Risk/Credit Limit' where 'Value at Risk' is the suppliers' current outstanding invoices plus a 15 day estimate of unbilled amounts and 'Credit Limit' is calculated by reference to WPD's RAV, the suppliers' credit rating from an approved credit referencing agency, and the suppliers' payment performance history.

Where necessary, suppliers can ensure they are within the 85% indebtedness threshold by providing collateral to increase their 'Credit Limit'. This can be in the form of a letter of credit or equivalent bank guarantee, an escrow account deposit, a cash deposit, or any other form of collateral agreed between WPD and the supplier. At 31 March 2021, the WPD Group held collateral in relation to trade receivables in the form of cash £2.3m (2020: £2.2m), letters of credit £76.8m (2020: £53.3m), and parent company guarantees £50.3m (2020: £61.3m). Letters of credit have a rating of Moody's A2/S&P A or greater. The maximum amounts for parent company guarantees are based on their credit ratings as per the DCUSA regulations.

#### 19. Cash at bank and in hand

	2021	2020
	£m	£m
Cash at bank	53.5	64.4
Short-term bank deposits	85.7	136.6
Cash at bank and in hand	139.2	201.0

The fair value of cash at bank is considered to approximate its carrying amount. Short term deposits are measured at fair value through profit and loss ("FVTPL"). Cash at bank earns interest at floating rates based on short-term bank deposit rates. Short term deposits are all instant access funds.

At 31 March 2021, the WPD Group had available £837.0m (2020: £794.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates. At 31 March 2021, it also had available undrawn uncommitted facilities of £96.5m (2020: £96.5m).

Included in cash and short-term bank deposits are restricted amounts totalling £13.2m (2020: £13.2m) which are not readily available for the general purposes of the WPD Group. The restrictions relate largely to minimum cash balances that are required to be maintained for insurance purposes and cash balances that can only be used for low carbon network fund projects.

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

	2021 £m	2020 £m
Cash at bank and in hand (from above) Bank overdrafts (Note 22)	139.2 (22.6)	201.0 (13.5)
Cash at bank and in hand in the cash flow statement	116.6	187.5

Bank overdrafts comprise principally unpresented cheques at the year end.

For the year ended 31 March 2021

## 20. Trade and other payables

2021 £m	2020 £m
84.9	44.2
56.8	65.4
182.6	141.5
2.0	13.1
47.3	46.1
13.7	14.0
263.3	277.4
650.6	601.7
2,687.4	2,588.7
3,338.0	3,190.4
	£m  84.9  56.8  182.6  2.0  47.3  13.7  263.3  650.6

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. Deferred contributions are those amounts received from customers in respect of new connections to the network. The carrying amount of trade and other payables is considered to approximate their fair value.

### 21. Lease liabilities

	2021	2020
	£m	£m
Ononing	10.1	10.8
Opening		
Additions	0.7	0.5
Payments during the year	(1.7)	(1.5)
Interest expense	0.3	0.3
At 31 March 2021	9.4	10.1
of which		
Current	1.5	1.5
Non-current	7.9	8.6

The WPD Group leases various properties under non-cancellable operating lease arrangements. In addition to this, WPD leases in rights to capacity on third party fibre optic networks, and space and equipment at third party telecommunication sites, under non-cancellable lease arrangements, in order to extend its core fibre network for its point to point transmission services. The leases have various terms, escalation clauses and renewable rights. Lease terms and rentals to be paid during the lease term are defined within the agreement. In some cases, lease rentals may be subject to a rent review on dates specified within the agreement at the then prevailing market rate.

Short term leases and low value leases are excluded from recognition on the balance sheet. The amount of expense charged to rent expense pertaining to short term leases amounts to £7.4m (2020: £5.2m) and pertaining to low value leases amounts to £0.7m (2020: £0.7m).

## 22. Loans and other borrowings

	2021 £m	2020 £m
Current		
Bank overdrafts (Note 19)	22.6	13.5
Syndicated credit facilities (i)	218.1	261.1
Syndicated term loan (ii)	350.0	-
9.250% GB£150m bonds due 2020	-	151.6
	590.7	426.2

<sup>(</sup>i) The syndicated credit facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortisation and total net debt not in excess of 85% of RAV, calculated in accordance with the credit facility. At 31 March 2021, £218.1m (2020: £100.0m) of syndicated credit facilities were denominated in Sterling and nil (2020: £161.0m) were denominated in US dollars.

(ii) A £350m 6 month term loan was fully drawn by WPD plc in February 2021 with a maturity date of 26 August 2021. It incurs an interest rate of LIBOR + 1.0% margin.

	2021	2020
	£m	£m
Non-current		
5.875% GB£250m bonds due 2027 (iv)	249.0	248.9
5.75% GB£200m bonds due 2040 (iv)	197.8	197.6
2.375% GB£250m bonds due 2029	247.4	247.0
4.804% GB£225m bonds due 2037 (i) (iv)	221.2	220.9
5.75% GB£200m bonds due 2040 (iv)	197.8	197.6
1.625% GB£250m bonds due 2035	246.1	-
6.25% GB£250m bonds due 2040 (iv)	257.0	257.4
5.25% GB£700m bonds due 2023 (iv)	700.5	700.8
6.00% GB£250m bonds due 2025 (iv)	252.0	252.5
5.75% GB£800m bonds due 2032 (iv)	792.5	791.9
3.875% GB£400m bonds due 2024 (iv)	398.1	397.5
3.625% GB£500m bonds due 2023	498.2	497.6
5.375% US\$500m bonds due 2021	-	402.3
7.375% US\$202m bonds due 2028	140.7	156.1
3.5% GB£350m bonds due 2026	346.4	345.7
1.75% GB£250m bonds due 2031	245.9	245.5
£50m 5 year term loan	49.8	49.7
1.541% + RPI GB£105m index linked bonds 2053 (ii) (iii)	154.5	152.4
1.541% + RPI GB£120m index linked bonds 2056 (ii) (iii)	176.5	174.1
0.010% + RPI GB£50m index linked bonds 2029 (iii)	57.1	56.6
0.010% + RPI GB£30m index linked bonds 2036 (iii)	32.9	32.5
2.671% + RPI GB£140m index linked bonds 2043 (iii)	208.1	207.1
1.676% + RPI GB£105m index linked bonds 2052 (iii)	137.5	136.2
0.4975% + RPI GB£100m index linked bonds 2030 (iii)	110.5	111.3
1.25% + RPI GB£30m index linked bonds due 2028 (iii)	32.2	31.8
	5,949.7	6,111.0
Total loans and other borrowings	6,540.4	6,537.2

<sup>(</sup>i) May be redeemed, in total but not in part, on 21 December 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated UK Government bond.

<sup>(</sup>ii) May be redeemed, in total by series, on 1 December 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated UK government bond.

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## 22. Loans and other borrowings (continued)

- (iii) The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts in 2020 was an increase of approximately £22.3m resulting from inflation.
- (iv) May be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licences under which the issuer operates.

None of the outstanding debt securities noted above has sinking fund requirements.

The carrying amounts of the WPD Group's borrowings are denominated in the following currencies:

	2021	2020
	£m	£m
UK pound	6,399.7	5,817.8
US dollar	140.7	719.4
	6,540.4	6,537.2
23. Reconciliation of liabilities arising from financing activities		
	2021	2020
	£m	£m
Borrowings (excluding bank overdraft)	6,517.8	6,523.7
Lease liabilities	9.4	10.1
Derivatives in hedging relationship	(28.0)	(163.1)
Gross debt net of related derivatives (excluding bank overdraft)	6,499.2	6,370.7
Change in liabilities arising from financing activities		
	2021	2020
	£m	£m
Cash flow per financing activity section of cash flow statement		
Net increase in short term borrowings	307.0	9.0
Proceeds from long term borrowings net of issue costs	246.0	295.0
Repayment of long term borrowings	(456.9)	- (1.5)
Payment of lease liabilities	(1.7)	(1.5)
Change in liabilities arising from financing activities	94.4	302.5
Non-cash adjustments		
Fair value change in derivatives	83.7	(60.3)
Foreign exchange (gain)/loss on borrowings	(60.3)	34.8
Net increase in borrowings due to indexation	11.7	22.3
Debt modification gain	(2.4)	(0.9)
Amortisation of premiums, discounts and issue costs	0.4	- 11.2
Leases acquired during the year	0.7	11.3
Interest expense on lease	0.3	0.3
Movement in gross debt net of related derivatives in the year	128.5	310.0
Gross debt net of related derivatives at beginning of year	6,370.7	6,060.7
Gross debt net of related derivatives (excluding bank overdrafts) at end of year	6,499.2	6,370.7

For the year ended 31 March 2021

### 24. Financial instruments

Financial risk management objectives and policies

The WPD Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, bonds and trade payables. The main purpose of these financial liabilities is to raise finance for the WPD Group's operations. The WPD Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The WPD Group also enters into derivative transactions, principally interest rate and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the WPD Group's operations and its sources of finance.

It is, and has been throughout 2021 and 2020, the WPD Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the WPD Group's financial instruments are fair value interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

#### Market risk

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates and inflation will affect the WPD Group's profit. The management of market risk is undertaken with risk limits approved by the Board.

#### Interest rate risk

The WPD Group has issued debt to finance its operations, which exposes it to interest rate risk. Borrowings issued at variable rates expose the WPD Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the WPD Group to fair value interest rate risk. The WPD Group's interest rate risk management policy includes achieving the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows. The WPD Group's policy stipulates that a maximum of 25% of WPD Group borrowings be subject to variable rates of interest.

The WPD Group may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2021	2020
	Carrying	Carrying
Interest bearing/earning assets and liabilities:	amount	amount
	£m	£m
Fixed	5,012.4	5,040.1
Floating	451.5	73.6
Index-linked	909.3	902.0
	6,373.2	6,015.7
	2021	2020
	Carrying	Carrying
Represented by:	amount	amount
	£m	£m
Cash and cash equivalents	(139.2)	(201.0)
Investment in parent company debt	-	(161.9)
Derivative financial assets/liabilities	(28.0)	(158.6)
Loans and borrowings	6,540.4	6,537.2
	6,373.2	6,015.7

For the year ended 31 March 2021

## 24. Financial instruments (continued)

#### Interest rate sensitivity

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-fixed hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments are recorded through the income statement. The exposure measured is therefore based on variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the WPD Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the WPD Group's equity.

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes all non-derivative floating rate financial instruments.

Currency derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date. The sensitivity analysis is indicative only and it should be noted that the WPD Group's exposure to such market rate changes is continually changing. The calculation is based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the WPD Group.

	2021		2020	0
	Income		Income	
	statement		statement	
	(before tax)	Equity	(before tax)	Equity
	+/- <b>£m</b>	+/- £m	+/- £m	+/- £m
Interest Rate +/- 100bp	4.5	-	0.7	-

### Inflation risk

The WPD Group's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI. This form of liability is a good match to the WPD Group's regulated assets ("RAV"), which are also linked to RPI due to the price setting mechanism imposed by the regulator, and also the price cap is linked to RPI. By matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash.

The carrying value of index-linked debt held by the WPD Group is as follows:

	2021	2020
	£m	£m
Index-linked debt	909.3	902.0

#### Inflation sensitivity

Assuming sensitivity to the RPI does not take into account any changes to revenue or operating costs that are affected by RPI or inflation generally, the following table shows the illustrative effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in changes in RPI before the effects of tax.

	2021		2020	C
	Income statement		Income	
			statement	
	(before tax)	Equity	(before tax)	Equity
-	+/- <b>£</b> m	+/- £m	+/- £m	+/- £m
UK Retail Prices Index +/- 1.00%	9.1	(7.4)	9.0	(7.3)

For the year ended 31 March 2021

## 24. Financial instruments (continued)

#### Foreign currency risk

The WPD Group's assets are principally sterling denominated; however, the WPD Group has access to various international debt capital markets and raises foreign currency denominated debt. Where long-term debt is denominated in a currency which is not sterling, the WPD Group's policy is to swap 100% of the foreign currency denominated principal and interest cash flows into sterling through the use of cross-currency swaps.

Under a currency swap, the WPD Group agrees with another party to exchange the principal amount of the two currencies, together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and principal amount. The principal of these instruments reflects the extent of the WPD Group's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

During the year the WPD Group investment of \$200m 6.42% Eurobonds issued by PPL UK Resources Limited, which were acquired at a premium of \$21m, were transferred to the Group's parent company as dividend in specie. As a result, the borrowings of \$200m under a related committed credit facility were also repaid to eliminate the Group's exposure to any future exchange rate fluctuations.

The principal amount of the WPD Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date and the impact of derivative financial instruments used to manage foreign currency risk were as follows:

	2021	2020	
	\$ <b>m</b>	\$m	
Investment in parent company Eurobonds	-	201.1	
Borrowings	(202.0)	(902.0)	
Gross exposure	(202.0)	(700.9)	
Effect of cross-currency swaps	202.0	702.0	
Net exposure	-	1.1	

### Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in Sterling against the US dollar exchange rate, with all other variables held constant, of the WPD Group's profit before tax and the WPD Group's equity.

	2021		2020	)
	Income		Income	
	statement	statement		
	(before tax)	Equity	(before tax)	Equity
	£m	£m	£m	£m
10% increase in exchange rates	-	(4.9)	(0.1)	(9.3)
10% decrease in exchange rates	-	6.0	0.1	11.4

#### Credit risk (see also Note 18)

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the WPD Group and arises from cash and cash equivalents, derivative financial instruments and deposits with financial institutions and principally from credit exposures to customers relating to outstanding receivables.

WPD maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria). Depending on the creditworthiness of the counterparty, the WPD Group may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

For the year ended 31 March 2021

# 24. Financial instruments (continued)

Credit risk (see also Note 18) (continued)

	2021	2020
	£m	£m
Cash and short-term deposits	139.2	201.0
Trade receivables	285.4	275.9
Other receivables	3.8	5.7
Accrued income	7.1	6.2
Investment at amortised cost	-	161.9
Derivative financial instruments	28.0	163.5
	463.5	814.2

The table above does not take into account collateral held in relation to trade receivables in the form of cash £2.3m (2020: £2.2m), letters of credit £76.8m (2020: £53.3m), and parent company guarantees £50.3m (2020: £61.3m).

WPD has concentrations of customers among electric utilities and other energy marketing and trading companies. These concentrations of counterparties may impact WPD's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions.

The analysis of WPD's financial assets by credit risk rating grade is as follow:

2021	12 month ECL £m	Lifetime ECL £m	FVTPL £m	FVOCI £m	Total £m
AAA to A (Low to Fair Risk)	53.5	-	85.7	28.0	167.2
BBB+ to B (Monitoring)	-	-	-	-	-
CCC and below (Substandard)	-	-	-	-	-
Others monitored on ageing matrix	-	299.8	-	-	299.8
Total gross carrying value	53.5	299.8	85.7	28.0	467.0
Loss allowance	-	(3.5)	-	-	(3.5)
Net carrying value	53.5	296.3	85.7	28.0	463.5
2020	12 month	Lifetime			
	ECL	ECL	FVTPL	FVOCI	Total
	£m	£m	£m	£m	£m
AAA to A (Low to Fair Risk)	64.4	_	136.6	163.5	364.5
BBB+ to B (Monitoring)	-	-	-	-	-
CCC and below (Substandard)	162.0	-	-	-	162.0
Others monitored on ageing matrix	-	290.8	-	-	290.8
Total Gross Carrying Value	226.4	290.8	136.6	163.5	817.3
Loss Allowance	(0.1)	(3.0)	-	-	(3.1)
Net Carrying Value	226.3	287.8	136.6	163.50	814.2

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## 24. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the WPD Group will not have sufficient funds to meet the obligations or commitments arising from its business operations and its financial liabilities.

Treasury is responsible for managing the banking and liquidity requirements of the WPD Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. The department's operations are governed by policies determined by the Board.

The following credit facilities were in place at 31 March 2021:

			Letters of		
	Expiration date	Capacity	Borrowed	credit issued	capacity
		date £m	£m	£m	£m
WPD plc - Syndicated Credit Facility	Jan. 2023	210.0	83.0	-	127.0
WPD South West - Syndicated Credit Facility	May 2023	220.0	75.0	-	145.0
WPD East Midlands - Syndicated Credit Facility	May 2023	250.0	-	-	250.0
WPD West Midlands - Syndicated Credit Facility	May 2023	250.0	60.0	-	190.0
WPD South Wales - Syndicated Credit Facility	May 2023	125.0	-	-	125.0
Uncommitted Credit Facilities	-	100.0	-	3.5	96.5
Total Credit Facilities		1,155.0	218.0	3.5	933.5

The WPD Group's primary source of liquidity is cash generated from its ongoing business operations. The electricity regulator sets a major element of the WPD Group's revenues, providing both a stable and predictable source of funds. In recognition of the long life of the WPD Group's assets and anticipated indebtedness, and to create financial efficiencies, the WPD Group's policy is to arrange that debt maturities are spread over a wide range of dates, thereby ensuring that the WPD Group is not subject to excessive refinancing risk in any one year. The WPD Group has entered into borrowing agreements for periods out to 2056.

The following tables detail the WPD Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the WPD Group can be required to pay. The table includes both interest and principal cash flows.

2021	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Borrowings Lease liabilities Trade and other payables	487.0 1.5 363.9	2,737.4 4.0	3,734.1 4.0	3,178.5 6.6	10,137.0 16.0 363.9
Total	852.4	2,741.4	3,738.1	3,185.1	10,516.9
2020	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Borrowings Lease liabilities Trade and other payables	703.6 1.6 348.7	2,967.5 4.8	3,724.8 4.0	2,935.1 6.7	10,331.0 17.0 348.7
Total	1,053.9	2,972.3	3,728.8	2,941.8	10,696.7

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# 24. Financial instruments (continued)

Liquidity risk (continued)

The following table details the WPD Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross cash (inflows) and outflows on derivatives that require gross settlement.

2021	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments Cross currency derivative receipts	9.0 (10.8)	35.9 (43.2)	148.8 (179.0)	-	193.7 (233.0)
Total	(1.8)	(7.3)	(30.2)	-	(39.3)
2020	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments Cross currency derivative receipts	26.3 (33.6)	351.4 (461.4)	157.8 (210.6)	-	535.5 (705.6)
Total	(7.3)	(110.0)	(52.8)	-	(170.1)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the WPD Group's financial instruments that are carried in the financial statements.

2021	Amortised	Fair value through profit &	Fair value through	Total book	
	cost	loss	OCI	value	Fair value
	£m	£m	£m	£m	£m
Financial assets					
Cash	53.5	85.7	-	139.2	139.2
Derivative financial instruments	-	-	28.0	28.0	28.0
Trade and other receivables	296.3	-	-	296.3	296.3
Financial liabilities					
Bank overdraft	(22.6)	-	-	(22.6)	(22.6)
Interest-bearing loans and borrowings:					
- Floating rate borrowings	(218.1)	-	-	(218.1)	(218.1)
- Fixed rate borrowings	(5,040.4)	-	-	(5,040.4)	(6,103.0)
- Index linked	(1,259.3)	-	-	(1,259.3)	(1,720.4)
Lease liabilities	(9.4)			(9.4)	(9.4)
Trade and other payables	(363.9)	-	-	(363.9)	(363.9)
	(6,563.9)	85.7	28.0	(6,450.2)	(7,973.9)

For the year ended 31 March 2021

## 24. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)

2020	Amortised cost £m	Fair value though profit & loss £m	Fair value through OCI £m	Total book value £m	Fair value £m
Financial assets					
Cash	64.4	136.6	-	201.0	201.0
Investment at amortised cost	161.9	-	-	161.9	178.5
Derivative financial instruments	-	-	163.5	163.5	163.5
Trade and other receivables	287.8	-	-	287.8	287.8
Financial liabilities					
Bank overdraft	(13.5)	-	-	(13.5)	(13.5)
Interest-bearing loans and borrowings:					
- Floating rate borrowings	(261.1)	-	-	(261.1)	(261.1)
- Fixed rate borrowings	(5,360.6)	-	_	(5,360.6)	(6,241.6)
- Index linked	(902.0)	-	_	(902.0)	(1,294.0)
Derivative financial instruments	, ,		(4.9)	(4.9)	(4.9)
Lease liabilities	(10.1)		` ,	(10.1)	(10.1)
Trade and other payables	(348.7)	-	-	(348.7)	(348.7)
	(6,381.9)	136.6	158.6	(6,086.7)	(7,343.1)

The fair value of the WPD Group's outstanding cross currency swaps is the estimated amount, calculated using discounted cash flow models, that the WPD Group would receive or pay in order to terminate such contracts in an arm's length transaction taking into account market rates of interest and foreign exchange at the balance sheet date.

The carrying value of the WPD Group's bank loans and overdrafts approximates their fair value. The fair value of the WPD Group's other borrowings is estimated using quoted prices or, where these are not available, discounted cash flow analyses based on the WPD Group's current incremental borrowing rates for similar types and maturities of borrowing: these are classified as Level 2 in the fair value hierarchy.

The carrying value of short term receivables and payables are assumed to approximate their fair values where discounting is not material.

#### Fair value hierarchy

The WPD Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2021, the WPD Group held the following financial instruments measured at fair value:

2021	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets measured at fair value				
Derivatives financial instruments	-	28.0	-	28.0
Short term deposits	85.7	-	-	85.7

For the year ended 31 March 2021

## 24. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)

2020	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets measured at fair value				
Derivatives financial instruments	-	163.5	-	163.5
Short term deposits	136.6	-	-	136.6
Liabilities measured at fair value				
Derivatives financial instruments	-	4.9	-	4.9

To manage interest rate risk, WPD uses interest rate contracts such as forward-starting swaps. To manage foreign currency exchange risk, WPD uses foreign currency contracts such as cross-currency swaps. An income approach is used to measure the fair value of these contracts, utilising readily observable inputs, such as forward interest rates and forward foreign currency exchange rates, as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. The impact of credit risk on the fair value of derivatives is generally small relative to liabilities like debt, because the principal (notional) amount is not at risk and credit enhancements often exist and thus the overall classification of derivatives as Level 2 remains appropriate. WPD generally does not calculate separate liquidity valuation adjustments, based on the traders' view that liquidity risk is included in the market prices. WPD also does not generally calculate modelling reserves, as the interest rate/foreign currency derivatives can be developed using standard practices.

During the reporting period ending 31 March 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

Hedge counterparties are major banks of high quality credit standing.

In addition to the above financial instruments, the fair value of long-term debt and investment at amortised cost as disclosed under financial liabilities is classified as Level 2.

WPD uses observable market data from Bloomberg to arrive at the fair value of long term debt and investment at amortised cost.

### Capital risk management

The primary objective of the WPD Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The WPD Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the WPD Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2021 or 31 March 2020.

The WPD Group does not consider the standard gearing ratio of net debt as a percentage of net debt plus net assets shown in the balance sheet as an appropriate capital monitoring measure as it does not reflect the economic value of the assets of the Group's regulated businesses. Instead, the WPD Group monitors capital using a gearing ratio, which is net debt divided by the RAV. The RAV is a regulatory measure of the regulated business' asset base required to carry out the regulated activities. Regulated revenues are designed to cover operating costs (including certain replacement expenditure) and capital depreciation, as well as an allowed return on the RAV. The WPD Group's policy is to maintain a gearing ratio that ensures an investment grade credit rating. The WPD Group includes within net debt borrowings and associated cross currency swaps less cash and cash equivalents and deposits.

For the year ended 31 March 2021

# 24. Financial instruments (continued)

	2021	2020
	£m	£m
Short term borrowings	568.1	412.7
Long term borrowings	5,949.7	6,111.0
Lease liabilities	9.4	10.1
Letters of credit	3.5	3.5
Cross currency swaps	(28.0)	(163.1)
Cash at bank and in hand (excluding restricted cash)	(103.4)	(174.3)
Net debt	6,399.3	6,199.9
Regulatory Asset Value	8,330.5	7,999.7
Gearing ratio	77%	78%
Reconciliation of cash flows to net debt	2021	2020
Reconciliation of cash flows to hel deol	£m	£m
Net decrease/(increase) in cash at hand in bank	70.9	(65.3)
Net increase in short term borrowings	307.0	9.0
Net (decrease)/increase in long term borrowings	(210.9)	295.0
Payment of lease liabilities	(1.7)	(1.5)
Change in debt resulting from cash flows	165.3	237.2
Fair value change in derivative	83.7	(60.3)
Foreign exchange (gain)/loss on borrowings	(60.3)	34.8
Net increase in borrowings due to indexation	11.7	22.3
Debt modification gain	(2.4)	-
Amortisation of premiums, discounts and issue costs	0.4	(0.9)
Leases acquired during the year	0.7	11.3
Interest expense on lease	0.3	0.3
Movement in net debt in the year	199.4	244.7
Net debt at beginning of year	6,199.9	5,955.2
Net debt at end of year	6,399.3	6,199.9

For the year ended 31 March 2021

### 25. Derivative financial instruments

Cross-currency swaps

The WPD Group entered into cross-currency interest rate swaps designated as cash flow hedges in order to hedge the currency cash flow risks associated with the future interest and principal payments on the WPD Group's US dollar borrowings arising from fluctuations in currency rates.

The cross-currency swaps have two fixed interest rate legs that match the interest, payment debts, currency, notional amount and maturity date of USD denominated debt and thus no ineffectiveness is expected. Furthermore, the swaps also provide for a final exchange of currency on maturity of debts, thereby also eliminating any currency risk related to the principal repayment.

The assessment of whether the derivative will be highly effective is determined by comparison of the critical terms of the hedging instrument (i.e. cross-currency interest rate swap) with the critical terms of the hedged item. Because of the fact that the critical terms are the same (timing and amount of US dollar cash flows), the entity can conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. The only possible source of hedge ineffectiveness is the credit risk of the swap counterparty. There has been no adverse development with regard to the counterparty's credit risk.

The hedge ratio is calculated from the quantity of the hedge item being hedged and the quantity of the hedging instrument being used to hedge that quantity of the hedged item. There is no imbalance between the weightings of the hedged item and the hedging instrument.

At 31 March 2021, the WPD Group had outstanding cross-currency swap agreements in cash flow hedges against borrowings with a total principal amount of \$202.0m (2020: \$702.0m) and a swapped notional principal of £121.9m (2020: £428.8m). The hedges were assessed to be highly effective. The cross-currency swaps have a remaining term of seven years (2020: from one to eight years) to match the underlying hedged borrowings consisting of semi-annual interest payments and the repayment of principal amounts. Under the swaps the WPD Group receives US dollar interest at an average fixed rate of 6.0% (2020: 7.4%) and pays pound sterling interest at an average fixed rate of 7.4% (2020: 6.1%).

#### Forward-starting interest rate swaps

WPD wishes to hedge the variability in the semi-annual interest payments related to the forecast debt issuance attributable to changes in the benchmark interest rate (i.e. swap rate) between hedge inception and the issuance's pricing date. This can be achieved through the use of a forward-starting interest rate swap, whereby WPD pays fixed and receives floating, that will be terminated when the debt issuance is priced. Through interest rate swaps WPD wants to benefit from lower gilt rates at a point of time. Locking in the rates at the lowest possible levels assists WPD to outperform the allowed cost of debt under Ofgem's price control mechanism.

The assessment of whether the hedge is effective is determined by using regression techniques to produce a comparison of the hedging instrument (forward starting interest rate swap) with the hedged item (forecast debt issuance).

The possible sources of hedge ineffectiveness are if the hedged transaction does not occur or if the transaction does not occur at the initial agreed terms such as timing, principal and tenor of issuance. Another possible source of hedge ineffectiveness is the credit risk of the swap counterparty.

The hedge ratio is calculated from the quantity of the hedge item being hedged and the quantity of the hedging instrument being used to hedge that quantity of the hedged item. There is no imbalance between the weightings of the hedged item and the hedging instrument.

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# 25. Derivative financial instruments (continued)

Hedging instruments

As at 31 March, the WPD Group held the following derivative financial instruments measured at fair value:

2021	Nominal amount £m	Carrying amount (assets) £m	Carrying amount (liabilities) £m	Line item in balance sheet £m	Change in fair value relevant to ineffective hedge £m
Foreign currency risk Cross-currency swaps - cash flow hedges	121.9	28.0	-	Derivative financial instruments	-
	121.9	28.0	-	-	-
2020		Carrying	Carrying	Line item	Change in fair value relevant to
	Nominal amount £m	amount (assets) £m	amount (liabilities) £m	in balance sheet £m	ineffective hedge £m
Foreign currency risk Cross-currency swaps - cash flow hedges	428.8	163.1	-	Derivative financial instruments	-
Interest rate risk Interest rate swaps - cash flow hedges	125.5	0.4	4.9	Derivative financial instruments	-
	554.3	163.5	4.9	-	-
Timing profile for hedge instruments' nominal amounts			2021		
	Less than one year £m	One to five years £m		Greater than fifteen years £m	Total £m
Cross-currency swaps - cash flow hedge	-	-	121.9	-	121.9
	Less than	One to	2020 Five to	Greater than	
	one year £m	five years £m	fifteen years £m	fifteen years £m	Total £m
Cross-currency swaps - cash flow hedge Interest rate swaps - cash flow hedge	125.5	306.9	121.9	-	428.8 125.5

For the year ended 31 March 2021

# 25. Derivative financial instruments (continued)

Hedging instruments (continued)

	The average	rate of the	hedging	instruments	is as	follows:
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The average rate of the hedging instrur	nents is as follows:			2021		2020		
Foreign currency risk								
Cross-currency swaps				7.37%		6.13%		
Interest rate risk								
Interest rate swaps				N/a		0.89%		
Hedged items								
		2	021		20	020		
		Value			Value			
		change			change			
		in hedged	Cash flow		in hedged	Cash flow		
		item relating	hedge		item relating	hedge		
		to hedge	reserve		to hedge	reserve		
	iı	neffectiveness	balance	i	neffectiveness	balance		
		£m	£m		£m	£m		
Foreign currency risk								
Foreign currency borrowings		-	(17.3)		-	23.8		
Interest currency risk								
Borrowings		-	-		-	(22.6)		
Hedge effectiveness								
Treage effectiveness			2	021				
			Line item in	021				
			income	Amount	Amount	Line item in		
		Ineffective	statement	reclassified	reclassified	income		
	ז	hedge portion	including	because	because	statement		
	Hedging	recognised	ineffective	cash flows	hedged item	including		
	gain/(loss)	in income	hedge	no longer	affected	reclass		
	in OCI		portion	expected	P&L	adjustment		
	£m	£m	portion	£m	£m	uujustiiieiit		
Foreign currency risk	(62.6)	-	-	-	45.4	Finance		
Interest rate risk	(2.7)				1.4	costs		
	2020							
			Line item in	-				
			income	Amount	Amount	Line item in		
		Ineffective	statement	reclassified	reclassified	income		
		Ineffective hedge portion	statement including	reclassified because	reclassified because			
	Hedging	hedge portion	including		because	statement		
	Hedging	hedge portion recognised	including ineffective	because cash flows	because hedged item	statement		
	gain / (loss)	hedge portion recognised in income	including ineffective hedge	because cash flows no longer	because hedged item affected	statement including reclass		
		hedge portion recognised in income	including ineffective	because cash flows	because hedged item	statement including reclass		
Foreign currency risk	gain / (loss) in OCI £m	hedge portion recognised in income statement	including ineffective hedge	because cash flows no longer expected	because hedged item affected P&L £m	statement including reclass adjustment		
Foreign currency risk Interest rate risk	gain / (loss) in OCI	hedge portion recognised in income statement	including ineffective hedge	because cash flows no longer expected	because hedged item affected P&L	statement including reclass		

For the year ended 31 March 2021

#### 25. Derivative financial instruments (continued)

Reconciliation of cash flow hedge reserve

, ,	2021	2020
	£m	£m
Opening balance	1.2	(5.2)
Hedging (loss) / gain	(65.3)	33.5
Amount reclassified to income statement because		
cash flows no longer expected	-	-
Amount reclassified to income statement because		
hedged item affected profit and loss	46.8	(27.1)
Closing balance	(17.3)	1.2

#### 26. Deferred tax

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

	Accelerated capital	Retirement benefit		
	allowances	obligation	Other	Total
	£m	£m	£m	£m
At 1 April 2019	589.8	16.9	(14.5)	592.2
Charge to the income statement	93.1	29.5	2.6	125.2
Charge to equity	<u>-</u>	66.7	1.4	68.1
At 1 April 2020	682.9	113.1	(10.5)	785.5
Charge / (credit) to the income statement	23.8	30.5	(0.3)	54.0
Credit to equity	<u>-</u>	(68.5)	(4.2)	(72.7)
At 31 March 2021	706.7	75.1	(15.0)	766.8

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. The net deferred tax liability will impact the Group's tax payments over a very long period of time mainly due to the long expected useful lives of fixed assets and the Group's pension schemes having no fixed maturity dates.

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2021	2020
	£m	£m
Deferred tax liabilities	858.4	861.3
Deferred tax assets	(91.6)	(75.8)
Net deferred tax liabilities	766.8	785.5

The net deferred tax liability due after more than one year is £770.8m (2020: £790.7m).

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 WPD Group did not recognise deferred tax assets of £180.9m (2020: £181.1m) in respect of capital losses amounting to £952.4m (2020: £953.0m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

For the year ended 31 March 2021

## 27. Retirement benefit obligations

#### Introduction

The WPD Group operates four defined benefit pension schemes:

- two segments of the Electricity Supply Pension Scheme ("ESPS"),
  - the segment covering WPD South West and WPD South Wales ("ESPS WPD"), and
  - the segment covering WPD East Midlands and WPD West Midlands ("ESPS CN")
- the Western Power Utilities Pension Scheme ("WPUPS")
- the Infralec 1992 Pension Scheme ("Infralec 92")

The assets of all four schemes are held separately from those of the WPD Group in trustee administered funds.

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity supply industry. The two segments of the ESPS relating to WPD are closed to new members except in very limited circumstances. Existing members are unaffected. A defined contribution scheme is offered to new employees.

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, as Western Power Distribution Holding Company Limited, (formerly PPL WPD Investments Limited), the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. This has been novated from PPL WPD Limited during the year. As Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Note 28) and matches the gross asset/liability recorded under IAS 19 below.

Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales.

WPUPS and Infralec 92 are closed to active members.

The WPD Group also has an unfunded obligation which relates to previous executives of WPD East Midlands and WPD West Midlands. WPD South Wales also has an unfunded obligation in relation to previous executives. This is subject to reimbursement by Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) as result of the novation agreement executed during the current year, and therefore a corresponding reimbursement asset is stated on the balance sheet (Note 18) and matches the liability recorded under IAS 19.

#### Other scheme

WPD also operates a defined contribution scheme. The assets of the scheme are held separately from those of WPD in an independent fund administered by the scheme trustee. The scheme has two sections:

- (a) a closed section with no active members. At 31 March 2021 there were 194 members with deferred benefits in the scheme (2020: 198) and 5 pensioners (2020: 4). Market value of the assets was £2.3m (2020: £1.9m).
- (b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2021 there were 4,295 members (2020: 4,058). The market value of the assets of the open section of the scheme was £139.4m (2020: £97.0m). Employer contributions to the scheme amounted to £10.6m in the year (2020: £9.7m).

### Defined benefit schemes

The liability/asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries, Aon Hewitt Limited, using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

The schemes are funded, defined benefit, final salary pension plans. The level of benefits provided depends on members' length of service and their salary at their date of leaving the WPD. The majority of pensions in payment receive inflationary increases in line with the RPI ("Retail Prices Index") inflation. The benefit payments are from trustee-administered funds. The amount of contributions to be paid is decided jointly by the employer and the Trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The schemes' investment strategy is decided by the Trustees, in consultation with the employer. The Boards of Trustees must be composed of representatives of the employer and plan participants in accordance with the schemes' legal documentation.

For the year ended 31 March 2021

# ${\bf 27.\ Retirement\ benefit\ obligations\ (continued)}$

The amounts recognised in the balance sheet are determined as follows:

<u> </u>	2021								
	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total			
	£m	£m	£m	£m	£m	£m			
Present value of obligations	2,606.1	3,671.9	510.0	13.5	7.6	6,809.1			
Fair value of scheme assets	(2,637.6)	(3,940.9)	(608.4)	(17.4)	-	(7,204.3)			
(Surplus)/deficit of funded plan and liability/ (asset) recognised in the balance sheet	(31.5)	(269.0)	(98.4)	(3.9)	7.6	(395.2)			
Represented by:									
Retirement benefit obligations	-	-	-	-	7.6	7.6			
Retirement benefit assets	(31.5)	(269.0)	(98.4)	(3.9)	-	(402.8)			
	(31.5)	(269.0)	(98.4)	(3.9)	7.6	(395.2)			
	2020								
	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total			
	£m	£m	£m	£m	£m	£m			
Present value of obligations	2,283.9	3,263.4	476.1	12.6	4.3	6,040.3			
Fair value of scheme assets	(2,414.7)	(3,580.2)	(625.5)	(15.1)	-	(6,635.5)			
Deficit/(surplus) of funded plan and liability/ (asset) recognised in the balance sheet	(130.8)	(316.8)	(149.4)	(2.5)	4.3	(595.2)			
Represented by:									
Retirement benefit obligations	-	-	-	-	4.3	4.3			
Retirement benefit assets	(130.8)	(316.8)	(149.4)	(2.5)	-	(599.5)			
	(130.8)	(316.8)	(149.4)	(2.5)	4.3	(595.2)			

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:

,	2021								
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m			
Current service cost	27.3	28.9	-	-	-	56.2			
Administrative costs	1.3	1.8	0.5	-	-	3.6			
WPUPS reimbursement agreement	-	-	(0.5)	-	-	(0.5)			
Operating charge relating to defined benefit plans	28.6	30.7	-	-	-	59.3			
Interest income on plan assets	(55.8)	(82.3)	(14.2)	(0.3)	-	(152.6)			
Interest on plan liabilities	51.9	74.1	10.7	0.3	0.1	137.1			
WPUPS reimbursement agreement	-	-	3.5	-	-	3.5			
Other finance income	(3.9)	(8.2)	-	-	0.1	(12.0)			

For the year ended 31 March 2021

# 27. Retirement benefit obligations (continued)

	2020					
	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Current service cost	30.1	32.4	-	-	-	62.5
Administrative costs	1.4	2.2	0.6	-	-	4.2
Past service cost and gains and losses						
on settlement*	-	-	-			-
WPUPS reimbursement agreement	-	-	(0.6)	-	-	(0.6)
Operating charge relating to defined benefit plans	31.5	34.6	-	-	-	66.1
Interest income on plan assets	(57.3)	(84.1)	(14.4)	(0.4)	-	(156.2)
Interest on plan liabilities	57.6	81.8	12.1	0.3	0.1	151.9
WPUPS reimbursement agreement	-	-	2.3	-	-	2.3
Other finance expense / (income)	0.3	(2.3)	-	(0.1)	0.1	(2.0)

The operating charge is allocated to the operating expenses in the income statement or to capital expenditure as appropriate.

Analysis of the amount recognized in other comprehensive income:

1 mary 515 01 and announce 1000 ginzou in outer 0	omprementative ii		202	21		
	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Return on plan assets excluding amounts						
included in interest (income)/expense	(168.6)	(316.0)	6.3	(2.4)	-	(480.7)
Loss from change in						
demographic assumptions	-	-	0.7	-	-	0.7
Loss from change in financial						
assumptions	362.4	475.4	52.5	1.4	0.4	892.1
Experience gains	(16.0)	(29.2)	(5.6)	(0.2)	-	(51.0)
WPUPS reimbursement agreement	-	-	(53.9)	-	-	(53.9)
Remeasurement losses/(gains) recognised in other comprehensive income	177.8	130.2	-	(1.2)	0.4	307.2
			202	20		
	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Return on plan assets excluding amounts						
included in interest income	77.8	43.3	(13.5)	0.7	_	108.3
(Gain)/loss from change in	77.0	43.3	(13.3)	0.7		100.5
demographic assumptions	(12.5)	_	5.4	_	_	(7.1)
Gain from change in	(==,					(,,,,
financial assumptions	(189.9)	(243.7)	(22.6)	(0.6)	(0.2)	(457.0)
Experience losses/(gains)	21.4	17.7	(19.1)	0.1	-	20.1
MEPS DC bulk transfer*	_	1.0	-	-	-	1.0
WPUPS reimbursement agreement	-	-	49.8	-	-	49.8
Remeasurement (gains)/losses recognised in other comprehensive income	(103.2)	(181.7)	-	0.2	(0.2)	(284.9)

For the year ended 31 March 2021

# 27. Retirement benefit obligations (continued)

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

ESPS WPD	Year ended 31 March 2021		Year ended 31 March 2020			
	Present	Fair value		Present	Fair value	
	value of	of plan		value of	of plan	
	obligation	assets	Total	obligation	assets	Total
	£m	£m	£m	£m	£m	£m
Liability/(asset) at 1 April	2,283.9	(2,414.7)	(130.8)	2,474.2	(2,422.5)	51.7
Current service cost	27.3	-	27.3	30.1	-	30.1
Administrative costs	1.3	-	1.3	1.4	-	1.4
Interest expense/(income)	51.9	(55.8)	(3.9)	57.6	(57.3)	0.3
	80.5	(55.8)	24.7	89.1	(57.3)	31.8
Remeasurements:						
Return on plan assets excluding amounts						
included in interest (income)/expense	-	(168.6)	(168.6)	-	77.8	77.8
Gain from change in		,	, ,			
demographic assumptions	-	-	-	(12.5)	-	(12.5)
Loss/(gain) from change in				, ,		, ,
financial assumptions	362.4	_	362.4	(189.9)	_	(189.9)
Experience (gains)/losses	(16.0)	-	(16.0)	21.4	-	21.4
	346.4	(168.6)	177.8	(181.0)	77.8	(103.2)
Contributions:						
Employers	-	(103.2)	(103.2)	_	(111.1)	(111.1)
Plan participants	4.0	(4.0)	-	4.2	(4.2)	-
	4.0	(107.2)	(103.2)	4.2	(115.3)	(111.1)
Payments from plan:						
Benefit payments	(107.4)	107.4	-	(101.2)	101.2	_
Administrative costs	(1.3)	1.3	-	(1.4)	1.4	-
	(108.7)	108.7	-	(102.6)	102.6	-
Liability/(asset) at 31 March	2,606.1	(2,637.6)	(31.5)	2,283.9	(2,414.7)	(130.8)

For the year ended 31 March 2021

# ${\bf 27.\ Retirement\ benefit\ obligations\ (continued)}$

ESPS CN	Year ended 31 March 2021			Year ended 31 March 2020		
	Present	Fair value		Present	Fair value	
	value of	of plan		value of	of plan	
	obligation	assets	Total	obligation	assets	Total
	£m	£m	£m	£m	£m	£m
Liability/(asset) at 1 April	3,263.4	(3,580.2)	(316.8)	3,523.3	(3,584.6)	(61.3)
Current service cost	28.9	-	28.9	32.4	-	32.4
Administrative costs	1.8	-	1.8	2.2	-	2.2
Interest expense/(income)	74.1	(82.3)	(8.2)	81.8	(84.1)	(2.3)
	104.8	(82.3)	22.5	116.4	(84.1)	32.3
Remeasurements:						
Return on plan assets excluding amounts						
included in interest (income)/expense	-	(316.0)	(316.0)	-	43.3	43.3
Loss/(gain) from change in						
financial assumptions	475.4	-	475.4	(243.7)	-	(243.7)
Experience (gains)/losses	(29.2)	-	(29.2)	17.7	-	17.7
	446.2	(316.0)	130.2	(226.0)	43.3	(182.7)
Contributions:						
Employers	-	(104.9)	(104.9)	-	(106.1)	(106.1)
Plan participants	5.5	(5.5)	-	5.5	(5.5)	-
	5.5	(110.4)	(104.9)	5.5	(111.6)	(106.1)
Payments from plan:						
Benefit payments	(146.2)	146.2	-	(150.6)	150.6	-
Administrative costs	(1.8)	1.8	-	(2.2)	2.2	-
MEPS DC bulk transfer*	-	-	-	(3.0)	4.0	1.0
	(148.0)	148.0	-	(155.8)	156.8	1.0
		(2.0.10.0)			(2.700.5)	
Liability/(asset) at 31 March	3,671.9	(3,940.9)	(269.0)	3,263.4	(3,580.2)	(316.8)

<sup>\*</sup>During the prior year the MEPS DC section of the scheme has been transferred into WPD's defined contribution scheme.

For the year ended 31 March 2021

# 27. Retirement benefit obligations (continued)

WPUPS	Year o	ended 31 March	2021	Year e	ended 31 March	2020
	Present	Fair value		Present	Fair value	
	value of	of plan		value of	of plan	
	obligation	assets	Total	obligation	assets	Total
	£m	£m	£m	£m	£m	£m
Liability/(asset) at 1 April	476.1	(625.5)	(149.4)	525.4	(623.3)	(97.9)
Administrative costs	0.5	-	0.5	0.6	_	0.6
Interest expense/(income)	10.7	(14.2)	(3.5)	12.1	(14.4)	(2.3)
Past service cost and gains and losses						
on settlement	0.1	-	0.1	-	-	-
	11.3	(14.2)	(2.9)	12.7	(14.4)	(1.7)
Remeasurements:						
Return on plan assets excluding amounts						
included in interest expense/(income)	_	6.3	6.3	_	(13.5)	(13.5)
Loss from change in					, ,	` /
demographic assumptions	0.7	-	0.7	5.4	_	5.4
Loss/(gain) from change in						
financial assumptions	52.5	-	52.5	(22.6)	-	(22.6)
Experience gains	(5.6)	-	(5.6)	(19.1)	-	(19.1)
	47.6	6.3	53.9	(36.3)	(13.5)	(49.8)
Contributions:						
Employers	_	_	_	_	_	_
Zimprojero	-	-	-	-	-	-
Payments from plan:						
Benefit payments	(24.5)	24.5	_	(25.1)	25.1	_
Administrative costs	(0.5)	0.5	_	(0.6)	0.6	_
	(25.0)	25.0	-	(25.7)	25.7	-
Liability/(asset) at 31 March	510.0	(608.4)	(98.4)	476.1	(625.5)	(149.4)

For the year ended 31 March 2021

# 27. Retirement benefit obligations (continued)

Infralec 92	Year e	nded 31 Mai	rch 2021	Year e	ended 31 Marc	h 2020
	Present	Fair value	_	Present	Fair value	
	value of	of plan		value of	of plan	
	obligation	assets	Total	obligation	assets	Total
	£m	£m	£m	£m	£m	£m
Liability/(asset) at 1 April	12.6	(15.1)	(2.5)	13.3	(15.9)	(2.6)
Interest expense/(income)	0.3	(0.3)	-	0.3	(0.4)	(0.1)
	0.3	(0.3)	-	0.3	(0.4)	(0.1)
Remeasurements:						
Return on plan assets excluding amounts						
included in interest (income)/expense	_	(2.4)	(2.4)	_	0.7	0.7
Loss/(gain) from change in		( )				
financial assumptions	1.4	_	1.4	(0.6)	_	(0.6)
Experience (gains)/losses	(0.2)	_	(0.2)	0.1	_	0.1
1	1.2	(2.4)		(0.5)	0.7	0.2
Contributions:						
Employers	_	(0.2)	(0.2)	_	_	_
Employers	-	(0.2)		-	-	
Payments from plan:						
Benefit payments	(0.6)	0.6	_	(0.5)	0.5	_
Benefit payments	(0.6)	0.6	-	(0.5)	0.5	
Liability/(asset) at 31 March	13.5	(17.4)	(3.9)	12.6	(15.1)	(2.5)
The significant actuarial assumptions made w	vere as follows:			20	21	
The biginitedin decountry descriptions made in	010 45 101105.		ESPS WPD	ESPS CN	WPUPS	Infralec 92
			%	%	%	%
DDI Inflation			3.20	3.20	3.20	3.20
RPI Inflation CPI Inflation			3.20 2.70	2.70	3.20 2.70	2.70
			3.70	3.70	2.70 N/a	
Rate of general long-term salary increases			3.15	3.15	3.20	N/a 3.20
RPI-linked pension increases			3.15 N/a	3.15 N/a	3.20 2.70	3.20 N/a
CPI-linked pension increases Post-88 GMP pension increases			2.30	2.30	2.70	2.30
Discount rate for scheme liabilities			2.30	2.03	2.30	2.03
Discount rate for scrience frauntities			2.03	2.03	2.03	2.03

For the year ended 31 March 2021

## 27. Retirement benefit obligations (continued)

The significant actuarial assumptions made were as follows:	2020				
·	ESPS WPD	ESPS CN	WPUPS	Infralec 92	
	%	%	%	%	
DDI L CL d	2.60	2.60	2.60	2.60	
RPI Inflation	2.60	2.60	2.60	2.60	
CPI Inflation	2.00	2.00	2.00	2.00	
Rate of general long-term salary increases	3.10	3.10	N/a	N/a	
RPI-linked pension increases	2.60	2.60	2.60	2.60	
CPI-linked pension increases	N/a	N/a	2.00	N/a	
Post-88 GMP pension increases	1.85	1.85	1.85	1.85	
Discount rate for scheme liabilities	2.31	2.31	2.31	2.31	

Assumptions relating to future mortality are set based on actuarial advice in accordance with published statistics and experience. The impact of the COVID-19 outbreak on long term mortality trends is currently unclear and therefore has not been included in the mortality assumptions. These assumptions translate into an average life expectancy in years for a member at age 60:

## ESPS WPD

	31 March 2021	31 March 2020
Mortality table adopted	Based on S2PXA base tables with CMI 2018 core projections and a 1.0% 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	25.9	25.9
Life expectancy for a female currently aged 60	28.0	27.9
Life expectancy at 60 for a male currently aged 40	26.7	26.7
Life expectancy at 60 for a female currently aged 40	28.9	28.8

## ESPS CN

	31 March 2021	31 March 2020
Mortality table adopted	Based on S2PXA base tables with CMI 2018 core projections and a 1.0% 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	25.9	25.9
Life expectancy for a female currently aged 60	28.0	27.9
Life expectancy at 60 for a male currently aged 40	26.7	26.7
Life expectancy at 60 for a female currently aged 40	28.9	28.8

For the year ended 31 March 2021

## 27. Retirement benefit obligations (continued)

#### **WPUPS**

	31 March 2021	31 March 2020
Mortality table adopted	*with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	Pensions <£25,500 pa at 31/03/16: 111% (else 78%) of S2NXA base tables with CMI 2018 core projections and a 1.0% per annum longterm improvement rate
Life expectancy for a male currently aged 60	26.1	26.0
Life expectancy for a female currently aged 60	28.5	28.4
Life expectancy at 60 for a male currently aged 40	27.1	27.0
Life expectancy at 60 for a female currently aged 40	29.6	29.6

<sup>\*</sup> Male non-pensioners: 105% of S3PMA base tables, female non-pensioners: 97% of S3PFA\_middle base tables, male pensioners 103% of S3PMA base tables, female pensioners: 96% of S3PFA\_middle base tables

Infralec 92

	31 March 2021	31 March 2020
Mortality table adopted	100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.9	25.9
Life expectancy for a female currently aged 60	28.0	27.9
Life expectancy at 60 for a male currently aged 40	27.1	27.1
Life expectancy at 60 for a female currently aged 40	29.3	29.2

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

		Impact on defined benefit obligation				
	Change in assumption %	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	
Discount rate	-/+0.50%	+256.0/-220.6 +	-336.3/-291.0	+37.5/-33.3	+1.0/-0.9	
RPI Inflation	+/-0.50%	+240.5/-210.4 +	309.5/-273.5	+31.1/-28.2	+0.7/-0.8	
Life expectancy	+ 1 year	124.2	175.8	26.0	0.7	

The above sensitivity analysis on the discount rate is based on a change in assumption while holding all other assumptions constant. The change in RPI inflation assumption impacts on the CPI assumption, revaluation in deferment and pension increase assumptions. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

For the year ended 31 March 2021

## 27. Retirement benefit obligations (continued)

ESPS WPD scheme assets are comprised as follows:	31 Ma	rch 2021	31 Mar	rch 2020
•		Of which		Of which
		not quoted		not quoted
		in an active		in an active
	Total	market	Total	market
	£m	£m	£m	£m
Equities	839.4	_	486.0	_
Credit	208.1	_	_	_
Property (i)	159.0	159.0	160.9	160.9
Macro-orientated	127.0	_	109.2	_
Multi strategy	381.9	-	601.1	-
LDI strategy	897.4	_	1,053.0	-
Other including cash and net current assets	24.8	-	4.5	-
Total	2,637.6	159.0	2,414.7	160.9
ESPS CN scheme assets are comprised as follows:	31 Ma	rch 2021	31 Mar	rch 2020
EST 5 CIV scheme assets are comprised as follows.		Of which		Of which
		not quoted		not quoted
		in an active		in an active
	Total	market	Total	market
	£m	£m	£m	£m
Equities	980.1		590.5	
Credit	289.4	_	89.2	_
Property (i)	118.8	118.8	119.3	119.3
Macro-orientated (i)	305.2	305.2	217.7	217.7
Multi strategy	699.3	-	794.6	217.7
LDI strategy	1,387.6	<u>-</u>	1,646.8	_
Other including cash and net current assets	160.5	_	122.1	_
Total	3,940.9	424.0	3,580.2	337.0
WPUPS scheme assets are comprised as follows:	31 Ma	rch 2021	31 March 2020	
W C C S SOME ASSOCIATION AND TOMORION		Of which		Of which
		not quoted		not quoted
		in an active		in an active
	Total	market	Total	market
	£m	£m	£m	£m
Equities	123.9	-	72.4	-
Government bonds	484.2	-	552.2	_
Other	0.3	-	0.9	-
Total	608.4	-	625.5	-
Infinite 02 of the control of the co	21 Ma	rch 2021	21 Mor	rch 2020
Infralec 92 scheme assets are comprised as follows:		Of which	JI Mai	Of which
		not quoted		not quoted
		in an active		in an active
	Total	market	Total	market
	£m	£m	£m	£m
Equities	7.5	-	5.4	-
Government bonds	5.6	-	5.7	-
Corporate bonds	4.0	-	3.8	-
Other	0.3		0.2	-

<sup>(</sup>i) Due to the COVID-19 outbreak, there is some uncertainty in respect of assets not quoted in an active market. However, as is evident in the tables above, these assets represent a small percentage of total scheme assets. Also the Group continues to have a stable total pension asset portfolio. The sensitivity of the fair value of plan assets to the change in the valuation of assets not quoted in an active market is as follows:

17.4

15.1

Total

For the year ended 31 March 2021

## 27. Retirement benefit obligations (continued)

		Impa	ct on defined be	enefit obligation	on
	Change in assumption %	ESPS WPD	ESPS CN £m	WPUPS £m	Infralec 92 £m
Fair value of assets not quoted	- 10 %	(15.9)	(42.4)	-	-
Fair value of assets not quoted	- 15 %	(23.9)	(63.6)	-	-

There is no self-investment in any of the schemes.

Through its defined benefit pension plans, the WPD Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (e.g. equities) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be
Changes in cond fields	partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning than an increase in inflation will increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The schemes use government bonds, corporate bonds and cash as matching assets. The remainder of assets are used as growth assets.

The employer has agreed that it will aim to eliminate the actuarial deficits (as assessed on the ongoing funding basis) by 30 November 2024 for the WPD segment of the ESPS, by 31 July 2024 for the CN segment of the ESPS, and by 30 September 2024 for 192.

The current agreed employer contributions for the WPD segment of the ESPS are 31.2% per annum of pensionable salaries from 1 April 2020 to 31 March 2023 and 42.4% per annum of pensionable salaries thereafter in respect of future benefit accruals, expenses (including PPF levies) and death in service benefits plus an additional £1.2m per annum in respect of expenses. Company deficit contributions are £80.0m per annum payable from 1 April 2020 to 31 March 2021 and £18.0m per annum payable from 1 April 2021 to 30 November 2024.

The current agreed employer contributions for the CN segment of the ESPS are 27.9% per annum of pensionable salaries from 1 April 2020 to 31 March 2023 and 37.0% per annum of pensionable salaries thereafter in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits plus an additional £1.8m per annum in respect of expenses. Company deficit contributions are £80.0m per annum payable from 1 April 2020 to 31 March 2021 and £36.0m per annum payable from 1 April 2021 to 31 July 2024.

The results of the 31 March 2019 funding valuation showed that WPUPS was in surplus on the ongoing funding basis. As a result, no deficit contributions are required, and the expected employer contributions to the scheme for the year ending 31 March 2021 are nil

The current agreed employer contribution to Infralec 92 is that on 31 March each year, from 31 March 2021 to 31 March 2024 (inclusive) WPD will pay £0.235m per annum.

Funding levels are monitored on a regular basis and the next triennial valuation is due to be completed as at 31 March 2022.

Current expected total employer contributions for the year ending 31 March 2022 are £40.1m for the WPD segment of the ESPS and £60.4m for the CN segment of the ESPS.

For the year ended 31 March 2021

#### 27. Retirement benefit obligations (continued)

Please note the results of the actuarial funding valuation as at 31 March 2022 may give rise to a revised schedule of contributions and as such the quantities in the paragraph above may be liable to change.

The weighted average duration of the defined benefit obligation is around 18 years for the WPD segment of the ESPS, 17 years for the CN segment of the ESPS, and around 14 years for WPUPS and Infralec 92.

#### 28. Provisions

	WPUPS	Asset				
	Reimbursement	Retirement				
	Agreement	Obligations	Insurance	Pensions	Other	Total
	(i)	(ii)	(iii)	(iv)	(v)	10001
	£m	£m	£m	£m	£m	£m
At 1 April 2020	149.4	44.6	17.5	3.6	3.3	218.4
Charged to income statement:						
Additional provisions	2.9	8.4	(1.0)	-	-	10.3
WPUPS reimbursement remeasurements	(53.9)	-	_	-	-	(53.9)
Utilised during year		(1.9)	-	(0.8)	0.1	(2.6)
At 31 March 2021	98.4	51.1	16.5	2.8	3.4	172.2
Provisions have been analysed between o	current and non-cur	rent as follows:				
Current	_	1.9				
		1.7	5.5	0.6	2.5	10.5
Non-current	98.4	49.2	5.5 11.0	0.6 2.2	2.5 0.9	10.5 161.7
Non-current At 31 March 2021	98.4					
		49.2	11.0	2.2	0.9	161.7
At 31 March 2021		49.2 51.1	11.0	2.2	3.4	161.7 172.2

- (i) WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, as Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. This responsibility was transferred from PPL WPD Limited during the year. As Western Power Distribution Holding Company Limited (formerly PPL WPD investments Limited) is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet as a provision above, and matches the gross asset recorded under IAS 19 (Note 27).
- (ii) Asset retirement obligations relate to an estimate of the costs of dismantling and removing wood poles and fluid filled cables at the end of their useful lives and are expected to be settled over the next seventy years. Wood poles and fluid filled cables are included in distribution network within property, plant and equipment.
- (iii) Insurance provisions relate to claims covered by the WPD Group's wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey, and claims covered by external insurers. This includes third party motor claims, employers' liability, public and product liability, and professional indemnity and includes claims that are reported but not yet paid and anticipated cost of claims incurred but not yet reported. The directors expect the provision to be settled in the next five years.
- (iv) Pension provisions relate to expected settlements of liabilities relating to the pension liability relating to the Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years.
- (v) Other provisions relate principally to onerous uninsured losses, and miscellaneous claims arising in the ordinary course of business; the directors expect other provisions to be settled within the next two years.

For the year ended 31 March 2021

## 29. Share capital

	2021 £m	2020 £m
<b>Issued and fully paid:</b> 1,057,592,372 (2020: 1,657,592,372) ordinary shares of £1 each	1,057.6	1,657.6

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable. In April 2020 share capital was reduced by £600.0m and was credited to retained earnings.

#### 30. Capital and reserves

	2021 £m	2020 £m
Share capital	1,057.6	1,657.6
Merger reserve	(963.1)	(963.1)
Hedging reserve	(16.9)	1.2
Retained earnings	5,301.6	4,590.1
	5,379.2	5,285.8

The **share capital** represents the nominal value of the authorised ordinary shares in the Company in issue which carry a right to participate in the distribution of dividends or capital of the Company.

The merger reserve arose on the restructuring of WPD Group entities under common control in October 2014 and September 2001.

The **hedging reserve** comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

#### 31. Contingent liabilities

### Legal proceedings

The WPD Group's businesses are parties to various legal claims, actions and complaints. Although the WPD Group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on the WPD Group's financial statements.

## 32. Commitments

#### Capital commitments

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

2021	2020
£m	£m
92.2	51.9
	£m

Operating lease commitments - WPD Group as lessor

The WPD Group has entered into commercial property leases on its investment property portfolio, consisting of the WPD Group's surplus offices, shops remaining from a discontinued business, and surplus land, and also on its fibres. The leases have lease terms between 1 and 125 years, and have various terms, escalation clauses and renewable rights. Leases include a clause to enable upward revision of rental charge on a review cycle set on lease inception according to prevailing market conditions.

For the year ended 31 March 2021

## 32. Commitments (continued)

Operating lease commitments - WPD Group as lessor (continued)

Future minimum rentals receivable under non-cancellable operating leases at 31 March are as follows:

	2021	2020
	£m	£m
Year 1	3.3	4.5
Year 2	3.1	3.6
Year 3	2.8	3.2
Year 4	2.4	2.9
Year 5	1.8	2.4
Year 6 and onwards	8.8	9.4
	22.2	26.0

#### Guarantees and indemnities

The WPD Group has provided guarantees in respect of the funding required by the WPD Group's pension schemes.

#### 33. Related party transactions

The immediate parent undertaking of the WPD Group is Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), which is registered in England and Wales.

The smallest and largest group in which the results of the Company are consolidated is that headed by PPL Corporation incorporated in the United States of America, which is 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.

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the WPD Group. Details of directors' compensation are set out in Note 9.

## Loan to PPL affiliate

In February 2011, the WPD Group purchased \$200m nominal at a premium of \$21m from a PPL affiliate, PMDC Chile, of the \$400M 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited. This was funded through the repayment of a loan from an affiliate and the issue of share capital. The Eurobond was repayable on 31 July 2021. In December 2020, the Eurobond was transferred to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), the Company's immediate parent, as a dividend in specie.

The WPD Group recorded interest receivable of £7.5m (2020: £10.1m) on the investment.

## Pension reimbursement agreement

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) (novated from PPL WPD Limited during the year), the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Note 28) and matches the gross asset/liability recorded under IAS 19 (Note 27).

WPD South Wales also has an unfunded pension liability in respect of previous executives. The reimbursement agreement in relation to this was amended during the year on transfer to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) from PPL WPD Limited. Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) has taken full responsibility for this scheme and, therefore, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet and matches the liability recorded under IAS 19 (Note 27).

For the year ended 31 March 2021

## 34. Events after the reporting period

Subsequent to the year-end, on 15 April 2021, the Company paid a dividend of £140.0m to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited).

On 18 March 2021, PPL announced that it has reached an agreement to sell its UK investment, which includes the Company, to National Grid Plc. The transaction required National Grid Plc investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of WPD to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

On 14 June 2021, on the date of change of ownership, the £350m short term loan was repaid and refinanced by an intercompany loan from National Grid plc. The loan incurs interest at a rate of 0.5% per annum which is payable in arrears on the maturity date of 31 March 2022.

# Parent Company financial statements of Western Power Distribution plc Company balance sheet

As at 31 March 2021

As at 31 Water 2021	Note	2021 £m	2020 £m
	Note	žiii	ĮIII.
Non-current assets			
Investments:			
Shares in subsidiary undertakings	4	2,876.0	2,876.0
Loans to group undertakings	4	, -	162.2
Derivative financial instruments		26.1	156.0
		2,902.1	3,194.2
Current assets			
Derivative financial instruments		1.8	7.1
Debtors	5	493.3	617.4
Cash at bank		4.5	10.3
		499.6	634.8
Creditors - amounts falling due within one year	6	(450.1)	(188.0)
Net current assets		49.5	446.8
Total assets less current liabilities		2,951.6	3,641.0
Creditors - amounts falling due after more than one year	6	(1,092.7)	(1,525.7)
Provision for liabilities			
Deferred tax	7	(0.7)	(4.6)
Net assets		1,858.2	2,110.7
Capital and reserves			
Share capital	8	1,057.6	1,657.6
Hedging reserve	9	0.5	-
Profit and loss account		800.1	453.1
Equity shareholders' funds		1,858.2	2,110.7

The Company reported a loss for the financial year ended 31 March 2021 of £31.8m (2020: £384.3m profit) and other comprehensive income of £0.5m (2020: £0.5m).

The financial statements of the Company on pages 120 to 130 were approved by the Board of Directors and authorised for issue on 30 June 2021 and signed on its behalf by:

P Swift Chief Executive I R Williams Finance Director

# **Company statement of changes in equity** For the year ended 31 March 2021

Tot the year chiefe of March 2021	Share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2019	1,657.6	(0.5)	268.9	1,926.0
Profit for the year	-	_	384.3	384.3
Other comprehensive income	-	0.5	-	0.5
Total comprehensive income for the year	-	0.5	384.3	384.8
Equity dividends paid		-	(200.1)	(200.1)
At 31 March 2020	1,657.6	-	453.1	2,110.7
Loss for the year	-	-	(31.8)	(31.8)
Other comprehensive income	-	0.5	-	0.5
Total comprehensive income/(loss) for the year	-	0.5	(31.8)	(31.3)
Share capital reduction	(600.0)	_	600.0	-
Equity dividends paid	<u> </u>	-	(221.2)	(221.2)
At 31 March 2021	1,057.6	0.5	800.1	1,858.2

## Notes to the Company financial statements

For the year ended 31 March 2021

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

The parent Company financial statements of Western Power Distribution plc (the "Company") for the year ended 31 March 2021 were authorised for issue by the board of directors on 30 June 2021 and the balance sheet was signed on the board's behalf by P Swift and I R Williams. Western Power Distribution plc is a public limited company incorporated and registered in England and Wales.

The Company meets the definition of a qualifying entity under FRS 100 "Application of Financial Reporting Requirements". These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") and in accordance with applicable accounting standards.

## 2. Significant accounting policies

#### Basis of preparation

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc which are included on pages to 1 to 119.

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own income statement or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

The principal accounting policies adopted are set out below.

### Going concern

The directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The current financial position of the Company shows net current assets of £49.5m. Having assessed the Company's investment portfolio, its consistent dividend inflow and the ability to raise finance externally as well as internally through WPD Group undertakings, the directors have concluded that the going concern basis of preparation remains appropriate.

The impacts of COVID-19 have also been taken into consideration in arriving at the going concern assumption for preparation of the financial statements. Since the Company's income is primarily dividend and interest income from WPD Group entities, the Company does not consider that at this stage there is a material uncertainty casting a doubt over the entity's ability to continue as a going concern. The WPD Group's operating companies are regulated DNOs. DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the licensed regions have continued access to electricity supplies. Therefore, even in these challenging times, whereby many business sectors are impacted severely, the operating companies within the WPD Group have a continuing licence obligation to be a sustainable business and provide essential services to society. Based on licence conditions and price control allowances, the Company is expected to have a continuing, stable stream of revenue.

For further details of the impact of COVID-19 on the WPD Group refer to the Strategic report (pages 5 to 8).

For the year ended 31 March 2021

## 2. Significant accounting policies (continued)

#### Impact of new International Financial Reporting Standards

The Company has applied the following standards and amendments, effective for an annual period that begins on or after 1 January 2020, for the first time for their annual reporting period commencing 1 April 2020:

- Definition of Material amendments to IAS 1 and IAS 8.
- Interest Rate Benchmark Reform, Phase 1 amendments to IFRS 9, IAS 39 and IFRS 7.
- Definition of a Business amendments to IFRS 3.
- Amendments to References to the Conceptual Framework in IFRS Standards.

The Company has assessed the impact of these standards and concluded that these standards do not have any material impact on the Company's financial statements.

### Foreign currencies

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

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

#### **Taxation**

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

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

Deferred tax is recognised on all temporary differences except:

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

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

For the year ended 31 March 2021

#### 2. Significant accounting policies (continued)

#### Taxation (continued)

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in profit and loss.

#### Financial assets

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

The subsequent measurement of financial assets depends on their classification, as follows:

#### Debt instruments at amortised cost

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

#### Financial assets at FVOCI

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

## Derivatives designated as hedging instruments in an effective hedge

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

#### Impairment of financial assets

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

#### Debtors

Debtors mainly comprise amounts owed by group undertakings and are considered to be low risk. Therefore the impairment provision is determined as 12 months expected credit loss. The 12-month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

#### Investments

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

#### Cash at bank and in hand

Cash at bank is subject to the impairment requirements of IFRS 9 but the impairment loss on these is deemed immaterial since they have an insignificant risk of change in value.

#### Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include creditors. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

## Financial liabilities at fair value through profit or loss

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

For the year ended 31 March 2021

#### 2. Significant accounting policies (continued)

#### Financial liabilities (continued)

Financial liabilities measured at amortised cost

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

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

This category of financial liabilities includes creditors.

#### Derivative financial instruments and hedging

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

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognised in the income statement.

#### Offsetting of financial assets and liabilities

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

#### Staff cost

The Company does not employ any personnel. All staff are employed by the relevant subsidiaries.

#### Dividends

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

## Share capital

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

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

In the application of the Company's accounting policies, which are described in Note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

There are no estimates dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

There are no judgements dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

For the year ended 31 March 2021

4. Investments	Subsidiary undertakings £m	Parent Company debt £m	Total £m
Cost			
At 1 April 2020	2,876.0	162.2	3,038.2
Amortisation of premium	-	(0.7)	(0.7)
Exchange rate movement	-	(14.3)	(14.3)
Disposal	-	(147.2)	(147.2)
At 31 March 2021	2,876.0	-	2,876.0
Provision for impairment (ECL)			
At 1 April 2020	-	(0.1)	(0.1)
Disposal	-	0.1	0.1
At 31 March 2021	-	-	-
Net book value			
At 31 March 2021	2,876.0	-	2,876.0
At 31 March 2020	2,876.0	162.1	3,038.1

Parent Company Debt represents the \$200m 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited. In December 2020, the Eurobond was transferred to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), the Company's immediate parent, as a dividend in specie.

Details of the Company's subsidiary undertakings are as follows:

Subsidiary undertakings	Principal activity	Proportion %
Western Power Distribution (South West) plc	Electricity distribution	100
Western Power Distribution (South Wales) plc	Electricity distribution	100
Western Power Distribution (East Midlands) plc	Electricity distribution	100
Western Power Distribution (West Midlands) plc	Electricity distribution	100
WPD Investment Holdings Limited	Investment company	100
WPD Distribution Network Holdings Limited	Investment company	100
WPD Island Limited (formerly PPL Island Limited)	Investment company	100
WPD WEM Limited (formerly PPL WEM Limited)	Investment company	100
WPD Midlands Limited (formerly PPL Midlands Limited)	Investment company	100
WPD WEM Holdings Limited (formerly PPL UK Investments Limited)	Investment company	100
Western Power Distribution Investments Limited	Investment company	100
WPD Telecoms Limited	Telecommunications	100
Western Power Generation Limited	Power generation	100
WPD Property Investments Limited	Property management	100
Kelston Properties 2 Limited	Property management	100
Aztec Insurance Limited ^	Insurance	100
South Western Helicopters Limited	Helicopter operator	100
WPD Smart Metering Limited	Electricity Metering	100
WPD Limited ^	Property management	100
Sheet Road Management Company Limited	Property management	51
Hyder Limited (in liquidation)	Dormant company	100
Hyder Profit Sharing Trustees Limited	Dormant company	100
WW Share Scheme Trustees Limited	Dormant company	100

For the year ended 31 March 2021

## 4. Investments (continued)

Subsidiary undertakings	Principal activity	Proportion
South Wales Electricity Share Scheme Trustees Limited	Dormant company	100
Infralec 1992 Pension Trustee Limited	Dormant company	100
WPD Midlands Networks Contracting Limited	Dormant company	100
Central Networks Trustees Limited	Dormant company	100
WPD Share Scheme Trustees Limited	Dormant company	100
Western Power Pension Trustee Limited	Dormant company	100
WPD Limited	Dormant company	100
Meter Reading Services Limited	Dormant company	100
Meter Operator Services Limited	Dormant company	100

<sup>^</sup> Incorporated in Guernsey.

All undertakings are registered in England and Wales unless stated.

Except for WPD Investment Holdings Limited and WPD WEM Holding Limited (formerly PPL UK Investments Limited), which are owned 100% directly, all shares are held by subsidiary undertakings. All holdings are in ordinary shares.

Except for Aztec Insurance Limited and WPD Limited, the registered office of all subsidiary undertakings is Avonbank, Feeder Road, Bristol BS2 0TB. The registered office for Aztec Insurance Limited is Marsh Management Services Limited, PO Box 34, St Martins House, Le Bordage, St Peters Port, Guernsey, GY1 4AU and for WPD Limited is Elizabeth House, Les Ruettes Brayes, St Peters Port, Guernsey, GY1 1EW.

The exemption under s.394A and s.448A from preparing and filing the financial statements of the dormant subsidiaries has been availed.

5. Debtors	2021 £m	2020 £m
Amounts falling due within one year:	£III	Į III
•	402.2	6147
Amounts owed by Group undertakings	493.2	614.7
Other debtors	-	2.6
Prepayments and accrued income	0.1	0.1
	493.3	617.4
Amounts owed by Group undertakings		
	2021	2020
	£m	£m
Inter-company Notes receivable from:		
WPD WEM Limited (formerly PPL WEM Limited) (1)	119.7	238.8
WPD WEM Holding Limited (formerly PPL UK Investments Limited) (2)	370.0	370.0
Interest on inter-company Notes receivable from:		
WPD WEM Limited (formerly PPL WEM Limited)	2.0	3.5
WPD WEM Holding Limited (formerly PPL UK Investments Limited)	1.4	2.3
Inter-company accounts	0.1	0.1
	493.2	614.7

<sup>(1)</sup> Accrues interest at a fixed rate of 5.0% per annum.

All notes are unsecured and are repayable on demand. The ECL on amounts owed by Group undertakings is £0.1m.

<sup>(2)</sup> Accrues interest at a rate of 6 month libor plus a margin of 1.25%.

For the year ended 31 March 2021

6. Creditors	2021	2020
	£m	£m
Amounts falling due within one year:		
Syndicated credit facility (1)	83.0	161.0
Syndicated term loan (5)	350.0	-
Amounts owed to Group undertakings	0.8	0.9
Accruals and deferred income	16.3	26.1
	450.1	188.0
	2021	2020
	£m	£m
Amounts falling due after more than one year:		
5.375% US\$500m bonds due 2021 (2)	-	410.6
7.375% US\$255m bonds due 2028 (3)	198.4	222.1
3.625% GB£500m bonds due 2023	498.2	497.6
3.5% GB£350m bonds due 2026	346.3	345.7
Term loan facility (4)	49.8	49.7
	1,092.7	1,525.7

Borrowings are stated net of unamortised issue costs of £2.9m (2020: £3.6m), discount on issue of £2.7m (2020: £3.3m) and premium on issue of £13.4m (2020: £24.8m). These costs, together with the interest expense, are allocated to the income statement over the term of the bonds at a constant rate on the carrying amount.

- (1) The amount borrowed on the Company's £210.0m syndicated credit facility at 31 March 2020 was USD-denominated borrowings of \$200.0m, which bore interest at 1.77% (libor plus a margin of 0.825%). At 31 March 2020, the Company had available £49.0m undrawn in respect of which all conditions precedent had been met. The unused capacity reflected the amount borrowed in GBP of £161.0m as at 31 March 2020. During the year the USD-denominated borrowings were repaid. The amount borrowed on the Company's £210.0m syndicated credit facility at 31 March 2021 was £83.0m, which bore interest at 0.87% (libor plus a margin of 0.825%). At 31 March 2021, the Company had available £127.0m undrawn in respect of which all conditions precedent had been met.
- (2) The Company was a co-obligor and made all payments on the \$500m 5.375% notes due 1 May 2021 issued by WPD WEM Limited (formerly PPL WEM Limited) (the 'WEM Bonds') and had entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WEM were jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of a reimbursement agreement, where WEM has given notice of its intention to make payments to the holders of the WEM Bonds, the Company will make payments to WEM equal to such amounts. In the previous year, the Company had recognised its obligations under the WEM bonds in full. In the current year, the \$500m debt was fully settled.
- (3) The Company is a co-obligor and makes all payments on the \$255m 7.375% notes due 15 December 2028 issued by PPL UK Distribution Holdings Limited (the "PPLUK Bonds") and has entered into a reimbursement agreement in relation to payments under the PPLUK Bonds. During the current year, this reimbursement agreement was transferred to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited). In accordance with the agreements, the Company and Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) are jointly and severally, and fully and unconditionally, liable on the PPLUK Bonds. Under the terms of the reimbursement agreement, where Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) has given notice of its intention to make payments to the holders of the PPLUK Bonds, the Company will make payments to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) equal to such amounts. Having recognised its obligations under the PPLUK bonds in full, the Company has not recognised any amounts in respect of its obligations under the reimbursement agreement.
- (4) On 7 June 2019, the Company entered into a £50.0m five year term facility agreement with National Westminster Bank plc. On 13 June 2019, the Company borrowed the full loan amount under the facility. Proceeds of the borrowing were used for general corporate purposes. At 31 March 2021 interest on the facility accrued at a rate of 1.48%, being libor plus a margin of 1.4%.
- (5) On 26 February 2021, the Company entered into a £350.0m six month syndicate facility agreement with JP Morgan acting as facility agent. The Company has fully drawn the facility and proceeds of the borrowing were used for repayment of \$500m debt during the year and for general corporate purposes. At 31 March 2021 interest on the facility accrued at a rate of 1.05%, being libor plus a margin of 1.0%.

For the year ended 31 March 2021

#### 7. Deferred tax

The following are the deferred tax liabilities and assets recognised by the Company and movements thereon during the current year. All balances relate to temporary differences in respect of non-trade financial transactions.

	2021 £m	2020 £m
Asset at 1 April	4.6	(1.7)
Deferred tax charged in the income statement for the period	(4.0)	6.2
Deferred tax charged in the statement of comprehensive income	0.1	0.1
Liability/(asset) at 31 March	0.7	4.6
8. Share capital		
	2021	2020
Issued and fully paid:	£m	£n
1,057,592,372 (2020: 1,657,592,372) ordinary shares of £1 each	1,057.6	1,657.6

On 7 April 2020, the share capital of the Company was reduced from 1,657,592,372 ordinary shares of £1 each to 1,057,592,372 ordinary shares of £1 each by cancelling and extinguishing 600,000,000 ordinary shares of £1 each. £600.0m was credited to retained earnings.

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable.

## 9. Hedging reserve

	2021 £m	2020 £m
At 1 April	-	(0.5)
Reclassification adjustments for losses on cash flow hedges		
included in profit or loss	0.6	0.6
Income tax effect	(0.1)	(0.1)
At 31 March	0.5	-

The hedging reserve relates to the value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt. The effective portion of the loss when the swap was cashed out is being amortised through the income statement over the term of the bond.

#### 10. Events after the reporting period

Subsequent to the year-end, on 15 April 2021, the Company paid a dividend of £140.0m to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited).

On 18 March 2021, PPL announced that it has reached an agreement to sell its UK investment, which includes the Company, to National Grid Plc. The transaction required National Grid Plc investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of WPD to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

For the year ended 31 March 2021

#### 11. Related party transactions

The immediate parent undertaking of the Company is Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), which is registered in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by PPL Corporation incorporated in the United States of America, which is the ultimate parent undertaking and controlling party. Copies of their accounts may be obtained from their registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

#### Investment in PPL affiliate debt

In October 2014, as part of an intra-group reorganisation, WPD acquired \$200m nominal at a premium of \$16m from PPL UK Distribution Holdings Limited of the \$400m 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited. The Eurobond was repayable on 31 July 2021. In December 2020, the Eurobond was transferred to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited), the Company's immediate parent, as a dividend in specie.

The Company recorded interest receivable of £6.3m (2020: £9.2m) on the investment for the period. This includes premium amortisation from when the investment was transferred from a fellow group undertaking in 2014.

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