Registered Number: 2366923

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2020

WESTERN POWER DISTRIBUTION

Serving the Midlands, South West and Wales

Western Power Distribution (East Midlands) plc

Contents

Strategic report

For the year ended 31 March 2020

The directors present their annual report and the audited financial statements of Western Power Distribution (East Midlands) plc (the "Company" or "WPD East Midlands"), company number 2366923, for the year ended 31 March 2020.

Ownership

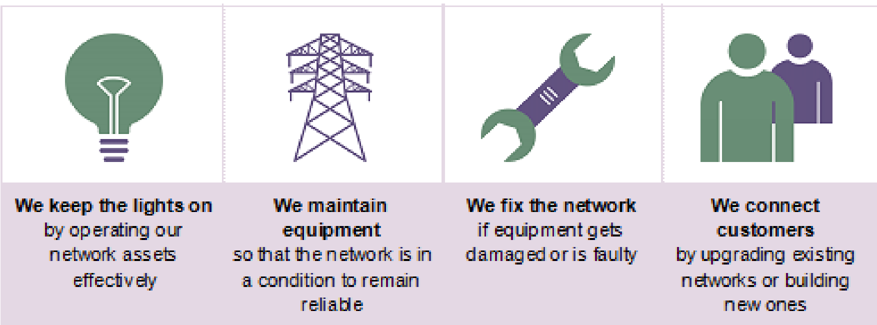
WPD East Midlands is owned by Western Power Distribution plc, which is a public limited company owned by one shareholder, PPL Corporation ("PPL"). PPL is an electricity utility based in Allentown, Pennsylvania, United States of America.

Business model

WPD East Midlands is an electricity Distribution Network Operator ("DNO"), delivering electricity to approximately 2.7 million (2019: 2.7 million) customers over an area of 16,000 square kilometres in East Midlands and employing around 1,900 (2019: 1,900) staff.

The 2.7 million customers are registered with licensed electricity suppliers, who in turn pay WPD East Midlands for distributing electricity across its network. Our costs are regulated and on the Office of Gas and Electricity Markets Authority's ("Ofgem's") estimates, the average GB customer in 2019/20 will pay £90 per year in real 2018/19 price terms for electricity distribution costs.

What we do comprises four key tasks:



WPD East Midlands' network comprises approximately 21,000km (2019: 21,000km) of overhead lines, 53,000km (2019: 53,000km) of underground cable and 44,000 (2019: 44,000) transformers. In 2019/20 WPD East Midlands distributed 4,743 (2019: 5,079) megawatts of electricity.

Group background

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

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

Regulation

WPD East Midlands is a monopoly regulated by the Gas and Electricity Markets Authority, which operates through Ofgem.

Regulation (continued)
The regulatory framework is based on a sustainable network regulation, known as the "RIIO" model where Revenues=Incentives+Innovation+Outputs. From 1 April 2015 Ofgem set an eight year electricity price control (known as RIIO-ED1). 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 setting of outputs that network companies are expected to deliver is much more extensive with the outputs embedded within an overall Business Plan that was influenced through engagement with our stakeholders. Progress against our business plan is published annually on our website at:
https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1

The operations are regulated under the distribution licence which sets the outputs that WPD East Midlands needs to deliver for its customers and the associated revenues it is allowed to earn for the eight-year period from 1 April 2015 to 31 March 2023.

In addition to the base level of revenue which WPD East Midlands is allowed to earn, there are incentives to innovate, and incentives relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions. The achievement or not of these targets can result in revenue penalties or rewards relating to these activities.

The WPD Group 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 Group DNOs, ahead of the other five licensed distributor groups. WPD Group's modified licences took effect from 1 April 2015.

Our RIIO-ED1 business plan is available at:
https://www.westernpower.co.uk/customers-and-community/our-riioed1-business-plan

Long term strategy
Our strategy is to deliver outstanding operational performance for all of our customers, support a sustainable energy future, meet our stakeholder requirements and maintain financial stability.

Ensuring that the Company is prepared for the future is a key factor in delivering our strategy and our key actions in this regard are:

- Understanding the load related needs of the network
Network monitoring, independent information sources and modelling techniques are used by the Company to predict investment requirements into the long term. The Company also monitors fault rates and undertakes analysis of causes which enables targeted investment programmes to be established. This is then embedded into the continuous asset replacement forecasts.

- Adapting to change
Adapting to change is 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 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.

Long term strategy (continued)

- Adapting to change (continued)
On flexibility our Flexible Power product has transitioned to business as usual with two tender rounds per annum. Our last round contracted with 123 megawatts of flexibility. Our next (fourth) round is seeking 334 megawatts of flexibility required to operate over the summer and winter of 2020 and could potentially defer over £40m of conventional reinforcement. It also delivered on the 'Flexibility First' commitment made by all DNO CEOs to fully test the market ahead of undertaking conventional reinforcement.

WPD leads on the Electricity Networks Association's ("ENA") open networks project, which is helping to coordinate DSO transition at an industry level. Following consultation with stakeholders, the project is focusing on:
- Processes to develop flexibility services;
- Whole electricity system planning;
- Visibility of information to stakeholders;
- Implementation of short term customer service improvement such as queries management.

- Investment in technology and innovation
Innovation is core to our business strategy. Developing better ways of doing things is encouraged throughout the business. Innovative ideas are captured, tested and rolled-out into the business on a regular basis. We look for innovative developments across the following broad areas:
- Network performance and efficiency – developing better processes, searching out equipment and technology developments that ensure we continue to be efficient and effective;
- Customer service – developing smarter ways of delivering outstanding levels of customer service;
- Environment – reducing our business impact on the environment;
- Low carbon networks – supporting future electricity demand and generation requirements.

Key goals
Our five key goals that underpin our long term strategy are: Safety, Network Performance & Security, Financial Stability, Environment, and Stakeholder Value & Engagement.

These five key goals align to our RIIO-ED1 business plan including our 76 commitments, details of which can be found here:
https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1

Safety
Safety is the highest priority at WPD East Midlands. The Company continuously promotes safety, both within the business and also externally to groups such as school children, land owners and construction operators.

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 developed in response to incidents that have occurred both in WPD and other businesses, and to changes in legislation.

WPD East Midlands' safety management system is compliant with the requirements of British Standard, OHSAS 18001 (Occupational Health and Safety Assessment Series) and we continuously look for opportunities to enhance safety. The staff play an active role in many national committees and steering groups which concentrate on the future of safety and training policies across the industry.

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

Key goals (continued)

Network performance & security

WPD East Midlands is committed to providing a secure, reliable and continuous network connection to its customers. It looks at the physical security aspects of the network and at preventing any cyber breach incidents. WPD East Midlands recognises that its 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 of WPD East Midlands. Our revenue is largely fixed across a price review period and 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, our allowed revenue also allows for a return to shareholders.

Environment

WPD East Midlands is dedicated to conducting its business as a responsible steward of the environment. The Company monitors its impact in terms of carbon footprint, waste recycling and fluid loss.

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

More detailed information on our environmental goal can be found in our published report available at:
https://www.westernpower.co.uk/customers-and-community/environment

Stakeholder value and engagement

The success of our business is critically dependent on the way we work with our key stakeholders. We aim to create value for our existing stakeholders every day and look towards 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 being:

- Customers

WPD East Midlands strongly believes that customer satisfaction is the key to the future success of the business.

The Company continues to strive for greater efficiency with regard to operating costs, seeking innovative ways to reduce both the time and cost to repair and replace assets. This approach aims to minimise the cost to the customer of running and maintaining the network.

WPD's commitment to customer satisfaction is demonstrated by its continued accreditation to the Customer Service Excellence ("CSE") Standard. WPD has held the charter mark of best practice 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, every year. 57 elements are assessed and WPD now has 45/57 (2019: 44/57) at ‘compliance plus’ level, demonstrating UK-wide best practice.

Customer awareness is a key commitment for WPD East Midlands and we engage in ongoing communications so that the Company'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 four-week television and radio 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.

Strategic report (continued)

For the year ended 31 March 2020

Key goals (continued)

Stakeholder value and engagement (continued)

- Employees

Our business is built by our people and WPD East Midlands is fully committed to keeping its employees motivated and actively involved. Equality of opportunity is key to WPD East Midlands' approach to hiring, training and promoting employees. WPD East Midlands acknowledges the value that a diverse workforce brings to the organisation. We have an established Equality and Diversity policy demonstrating the equal treatment of all existing and future employees.

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.

- Suppliers

We rely on quality, value for money goods and services from reputable suppliers and contractors in order to maintain the highest standards in network reliability and customer service. WPD East Midlands 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 low carbon economy. WPD is engaging with Ofgem, to help develop a regulatory 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 provides clear and transparent information on WPD's financial and operational performance from a regulatory perspective, including WPD's performance against incentives under the RIIO price control arrangements, and the Return on Regulatory Equity earned for the period.

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

- WPD's CEO and Senior Managers attend national groups such as the National Health & Safety Committee ("HESAC"), of which the HSE is a member;
- WPD's CEO 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;
- 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.

Another key regulator for WPD is the Environment Agency ("EA"), which monitors areas such as pollution prevention, habitat conservation and other matters relating to the protection and enhancement of the environment. WPD continuously works together with the EA to improve its environmental performance.

Strategic report (continued)
For the year ended 31 March 2020

Key goals (continued)

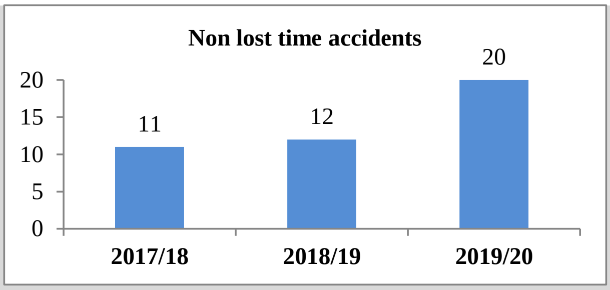
Stakeholder value and engagement (continued)

- Shareholder
WPD East Midlands is ultimately owned by PPL Corporation. WPD East Midlands is committed to providing its shareholder with long term, sustainable value.

Key performance indicators (KPIs)
KPIs are used to assess progress against the overall strategy and key goals.

	KPI	Performance and comments
Safety	**Accident rate**	see below

Safety – Accident rate

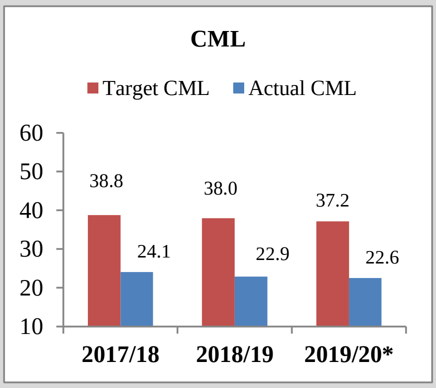


There have been no lost time accidents in the past three years. Non lost time accidents have increased during the year. This increased number of accidents in the area occurred across a wide variety of routine activities and includes two which were the result of a third party road accident. Investigation was conducted but no common cause could be identified, however lessons learned from every event were shared with all staff. Electricity distribution carries inherent safety risks; the 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.

In addition WPD monitors the overall rate of accident per 100 employees (as reported to Ofgem). The accident rate for the WPD Group for 2019/20 is 0.75 (2018/19: 0.86), outperforming the RIIO-ED1 target of 1.6 (a reduction of 10% over the price control prior to RIIO-ED1). Further details on our performance reporting to Ofgem regarding safety can be found at the link below:

https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1/safety

Network performance & security – Customer minutes lost ("CML")



*The 2019/20 actuals are subject to Ofgem confirmation on excluded events.

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

Strategic report (continued)

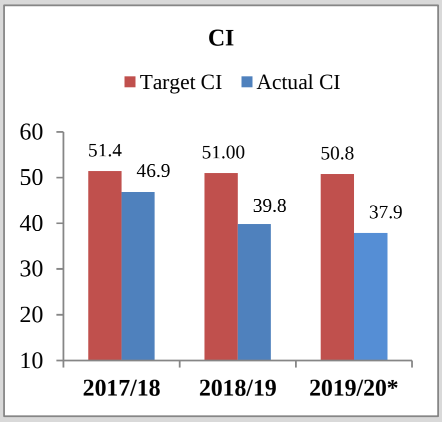
For the year ended 31 March 2020

Key performance indicators (KPIs) (continued)

KPI	Performance and comments

Network performance & security

Number of customer interruptions ("CI")



*The 2019/20 actuals are subject to Ofgem confirmation on excluded events.

CI represents supply interruptions experienced by connected customers, per 100 customers. Adjustment for exceptional one off events that are outside the control of DNOs is allowed by Ofgem. The targets are defined by Ofgem at each DNO level. Year on year the Company is performing better than its targets as we are focused on ensuring complete network reliability for our customers.

Other measures (WPD Group)

- In 2019/20 88.0% (2018/19: 88.0%) of customers had their power restored within an hour of a high voltage fault, the target being 87.5% (2018/19: 87.5%).

- One of the guaranteed standards of performance ("GSOPs") set by Ofgem is a reduction in the number of customers left without electricity for more than 12 hours. The number of customers without electricity for more than 12 hours was 270 (2018/19: 26), an improvement of over 97% on our 2012/13 benchmark performance. Customers received a set payment where we failed to achieve the GSOP.

Financial stability

Revenue

2019/20 (£m)	2018/19 (£m)
526.3	506.2

The majority of WPD East Midlands' revenue is fixed across the current price control period. Ofgem sets the revenues at a level that covers reasonable costs and allows a reasonable rate of return. In addition to the base level of revenue that a DNO can earn, there are incentive measures including customer service outputs, network outputs and innovation, which constitute allowed revenue.

Profit before taxation ("PBT")

2019/20 (£m)	2018/19 (£m)
255.4	239.2

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

PBT for the year has increased mainly due to higher revenue. This is due to tariffs increasing from April 2019.

Key performance indicators (KPIs) (continued)

Financial stability

KPI	2019/20 (£m)	2018/19 (£m)	Performance and comments
Fixed asset additions Tangible fixed asset additions	296.3	275.1	WPD East Midlands operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure, as evident from the extent of our capital expenditure. 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 £1.5bn in capital related activities. Planned investment in the network for the remainder of the RIIO-ED1 period (until March 2023) is £752m.
Regulatory asset value ("RAV")* * Due to timing the RAV used in these calculations is the latest draft and not the finalised value.	2,523.8	2,446.1	RAV is a regulatory concept to represent assets with a long term life. It is essentially equivalent to the net book value of the fixed assets of the business, only calculated in regulatory terms using methodology provided by Ofgem. It is an important measure for all DNOs as the allowed revenue in any year includes a return on RAV and amortisation of RAV as determined by Ofgem. Other important measures such as gearing ratios and recoverable amounts of DNOs with respect to impairment calculations are calculated using RAV. Movement in RAV is largely driven by additions to our RAV during the year which are based on 80% of our total expenditure ("Totex") calculated in accordance with methodology provided by Ofgem, and after application of the Totex Incentive. It is not possible to perform a reconciliation between RAV and IFRS measures as RAV is a regulatory measure. The differences between IFRS and regulatory rules have built up over many years and cannot be reconciled.
Gearing	2019/20 (£m)	2018/19 (£m)	Gearing for WPD is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the rolling credit facility covenants for several of the WPD companies and is used as a key internal measure. To comply with bank covenants the gearing ratio does not exceed 85%. WPD East Midlands aims to keep the gearing at 65% or less.
Net debt*	1,547.8	1,492.9	
RAV	2,523.8	2,446.1	
Net debt to RAV	61.3%	61.0%	
*Refer to note 19 on page 89 for the calculation of net debt.			

Key performance indicators (KPIs) (continued)

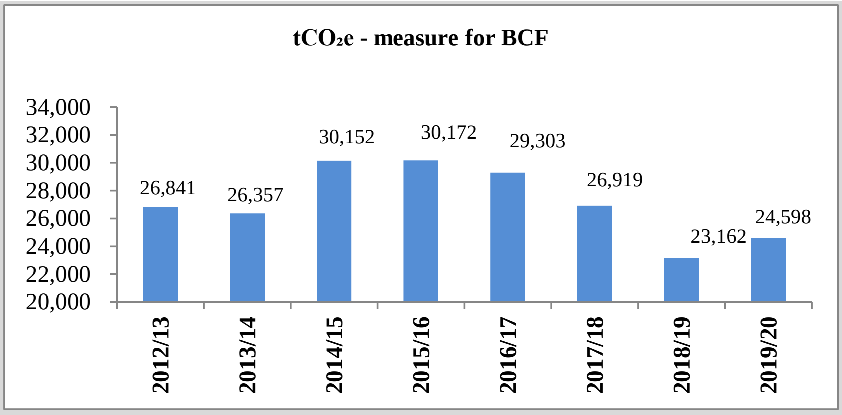
KPI	Performance and comments		

Financial stability

Interest cover	2019/20 (£m)	2018/19 (£m)	A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for the Company. It is also used as a key internal indicator of the financial health of the DNO. In order to comply with bank covenants, the interest cover ratio can not fall below 3:1; our interest cover ratio is at an acceptable level and shows a sufficient level of earnings to cover interest payments.
PBT	255.4	239.2	
Interest payable	74.1	68.1	
Depreciation	78.9	75.7	
Amortisation-intangible assets	1.4	1.0	
Amortisation-customer contributions	(17.9)	(17.8)	
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	391.9	366.2	
Interest payable	74.1	68.1	
Interest cover	5.3	5.4	

Environment

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_2e"). WPD East Midlands follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") reporting protocol and ISO14064-1. ISO14064-1 specifies principles and requirements at the organisation level for quantification and reporting of GHG emissions and removals.

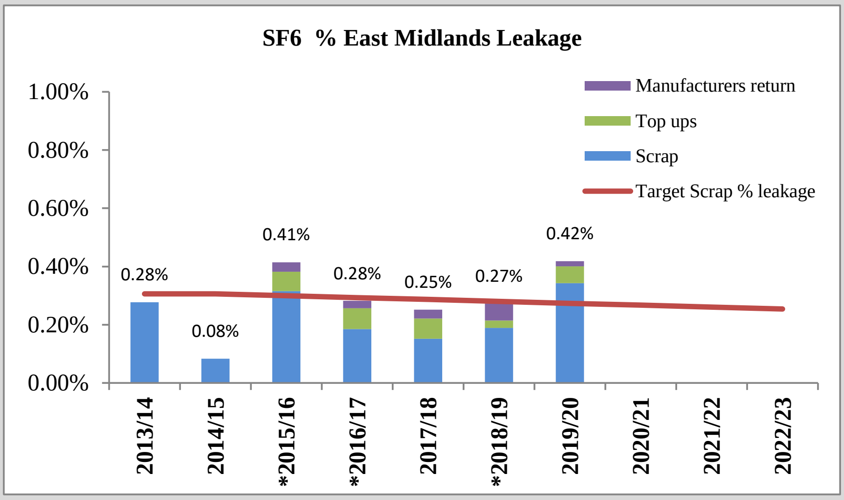
WPD's current target is a 5% reduction over the RIIO-ED1 period based on the baseline year of 2012/13. At 2019/20 WPD Group is outperforming the target.

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

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

Key performance indicators (KPIs) (continued)

	KPI	Performance and comments
Environment	**SF6 emissions (emissions as % of SF6 bank)**	SF6 gas is used throughout our industry as an insulating medium in switchgear. Although it provides many benefits, it is a potent greenhouse gas. There are currently no viable alternatives to SF6. 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.



The WPD 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.

*The prior year data has been updated to provide a more accurate position and include the top ups and manufacturers return leakages.

Key performance indicators (KPIs) (continued)

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

The losses from WPD East Midlands' 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 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.

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

	KPI	Performance and comments
Environment	**Other measures**	*<u>- Environmental management standard</u>* In May 2017, WPD East Midlands 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 has been completed successfully in May 2020 with no major non-conformances raised and the Company's certification has been extended until June 2023.

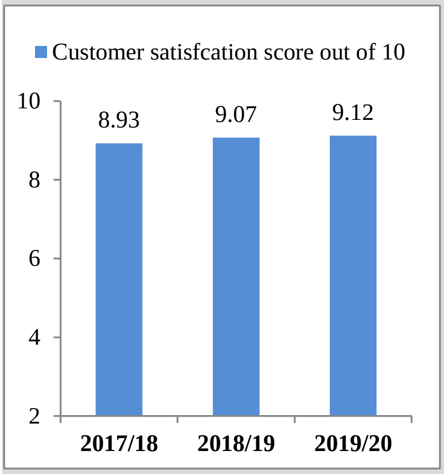
Key performance indicators (KPIs) (continued)

KPI	Performance and comments

Stakeholder value & engagement

Customers

Overall customer satisfaction (WPD Group)



As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connection quotations and delivery, interruptions and general enquiries. The customer satisfaction score is given out of 10. For WPD's four licence areas around 22,000 customers are surveyed per year.

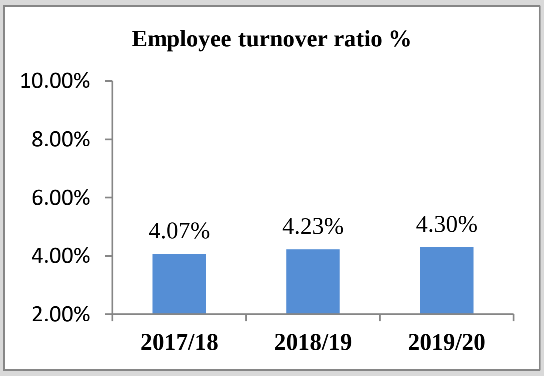
Ofgem also compared the speed of response that a DNO call centre provides and the WPD Group is consistently identified as the top performer with an average speed of response below 1.63 seconds.

Stakeholder engagement incentive (WPD Group)

WPD has maintained its position as the top performing DNO group in the Stakeholder Engagement Incentive Award Scheme (a key element of Ofgem's Broad Measure of Customer Satisfaction), held since its introduction in 2011/12. Most recently in 2018/19 WPD was again rated first place in the industry (outperforming every DNO, gas and transmission network) with a score of 8.35 out of 10. This was worth £6.35m (2018/19 prices) and will be applied to 2019/20 revenues across the four DNOs. WPD entered three written submissions and attended a question and answer session with an Ofgem-appointed judging panel of experts.

Employees

Employee turnover ratio (WPD Group)



The turnover ratio includes retirements which is driving the year on year increase. On an overall basis, WPD has a very low employee turnover ratio, indicating high levels of satisfaction and motivation of staff.

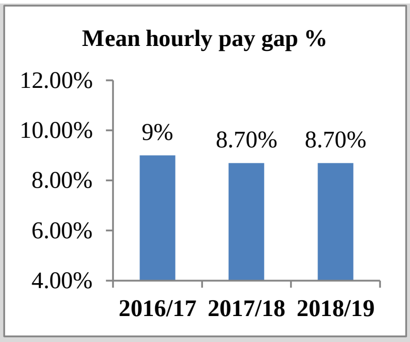
Key performance indicators (KPIs) (continued)

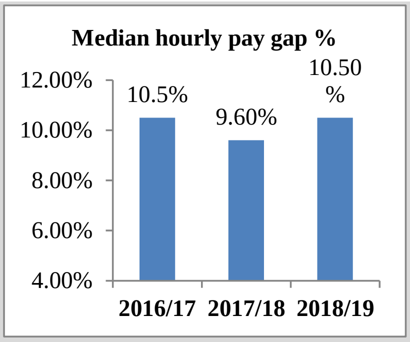
Stakeholder value & engagement

KPI	Performance and comments

Employees (continued)

Gender pay gap (WPD Group)





WPD's median gender pay gap for the year ended 31 March 2019 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 on year, in part due to a greater female representation in senior roles.

Further information about WPD's gender pay gap can be found at: https://www.westernpower.co.uk/about-us

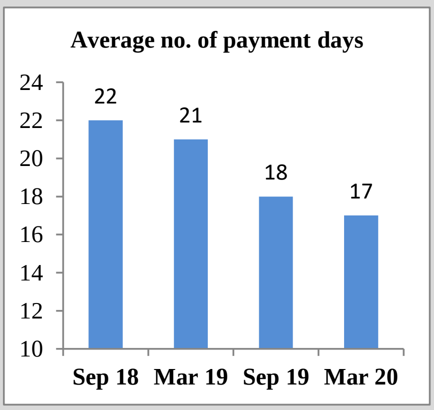
Other measures (WPD Group)

- Employee satisfaction

WPD's employee survey for 2019 was reviewed and revised. This was the first year that the survey was completed online. The revised survey resulted in a move from 11 questions to 53 questions, which were subdivided into 14 distinct categories. The response to the survey increased to 51% of employees, which was an improvement of 15% in previous response rates, and it highlighted 12 key suggestions spanning across 5 core areas of focus i.e. opportunities for providing feedback, training and development, quality of internal communications, achieving a "thank you" culture and evidencing actions as a result of the survey . In addition to the opportunities that the survey has highlighted, almost 90% of respondents confirmed that they planned on staying with WPD for the next 12 months.

Suppliers

Payment performance



WPD East Midlands reports on its payment performance every six months.

Of invoices paid:

- 93% are within 30 days (2019: 81%)
- 6% are within 31 to 60 days (2019: 18%)
- 1% are in 61 days or more (2019: 1%)

Invoices due but not paid within agreed terms: 14% (2019:18%).

Response to Coronavirus

On 11 March 2020, the World Health Organisation declared the outbreak of Coronavirus ("COVID-19") a pandemic. The COVID-19 crisis has presented unprecedented challenging times and the role that WPD East Midlands plays in keeping the lights on for customers has never been more crucial. At this time of uncertainty, we have continued to work 24/7 to keep power flowing to our 2.7 million customers across our region, ensuring vital energy reaches homes, hospitals, factories, super markets and other essential services.

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. Our ability to adapt and respond as we reasonably can, coupled with a great 'can-do' attitude across WPD, has allowed us to work in many differing ways to the norm.

Supporting our staff

During these challenging times the health and safety of our staff has been of paramount importance.

In the weeks prior to the UK restrictions, the WPD Group rapidly deployed its incident response procedures to ensure that sufficient laptops and other home working devices were acquired and made available to all staff and the IT team worked around the clock to get all home working technology, including networks capacities, up and running.

Quick actions were taken to secure, build and utilise IT equipment and network capacity within the WPD Group to ensure that the majority of our office based staff could commence operating from home immediately.

For a small number of staff that are required to work from our offices, hygiene protocols have been increased. The procurement team ensured that adequate personal protective equipment ("PPE") was made available to our operational workforce. Additional vehicles were hired and new vehicles were utilised to enable staff to socially distance.

Detailed guidance have been issued and made available for employees on all relevant topics of health & safety, social distancing and home working arrangements.

Since restrictions commenced regular updates from the CEO have taken place, providing information on the actions taken by WPD, updates on government guidelines and our plans going forward. In these updates, the CEO 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 Program, to enable WPD to help and support its employees in every possible way. The CEO also encouraged staff to contact him directly for any questions, comments or suggestions.

As part of our overall planning to ensure a secure, safe and continual service to our customers, and with consideration of economic factors, the decision was taken to retain our existing staffing levels and to 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. As WPD considers the longer term and charts its path to the 'new normal', staff will be involved in conversations on future working arrangements.

Response to Coronavirus (continued)

Establishing a network of support
Our 'In This Together – Community Matters' fund was launched to support those hit hardest by the coronavirus outbreak. The WPD Group's £750,000 fund is helping local organisations to deliver support and services to the most vulnerable in our communities. For further details on this refer to our website:
http://www.westernpower.co.uk/customers-and-community/in-this-together-community-matters-fund

We are also providing additional support to the customers on our Priority Services Register ("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.

The WPD Group has also emailed more than 330,000 PSR customers to inform them about the help and resources we can offer during the coronavirus outbreak. 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 are helping those who have been most affected by the crisis to access support and advice, including help with arranging online shopping, food bank referrals and advice on energy payments schemes.

Joining the fight against COVID-19
WPD has joined forces with agencies across its regions to be part of the UK's effort to combat coronavirus. This includes 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.

We have also been doing a lot of work behind the scenes 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.

Future developments
The directors consider the following areas of most significance in the short to medium term:

Transition to DSO
In recent years the energy sector has seen significant change, including the rapid growth of intermittent renewable generation, new technologies connecting to the distribution network and changes in the energy demands of consumers. To accommodate these changes cost effectively, our network needs to become smarter and more flexible by transitioning from the passive role of a DNO to an active role of a DSO using innovative solutions in order to mitigate the need for higher cost network reinforcement. The change from a DNO to a DSO 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 DSO securely operates and develops an active distribution system comprising networks, demand generation and other flexible distributed energy resources. It is basically a smarter approach to a DNO. A DSO has greater visibility and control of assets on its distribution systems, enabling it to get the most from its existing electrical infrastructure by contracting services from distribution energy resources. In this way, a costly network reinforcement and traditional redundancy-based model of energy systems can be avoided.

As a DSO, WPD East Midlands will operate the network more flexibly, balancing sources of supply and demand in real time and avoiding, where possible, the need for costly reinforcement of the network by locally managing generation output, load and power flows. We will also facilitate better, whole system outcomes by ensuring customers can provide services up to the transmission system operator, which may avoid the need for transmission reinforcement.

In 2017 we published our DSO strategy and invited extensive feedback on it from a wide range of stakeholders including customer groups, industry and local enterprise partnerships, ensuring that our vision is aligned with the needs and priorities of our customers and partners. Having collated and analysed the responses to our consultation, we revised our strategy in December 2017, ensuring our next steps as we transition to a DSO are in line with customer and stakeholder expectations.

We are in the process of implementing our DSO strategy and have taken a range of actions, including issuing a DSO Framework which assesses the technical issues associated with the transition. In June 2019, we also issued a DSO forward plan, which provides a road map for implementation and discusses key areas pertaining to transition. In addition we have undertaken studies to assess the potential growth in distributed generation and demand and consulted with stakeholders on the potential scale of growth of energy storage. We will roll out our DSO strategy across our entire network area, prioritising those areas which will have the greatest impact, incrementally upgrading the rest of the network as customer need dictates. This transition will build on our existing innovation programme that develops and tests new solutions before deploying them as business as usual. We have developed significant competences in a number of key areas which will assist with our transition to a DSO.

Details on DSO Strategy can be found at the link below:
https://www.westernpower.co.uk/dso-strategy

The priorities for DSO transition are also reflected within connections activities as detailed within the work plan for the Incentive on Connections Engagement ("ICE"), which can be found at the link below:
www.westernpower.co.uk/Connections/ICE.aspx

Low carbon networks/Network innovation competition
As part of the previous distribution price control period (known as DPCR5), Ofgem introduced the Low Carbon Network Fund ("LCNF"). It was set up to encourage DNOs to test new technology and commercial arrangements to support the UK's low carbon transition and climate change objectives.

Future developments (continued)

Low carbon networks/Network innovation competition (continued)
The RIIO-ED1 innovation mechanisms came into force in 2015, introducing the Network Innovation Allowance ("NIA") and Network Innovation Competition ("NIC"). NIC has similar focus to LCNF in testing technology and commercial arrangements to support the UK's low carbon transition. NIA has a broader remit encouraging technical and commercial innovation to support all DNO activities.

LCNF projects awarded during DPCR5 continue to be delivered during RIIO-ED1. Project delivery and reporting are set out in special licence conditions and in Ofgem's LCNF, NIA and NIC governance documents.

WPD has registered 68 projects under NIA covering a broad range of topics. Further details of innovation activities can be found at the below link:
www.westernpower.co.uk/innovation

RIIO-ED2
The RIIO-ED2 price control period commences from 1 April 2023. Ofgem consulted on the RIIO-2 framework early in 2018, and published its decision on 30 July 2018. The proposed changes applicable to all RIIO-2 price controls include:

- Giving consumers a stronger voice in setting outputs by introducing a new enhanced engagement model for RIIO-2. This involves the establishment of Customer Engagement and User Groups at company level and establishing an Ofgem-led central RIIO-2 Challenge Group;
- 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 default length of the price control to five years;
- Using the regulatory framework, or competition where appropriate, to drive innovation and efficiency;
- Simplifying the price controls by focusing on items of greatest value to consumers.

In the year 2018/19, WPD set up the required customer engagement group ("CEG") and in April 2019, the on boarding sessions of the CEG were conducted. The CEG is independent and will scrutinise the process by which our business plan for RIIO-ED2 is put together to ensure we have factored in the needs of our customers and wider stakeholders. The CEG 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; stakeholder engagement process; and vulnerable customer strategies. Through its independent report to Ofgem, the CEG will assist Ofgem and our stakeholders to understand whether our plans reflect the needs of our customers today and in the future.

The RIIO-ED2 strategy consultation will be launched by Ofgem in mid-2020 with a decision in late 2020. This will form the basis of WPD's RIIO-ED2 business plan. Ofgem will publish its RIIO-ED2 draft determination in June 2022 and the final determination in November 2022.

WPD's RIIO-ED2 stakeholder engagement plan details are available at the link below:
https://www.westernpower.co.uk/introduction-and-our-riio-ed2-engagement-plan

Strategic report (continued)
For the year ended 31 March 2020

Risk management and controls
WPD East Midlands is exposed to various risks in the ordinary course of business that may have an adverse impact on the Company'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 WPD 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 risk register, containing the main risks currently facing the WPD Group, is reported to the directors monthly.

WPD's processes and systems are continually evolving alongside the needs of the business and all WPD Group policies are reviewed by the business owners, on a regular basis to ensure that they are relevant to the changing landscape of the business and industry practice.

In addition to appropriate policies and processes, WPD considers 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.

The system of internal controls is assessed with regard to effective design and operation by the independent Internal Audit function. 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 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 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.

Strategic report (continued)

For the year ended 31 March 2020

Risk management and controls (continued)

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

	Risk	Mitigating actions
Safety	**On site accidents:** Due to the nature of the business there is an inherent safety risk associated with unsafe working practices.	- WPD East Midlands has robust safety polices and procedures in place to ensure a safe working environment. There is a system for reporting near misses and incidents and policies are reviewed and amended accordingly to avoid any future recurrence. - The safety team actively supports managers with their safety responsibilities and provides assistance to enable them to maintain a clear focus on safety. During the Autumn of 2019 the Safety Team provided a package of presentations to support managers throughout WPD as part of the '2019 WPD Safety Week' programme. The package included an update for staff on the Company's health and safety statistics, an update on the actions following the Company Climate Safety Survey, an introduction to a new application to assist lone workers, a demonstration on how to view safety related videos on a new safety media site and a reminder about good housekeeping on site and in vehicles and offices. - Regular safety site visits are undertaken to ensure that all safety polices and procedures are being followed and implemented. Site safety visits undertaken during the year were 2,695 versus a target of 1,626.
Network performance & security	**Network disruptions:** Events such as weather conditions, third party damage etc. may cause disruptions, which in turn can impact results both directly through the timing of recovery relating to lower units delivered on which income is charged, and also through the system of penalties and rewards that Ofgem has in place relating to customer service levels.	- WPD East Midlands has comprehensive emergency plans for network emergencies such as Black Start. Black Start is the recovery from a partial or country wide loss of electricity supply. WPD sits on a number of nationwide industry groups, along with Government Departments ("BEIS") and Ofgem to prepare for such events. These groups facilitate a consistent approach to resilience and response to network emergencies across the industry. WPD East Midlands has regular training sessions with its Network Control Centre Engineers to exercise a response to a Black Start. - Established restoration plans are in place and reviewed with National Grid and contracted Power Stations. - Area operational teams undertake desktop exercises to ensure local resilience plans are appropriate. - Considerable sums are spent on routine maintenance for network assets including tree cutting costs. Assets are managed to an accredited asset management standard, ISO55001, to support the right decision making with respect to asset maintenance and replacement. - In addition to normal equipment stocks, WPD also keeps a small number of additional strategic spares and is part of the National Grid strategic spares group. - WPD East Midlands has a resilient IT infrastructure with multi-site running with fault tolerant/mirrored systems. - Flood plans are in place for major substations. - There are reciprocal arrangements in place with other network operators for backup support through NEWSAC (North East West South Area Consortium).

Risk management and controls (continued)

	Risk	Mitigating actions
Network performance & security	**Cyber breach threat:** Unauthorised access to our key networks and systems.	- Stringent polices 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. - All data considered to be 'in transit' is secured using a variety of methods and techniques including Hypertext Transfer Protocol Secure ("HTTPS"), Secure File Transfer Protocol ("SFTP") and Lightweight Directory Access Protocol ("LDAP"). - Regular security drills are performed involving the Information Resources department and business teams. - All servers are backed up for both operational and disaster recovery purposes and the data is secured off-site. This facilitates full recovery of each system once the appropriate replacement hardware or hosting capacity has been sourced. Disaster recovery testing is performed on a regular basis. - Extra measures have been put in place due to the heightened risk from Coronavirus ("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 Company's externally facing systems and VPN/RDP connections. We have also conducted additional penetration tests/vulnerability scans to ensure our external connections remain secure and reviewed our incident response procedures relating to our internet infrastructure. - The WPD Group took part in a national level cyber security exercise organised by the Government, which raised awareness about the threat of cyber security attacks and gave us an opportunity to enhance our "continued improvement" cyber security programme.
Financial stability	**Interest rate risk:** WPD East Midlands has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, which exposes it to interest rate risk.	- WPD East Midlands' interest rate risk management policy includes trying to achieve the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows. - An element of the long-term debt is index linked which creates a natural hedge against the Company's regulated income, which is also index linked. - WPD East Midlands also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecasted issuances of debt.

Strategic report (continued)

For the year ended 31 March 2020

Risk management and controls (continued)

	Risk	Mitigating actions
Financial stability	**Credit risk:** A customer or counterparty to a financial instrument will fail to perform and pay the amount due causing financial loss to the Company.	- WPD East Midlands maintains credit policies and procedures with respect to counterparties. Depending on the creditworthiness of the counterparty, the Company may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees. - WPD East Midlands has minimal credit risk in relation to debtors pertaining to revenue from providing distribution use of system services ("DUoS"). DUoS debtors are protected by Ofgem regulations, provided credit management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the Distribution and Connection Use of System Agreement ("DCUSA").
	Inflation risk: WPD East Midlands' index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI.	WPD East Midlands' regulated assets ("RAV") 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.
	Impact of Brexit: The European Union referendum vote on 23 June 2016 has resulted in considerable uncertainty for UK businesses.	Following the European Union referendum vote on 23 June 2016, the UK formally left the EU on 31 January 2020. Under the withdrawal agreement the transition period commenced and is scheduled to end on 31 December 2020. As the UK continues to negotiate trade agreements, there is continued uncertainty in connection with access to the EU market after the end of the transition period. There is a potential risk of supply chain disruption including inventory shortages due to restrictions between UK and EU borders after the end of the transition period. In response to this risk, management has identified, and ordered in bulk, critical stocks that merit stockpiling and has taken steps to secure additional storage on site facilities or at UK based suppliers. Uncertainty around Brexit has resulted 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. Nevertheless the Company will continue to monitor the implications of Brexit on its operations throughout the transition period.
Environment	**Regulatory changes:** Changes in legislation relating to environmental and other matters are not adopted by WPD East Midlands.	- WPD East Midlands has a dedicated regulation and compliance department with skilled personnel that track any regulatory changes and provide advice in relation to interpretation and compliance of those changes. - There is regular engagement with the WPD Board on political and regulatory developments which may impact the Group. The Board monitors management's progress in ensuring compliance with changes to legislation.

Strategic report (continued)

For the year ended 31 March 2020

Risk management and controls (continued)

	Risk	Mitigating actions
Environment	**Negative impact of network assets on the environment:** Due to the nature of 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 East Midlands, reduces the effect on the total annual fluid losses. - Frequent assessment and careful monitoring of all its network assets, specifically assets like SF6 equipment, which produce SF6 gas linked to potential global warming. WPD East Midlands 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.
Stakeholder value & engagement	**Customer dissatisfaction:** Failure to meet the required level of customer satisfaction performance.	- WPD's Customer Collaboration Panel ("CCP") meets quarterly and expert members represent a wide range of customers and other key stakeholder groups. Through the panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. The CCP 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. - Our Customer Engagement Group ("CEG") was established as part of RIIO-ED2's enhanced engagement. WPD was the first DNO to set up a new CEG - a group of 15 members who scrutinise our Business Plan and provide assurance to Ofgem that the Plan and the engagement used to create it are robust. - 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 2020, a record 330 stakeholders from a range of different backgrounds (including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors) attended six workshops. Improvement actions are identified as a result of the workshops and are subsequently addressed and delivered by WPD. A new online portal in place this year means stakeholders who cannot attend can view content and videos and take part in the consultations.

Risk management and controls (continued)

	Risk	Mitigating actions
Stakeholder value & engagement	**Lack of skilled employees:** Failure to attract, retain and to develop our employees.	- WPD maintains good practices and safe working conditions. - WPD's employees have access to pension schemes (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. - A series of roadshow presentations by the directors is conducted each year to ensure that all staff are aware of, and can contribute to, WPD's goals. - 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.
	Reliance on suppliers: WPD East Midlands relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery.	- There are sufficient alternative suppliers for cable laying, tree cutting etc. such that, should an existing supplier be unable to continue to make supplies, there will be no significant long-term impact on WPD East Midlands' ability to operate the network. - Most of the electricity which enters WPD East Midlands' network is carried on the National Grid's grid supply points and thus the Company is dependent on National Grid. National Grid is the electricity transmission and electricity system operator ("ESO") regulated by Ofgem and thus the risk of a major failure is considered very remote. - All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity.
	Regulatory risk: WPD East Midlands' revenue is regulated and is subject to a review at the end of each price control period. Thus the Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the next, RIIO-ED2.	- WPD deploys significant resources in engaging with Ofgem on all new publications. - WPD is actively involved in the RIIO-ED2 consultations. - WPD is evolving plans for development of RIIO-ED2 modelling, building on RIIO-ED1 work and the current annual forecasting process. - WPD engages with its shareholder on all changes and encourages investor dialogue between PPL, its shareholders and Ofgem.

Risk management and controls (continued)

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 have disrupted the world economies and presented extraordinary challenges to businesses, communities, workforces and markets.

The Company has performed a detailed risk assessment of the current and future impacts of COVID-19. As at 31 March 2020 there has been no material impact on the Company's business, results of operations, financial condition, liquidity or on its supply chain as a result of COVID-19.

The Company is a Category 2 Responder under the Civil Contingencies Act 2004 and has been designated as Key Workers under the UK Government's plans to keep the country operating during the COVID-19 pandemic. The Company continued to work according to government guidelines, including undertaking appropriate social distancing measures, whilst continuing to provide a safe, secure and reliable supply of energy to our customers.

Following the announcement of restrictions in the UK, operational works initially focused on essential activities only, with an ongoing review of and changes to what activities that includes, at both government and regulatory levels. 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). This approach has been subject to review following UK Government and industry regulator updates; as at July 2020 the Company has resumed operations in relation to non-safety critical capital programmes, subject to appropriate safety measures. Thus during these unprecedented times, where many business sectors are impacted severely, the Company has a continuing licence obligation to be a sustainable business and to continue to provide essential services to our customers.

Subsequent to year ended 31 March 2020, revenues have been impacted temporarily due to reduced load demand from industrial and commercial customers, slightly offset by increased demand from domestic customers as a direct result of businesses and the public adhering to government restrictions. Any impact on revenue is largely a timing issue due to the regulatory regime that ensures that allowed revenue under a price control period is recovered in future years.

The Company has not experienced a significant reduction in cash receipts subsequent to the year ended 31 March 2020 and therefore have not adjusted the allowance for uncollectible accounts for potential additional expected credit losses as at 31 March 2020.

The forecasted future net cash flows of the Company have not been impacted materially due to the pandemic. The impact due to the temporary decline in revenue has been offset by a temporary decline in the capital work programme of the Company. WPD East Midlands does not anticipate any liquidity issues as it has access to sufficient capital as and when required. The details of this can be found in the Directors' report (pages 42 and 43).

The Company has sufficient stock levels of critical inventory and does not anticipate any shortage of supplies in the near future. The Company continues to actively review and monitor its supply chain to identify early any shortages or gaps.

Due to volatility in the financial markets, businesses are facing increased foreign currency risk. The Company's revenues and assets are principally sterling denominated, thus minimising any potential foreign currency risk exposure.

Risk management and controls (continued)

Other current risks - COVID-19 (continued)
In the preparation of these financial statements, certain key estimates and assumptions are made to arrive at the carrying value of assets and liabilities recorded. An impact assessment has been undertaken of the COVID-19 pandemic on key estimates and assumptions of the Company as at 31 March 2020, particularly in relation to pension measurements. Details can be found in note 3 of the financial statements on page 76.

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 2020, WPD assisted 276 (2019: 306) separate charitable and non-charitable organisations as part of a £259,000 (2019: £284,000) commitment - this included bursary support for underprivileged children involved with Duke of Edinburgh awards, a British Heart Foundation initiative to provide CPR kits in schools and Wildlife Trust partnerships in Bath and Gloucester.

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. With regard to its customer groups WPD has launched the following activities:

- Vulnerable customers
WPD East Midlands 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 the Company 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.

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’.

Corporate and social responsibility (continued)

Social and community (continued)

- Fuel poverty and energy affordability (continued)
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 help us identify hard-to-reach fuel poor customers and they provide the same support as detailed above and then refer customers in to WPD's PSR.

In 2019/20, these projects supported over 18,000 (2019: 16,000) fuel poor customers across WPD, leading to estimated annual savings of £10m (2019: £6m) for these customers.

Details on our priority services can be found at:
https://www.westernpower.co.uk/customers-and-community/priority-services

- Deaf awareness charter mark
WPD East Midlands holds the Action on Hearing Loss (formerly RNID) 'Louder Than Words' charter mark accreditation, which assesses and endorses the accessibility of our services for deaf and hard of hearing people. We have held the accreditation for eight years. WPD is the first DNO Group in the UK to have launched the "InterpreterNow" service. This enables deaf customers to contact us in British Sign Language ("BSL") via an online interpreter by downloading a free app. In addition, we now provide a series of customer information videos in BSL.

Taxation
WPD East Midlands 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 prudent approach where there is any uncertainty. WPD East Midlands does not engage in any aggressive or artificial tax planning to reduce its tax liabilities. For details of the Company's effective tax rate see note 8.

WPD East Midlands 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.

For our tax strategy refer to the link below:
https://www.westernpower.co.uk/about-us/financial-information

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

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

Corporate and social responsibility (continued)

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

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 page 4 for details on our policy regarding the environment.
Refer to pages 9, 10 and 11 for details of impact of our activities on the environment and our performance in this area.
Refer to page 21 and 22 for our principal risks in relation to the environment and our actions to mitigate those risks.

- Employees
Refer to page 5 for details on our policies regarding employees.
Refer to pages 12 and 13 for our performance in relation to employee satisfaction.
Refer to page 23 for our principal risk in relation to employees and our actions to mitigate that risk.

- Social matters
Refer to pages 25 and 26 in relation to details on our policies and activities in relation to our social responsibilities.

- Human rights
Refer to page 26.

- Anti-corruption and anti-bribery matters
See above.

Section 172 Statement
Refer to page 36 for Section 172 statement.

By Order of the Board

P Swift
Chief Executive Officer
23 July 2020

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

Corporate governance statement

For the year ended 31 March 2020

For the year ended 31 March 2020, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has adopted the Wates Corporate Governance Principles for Large Private Companies.

The principles below have been applied throughout the year ended 31 March 2020.

Purpose and leadership

Our core business is to provide safe and reliable electricity supplies to our 2.7 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. Our primary purpose is to provide industry leading maintenance, protection and development of our critical energy infrastructure assets to deliver safe and secure networks that meet the needs of our current and future customers. We strive to fulfil our purpose with the highest regard to the safety of all involved and to deliver the best possible service for our customers and stakeholders in an environmentally sustainable manner.

The culture within WPD East Midlands is driven by our Board, which is made up of a team with extensive experience of both the energy sector and the customer focused values that have long been the cornerstone of WPD East Midlands' sector leading service delivery. The Board strives to encourage the workforce to take personal ownership by following the golden rule, “treat the customers the way you would like to be treated”.

The Board values strong relationships with all stakeholder groups and oversees a comprehensive programme of engagement with our stakeholders to ensure that our business strategies and values are aligned. For further information please refer to our strategy and key goals as detailed in our Strategic report on pages 2 to 6.

Our Board recognises the important contribution made by all employees in delivering our purpose. Our vision and values are communicated to employees through annual roadshows presented by the Chief Executive and supported by the executive directors. These values are reinforced to all employees through our annual objective setting and performance review process. Additionally, in the current year, the Board conducted a Leadership Conference presented by the Chief Executive and Board members to the senior management team of the Company. This initiative helps to strengthen our values and supports open dialogue between the executive and senior management team and thus key messages communicated by the executive directors are cascaded throughout the organisation.

Our in-house magazine and regular news bulletin support the delivery of our purpose and values across the organisation, communicating examples of our values and illustrating positive behaviours.

The Board utilises annual staff opinion surveys as a key tool of assessing the effectiveness of communication and engagement across the workforce. These measure a range of factors impacting staff, for example a safety survey steered by the Chief Executive sought to obtain safety perceptions, values and behaviours across the workforce. The knowledge attained has been used to evaluate the safety environment of the Company and to identify both best practice and areas of improvement, with the results being shared across the organisation.

The Board strives to support a customer centric ethos whereby staff are empowered to take personal responsibility to continuously ensure the provision of excellent service. As a result of this vision being reinforced by the executive directors and the senior management team, outstanding customer service is a binding ethos throughout WPD East Midlands' workforce. Strategic decisions on the business model and organisational structure underpin this ethos, for example placing our operational staff and resources geographically close to the communities they serve.

The Board welcomes and invites feedback; it also recognises that staff 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.

Purpose and leadership (continued)

The Board is committed to fostering an effective relationship with its ultimate shareholder, PPL and actively promotes engagement and transparency to ensure that the values within the Company are aligned to investor priorities.

Board composition

The Board of WPD East Midlands comprises four executive directors and two independent non-executive directors.

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

Key functions of the business are reflected within the organisational structure of the Company and fall within three broad areas i.e. operations/logistics, resources and external affairs and finance/IT. The size of the Board is aligned to the organisational structure of the Company with each executive director responsible for the oversight of its relevant area under the common leadership of the Chief Executive.

The independent oversight responsibilities lie with the non-executive directors. The non-executive directors possess the necessary skills and experience of the utility sector and wider business sectors to provide adequate oversight of the Company. In fulfilment of their duties they have access to the Company Secretary and to legal advisors funded by the Company. 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.

The Chief Executive is appointed by the ultimate parent of the Company, 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 Company'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, Compensation Committee ("CC"), is responsible for the succession planning of the Chief Executive.

Other executive directors and non-executive directors are nominated by 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. The Executive Council, consisting of the Chief Executive plus the other executive directors, is responsible for the succession planning of other executive directors and non-executive directors.

A detailed profile of our executive team 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 appropriate industry conferences, holding memberships of relevant institutes, completing technical training updates and attending meetings with various industry participants e.g. regulators, investors and banks. The executive directors adopt a hands-on leadership style and regularly meet with their management teams to ensure that they are updated on the latest business developments and have immediate access to current information.

Corporate governance statement (continued)

For the year ended 31 March 2020

Directors' responsibility

Accountability and discharge of responsibilities

There are well-defined policies, as approved by the Board, clearly establishing the overall duties and liabilities of the directors, the areas of responsibility and accountability for each director, the process for delegation of authority by the Board and the matters reserved for the Board. There is a robust process in place for the regular review and update of policies and processes to ensure they remain relevant and fit for purpose.

There are four principal Board meetings each year. If the need arises, the directors can call additional meetings at any time, organised through the Company Secretary. The Board receives and is updated on all key and important business information by the executive directors at the Board meetings. The Board is supported by the Company Secretary to provide guidance on key governance requirements.

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

The executive directors are responsible for the organisational performance of their directorate and are accountable to the Chief Executive and the Board. The executive directors regularly meet with their respective senior management teams to discuss matters impacting the Company. Key Performance Indicator ("KPI") monitoring is delegated to senior managers who report directly to their respective executive director. 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 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 executive directors. Company policy sets out potential conflicts of interest and at each Board meeting the directors disclose any potential conflicts of interest in any of the Company 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 of the Company and WPD Group, 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 Company’s financial systems. Our finance team is appropriately qualified to ensure the integrity of this information and necessary training is provided to keep them up to date with statutory, regulatory and financial reporting requirements. 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.

Directors' responsibility (continued)

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

Opportunity and risk

Opportunity
We strive to create and preserve value over the long term by consistently providing outstanding customer service at an efficient cost by combining technical excellence and innovation within a clear organisational structure.

Within the parameters of operating within a regulated environment, the Board identifies and evaluates relevant opportunities to create long term value for the Company and its stakeholders.

In June 2013, we published our Business Plan for the eight year period from April 2015 to March 2023. The business plan sets out our view of infrastructure investment requirements and aligns with Ofgem's eight year regulatory price control review, known as RIIO-ED1, the first for electricity distribution to be determined using the RIIO (Revenue = Incentives, Innovation and Outputs) framework. A key feature of the RIIO model is that setting of outputs that are expected to be delivered are more extensive and embedded within our overall business plan. Our plans and commitments within the business plan have been influenced by our stakeholders and progress towards achievement is actively monitored by the Board. During 2019/20, in addition to outperforming the majority of our RIIO-ED1 commitments, we continue to take great strides towards transitioning from DNO to Distribution System Operator ("DSO") and focusing on delivering a smarter, more flexible energy system.

Looking beyond RIIO-ED1, with proactive engagement by the directors, we have commenced conversations about our RIIO-ED2 business plan (April 2023 to March 2028) and beyond in stakeholder workshops and established a new Customer Engagement Group ("CEG") to deliver customer focused challenge on our plans. A senior manager has been appointed by the Board having responsibility to oversee and lead our RIIO-ED2 business planning process, demonstrating the directors' determination to allocate resources to key business areas creating most value for the WPD Group and its stakeholders.

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 Company and the Group are discussed.

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 plan 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. Other examples of key initiatives undertaken by the executive directors include:

Opportunity and risk (continued)

Opportunity (continued)

- Electric vehicles ("EV") - We published our EV strategy and organised EV conferences to assist local authorities in the development of plans for projected volumes of EVs.
- Smart grids - The Board endorses innovation in the area of smart grids and meters so that new techniques are developed and enhanced data from smart meters is captured and utilised to help develop a more dynamic network.
- Losses management – We have adopted a detailed approach to reduce technical engineering losses from the network by taking various measures which are outlined in detail on our website at the link: https://www.westernpower.co.uk/smarter-networks/losses/losses-management
- Climate change adaption - In response to requirements set by the Department for Environment, Food and Rural Affairs ("DEFRA") and the Climate Change Act 2008, WPD has produced "Adaptation to Climate Change" reports highlighting the work being undertaken by us in this area. Reports can be found on our website at the link: https://www.westernpower.co.uk/customers-and-community/environment/carbon-impact-and-climate-change
- Cyber security measures – A qualified team has been established, dedicated to cyber security and is one of the key measures taken by the directors to evaluate and mitigate cyber security risks. In addition, we were also one of the 170 participants that took part in a national level cyber security exercise organised by the Government, which raised awareness about the threat of cyber security attacks and gave us an opportunity to enhance our "continued improvement" cyber security programme.

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 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 risks. Identification and consideration of significant and emerging risks and subsequent related decisions, if any, are undertaken by the Executive Council. The Executive Council exercises suitable judgement as to any control decisions that merit Board attention. Emerging risks are regularly reported to the Board, facilitating the oversight of the risk management process of the Company. Pages 19 to 24 of the Strategic report outlines the key risks and the related mitigating actions for the Company.

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. 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 PPL CC. The policy is reviewed annually by PPL at its Annual General Meeting and is detailed in PPL's Annual Proxy Statement. PPL's 2020 proxy 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 Officer, 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. The remuneration of non-executive directors is also approved by the WPD Chief Executive Officer.

The pay of the Company'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 Company's purpose and strategy. Our key stakeholders are customers, employees, regulators, suppliers and our shareholder; the Board actively promotes engagement and transparency with all these stakeholder groups and the executive directors ensure that a fair and balanced view of the Company's position is communicated to the relevant stakeholders. This is outlined below:

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 the Company 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 Company. The directors participate in these workshops and improvement actions identified are subsequently considered and, where appropriate, implemented.

The newly created Customer Engagement Group ("CEG"), as part of RIIO-ED2's enhanced engagement, will fulfil 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 will be reviewed and considered by the Executive Council and in turn by the Board.

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 the fact that WPD has maintained its position as the top performing DNO group in the Stakeholder Engagement Incentive Award Scheme (a key element of Ofgem's Broad Measure of Customer Satisfaction), since its introduction in 2011/12. In 2018/19 WPD was again rated first place in the industry (outperforming every DNO, gas and transmission network) with a score of 8.35 out of 10.

For further details on engagement with customers please refer to pages 4, 12 and 22 of the Strategic report.

For details on engagement with vulnerable customers refer to pages 25 and 26 of the Strategic report.

Employees

Employee roadshows are conducted annually and led by the Chief Executive to ensure that employees are kept informed about the Company's goals, objectives, performance, plans and importantly how individuals are able to contribute towards the Company's purpose and strategy. This year's roadshow consisted of 49 presentations, conducted across 33 locations.

Our internal communications through our in-house magazine and email updates are effective tools in engaging employees. In a recent internal publication, engagement from employees on RIIO-ED2 was invited, a demonstration that the directors are proactively seeking employees' views on key business areas.

Various presentations are delivered to employees to emphasise key priorities of the Company, for example during the year, safety presentations were made to highlight and promote the importance the Board places on the safety of its workforce, contractors, customers and any member of the public coming into contact with the electricity network.

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 a defined contribution scheme for all other employees. A representative Board of trustees is established for the defined benefit 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 the pension schemes. Relevant information is presented to the Board in board meetings.

For further details on engagement with employees please refer to pages 5 and 23 of the Strategic report.

Regulators

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

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

Stakeholder relations and engagement (continued)

Regulators (continued)

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

The Chief Executive is a director of the industry trade association, the Energy Networks Association Limited (“ENA”) and the chair of the ENA Electricity Network and Future 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.

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.

We also carry out payment performance reporting for its suppliers, details of which can be found on page 13 of the Strategic report.

Shareholder

The Board of Directors actively engages with our ultimate shareholder, PPL, on all key matters. 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, the WPD Group’s financial plan is presented to PPL for detailed review and approval on an annual basis.

Further, 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. The Board actively monitors its impact in terms of carbon footprint, waste recycling and fluid loss. For details refer to pages 9 to 11 and 22 of the Strategic report.

Section 172 statement

For the year ended 31 March 2020

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 strategy, as detailed on 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 needs of its key stakeholders. 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 framework of the WPD Group is linked to 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 6 to 13.

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-judged decisions in support of the Company's long-term success. Refer to pages 30 and 31 in the Corporate governance statement for details on the integrity of information received by the Board.

The Board has oversight responsibility for the risk management framework of the Company and the Board ensures the alignment of the strategy and 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 Company. For details on the Company's risk management approach refer to page 32 in the Corporate governance statement.

Refer to pages 38 to 40 for key decisions taken during the year.

Employee interests

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

This is evident from the key decision taken during the year in relation to seeking a wider range of employee views through an expanded employee opinion survey. Refer to pages 39 and 40 of this statement for further details.

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 5, 12, 13 and 23 of the Strategic report.

For details on our support for our employees during COVID-19 refer to page 14 of the Strategic report.

Stakeholder engagement

Our key stakeholders are customers, employees, regulators, suppliers and our shareholder. Our stakeholder engagement strategy is approved by the Executive Council annually.

Stakeholder engagement (continued)
Detailed engagement with our stakeholders and regular reporting to them is conducted on our business plans, both reporting on our RIIO-ED1 commitments and developing our RIIO-ED2 priorities. Engagement on strategic areas and long term energy scenarios such as DSO, electric vehicle strategy etc. is also conducted. This demonstrates business planning built on stakeholder feedback.

Further details on engagement with each of our stakeholders is detailed on pages 33 to 35 of the Corporate governance statement. Further, there are KPIs and actions mitigating risk associated with each of these stakeholders that ensure that stakeholder relations are duly monitored by the Board. These can be found on pages 12, 13, 22 and 23 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. During the year the directors directly and indirectly, through the senior management team, engaged with over 40,000 (2019: 35,000) stakeholders via a range of methods and delivered 300 (2019: 290) improvement actions based on feedback received. These actions cover a variety of stakeholder groups including the important areas of vulnerable customers and smart networks. The WPD Group has supported over 18,000 (2019: 16,000) fuel poor customers in making £10 million (2019: £6 million) annual savings and proactively made contact with over 1 million customers during power cuts. Further details on our corporate social responsibility, including vulnerable customers, can be found on pages 25 and 26 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. 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. 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 4, 9 to 11, 21 and 22 of the Strategic report.

Further details are also available in our Environment & Innovation report available on our website at**:**
https://www.westernpower.co.uk/customers-and-community/environment/carbon-impact-and-climate-change

For details on our support for our communities during COVID-19 refer to page 15 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 Company support this. Our engagement with all stakeholder groups reflects that this aim is embedded across the business and impacts the decision making taken throughout the organisation.

Annual roadshows 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 28 and 34 of the Corporate governance statement.

Our vision and values are also communicated to each employee individually in their annual performance appraisals. A detailed vision statement is provided to each manager for this purpose which clearly outlines business priorities including the interests of our shareholder, our customers, the environment and the communities we serve, as key areas of focus for the Company. These areas are akin to the factors that need to be considered (as per Section 172), in decision making throughout the organisation.

Reputation for high standards and business conduct (continued)
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, the Modern Slavery Act 2015, the Equality Act 2010 and awareness of anti-bullying and harassment.

Further details on leadership by the Board can be found on page 28 of the Corporate governance statement.

Our commitment in this area is reflected in the fact that customers have rated us number one in stakeholder engagement incentive award (a key measure of Ofgem's broad measure of customer satisfaction) and we have an overall customer satisfaction score of 9.12 out of 10. 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.

Our dedication to conducting our business with the highest standards of business conduct is also demonstrated by the emphasis placed by us on the safety environment within the organisation. 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. Refer to our safety information on pages 3, 6 and 19 of the Strategic report.

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:

Developing a DSO Strategy
Transition from a Distribution Network Operator ("DNO") to a Distribution System Operator ("DSO") is an ongoing project that is likely to have a significant impact on the Company and its stakeholders in the future. The Board considers the shift from a DNO to a DSO essential to driving performance and efficiency from our network, enabling it to meet future energy demands of all our customers and contribute to the Government’s target of net-zero carbon emissions by 2050. Our stakeholders will benefit as we transition to managing more active networks and we believe that informing and engaging our stakeholders on each step will help them to transition with us. The key stakeholders in relation to this transition are our customers, energy suppliers, technology providers/suppliers, local communities and regulators such as Ofgem, plus central Government via the Department of Business, Energy and Industrial Strategy ("BEIS").

In June 2017, we published our first DSO Strategy and Transition Plan, inviting key stakeholders including customer groups, industry and local enterprise partnerships, to review our proposals and provide feedback. At the end of this stage of the process, a DSO strategy launch event was conducted, where we presented our DSO strategy to more than 120 attendees consisting of a wide range of stakeholders. These attendees were given an opportunity to pose questions to a panel of industry experts. In addition to that, we also hosted a series of DSO round table sessions, allowing various stakeholders to shape our future as we transition to being a DSO. These were carried out across all four licence areas and engaged a broad cross section of customer representatives and allowed WPD to further refine some of the initial messaging received during consultation. Following these engagements a formal consultation document was published which highlighted the actions to be taken by WPD in response to the key feedback items and the DSO strategy was updated to reflect the feedback. In the current year, to keep our customers and other stakeholders updated at all times, we have published a revised DSO plan, and will continue to update it as thinking evolves.

Examples of key decisions during the year (continued)

Developing a DSO Strategy (continued)
This process, through which our DSO strategy has been developed, and is supported by a published DSO plan, highlights the commitment of the directors to promote the interest of the Company in a manner that is aligned with the needs and priorities of our stakeholders. We aim to develop a successful DSO strategy by taking into account the needs and views of our stakeholder groups as well as considering the long term impact of our decisions. This is further demonstrated as below:

- Details on how WPD factored in customer views on key principles of the DSO strategy can be found on pages 10, 11, 12, 17 and 19 in the DSO strategy document published on our website at the link below: https://www.westernpower.co.uk/smarter-networks/network-strategy/dso-strategy

- Engagement and consideration of feedback from regulators has also been a prime factor of consideration for the directors. In the current year, one such example being WPD's decision to separate DSO activities into a separate management structure. This was done in response to BEIS and Ofgem requiring the DNOs to address the potential conflicts of interest between asset solutions and use of third party flexibility. Concerns over this conflict had been raised by suppliers, aggregators and parts of the Distributed Generation community.

- The directors are actively engaged in developing the industry transition towards DSO, through leading on the ENA's Open Networks Project that aims to coordinate the DSO transition at industry level by designing, testing and implementing the whole system elements which will bring benefits to all energy system participants. This project demonstrates the directors' commitment to contribute to and play an active role for the industry as a whole.

- The directors are also committed to working pro-actively with community energy groups and recognise that the volunteer led approach and complex nature of their projects means that community energy groups need more time and support to engage in the process of connecting to the network. We run eight Community Energy Events every year at key locations where community energy groups can come to find out what is happening in the industry. Our Multi Asset Demand Execution ("MADE") demonstrates our commitment to understanding the impact of future low carbon technologies onto community energy. We will, throughout the transition, ensure that communities will be an integral part of the transition to a smarter and more flexible system.

Staff engagement
In the current year, we refreshed and revised the format of the employee opinion survey. This was an initiative led by the Chief Executive. The survey was made online for the first time and opinion was sought on a broader range of areas than ever previously undertaken.

This decision was taken so as to enable the Board to get a much clearer picture of the views of staff by covering categories such as safety, wellbeing, ethics, diversity and inclusion, performance management, recognition and reward, effectiveness of communication and effectiveness of collaboration.

The results of the survey were discussed at the leadership conference with 90 senior managers and based on the feedback an 'action plan' has been developed.

The key strengths that came out of the survey were very encouraging and the directors have taken note of these and are committed to building upon them. These were identified as:

Section 172 statement (continued)
For the year ended 31 March 2020

Examples of key decisions during the year (continued)

Staff engagement (continued)

- Our workforce recognise, as they have for a long time, the necessity of safety precautions that are undertaken whilst completing work;
- We are committed to exceeding customer expectations;
- We have strong staff commitment that is evident from the high proportion of staff intending to stay working for WPD for at least the next year;
- We deliver work of a high quality and this is recognised as a clear team commitment; and
- Our workforce has excellent awareness across the whole business of the WPD mission and values.

More importantly, the survey highlighted the key areas of opportunity where the directors will focus and are committed to make positive change:

- We will focus on increasing the transparency of equality of the potential for individual growth and development opportunities across the whole business;
- We will demonstrate that the feedback from the employee survey will be used for making improvements;
- We will encourage the whole workforce to share ideas about opportunities the business could take advantage of;
- We will support and increase the transparency of opportunities for professional growth of all employees; and
- We will develop more effective cooperation across the different functional areas of the business.

The directors have committed to sharing the actions taken and ensuring that the progress of those actions are communicated to the whole workforce.

This initiative highlights the commitment of the directors to ensure that employee interests are taken into consideration while promoting the success of the Company. Development of an action plan based on the survey results demonstrates that the Board is committed to making improvements based on feedback from staff and to developing an environment of open communication and enhancing employee engagement.

Declaration of dividend

During the year the Board has declared a dividend of £64.7m (2019: £30.0m). In considering capital distributions, the Board is mindful of stakeholders' views and takes account of our latest financial position, the long-term sustainability for the Company in addition to the allowed rate of return and any incentive rewards received. In its capacity of providing oversight also for the operational performance of the business, the Board also takes account of the prevailing performance against customer performance targets, other RIIO-ED1 output commitments and future requirements such as DSO, to assess whether there are any additional investment needs.

As part of the regulatory process, Ofgem sets the allowed rate of return within each price control period. For RIIO-ED1 this is set at 6.4%. As is evident from the levels of our annual capital expenditure (see page 8 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 ultimate shareholder in order to preserve positive investor relations and maintain secure and continuous investment. 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 2020

The directors present their annual report on the affairs of Western Power Distribution (East Midlands) plc, together with financial statements and auditor's report, for the year ended 31 March 2020.

Registered company number

The Company's registered number is 2366923.

Ownership

WPD East Midlands is an indirect, wholly-owned subsidiary of Western Power Distribution plc, which is owned by PPL Corporation, an electricity utility of Allentown, Pennsylvania, US.

There were no transactions between WPD East Midlands and the ultimate owner.

Results, dividends and share issue

The profit for the year to 31 March 2020 is £189.3m (2019: £198.7m).

The Company also reports other comprehensive gains, which were posted directly to capital and reserves, of £51.6m (2019: £29.3m). This primarily relates to benefit pension plan remeasurement, net of tax.

For the year to 31 March 2020 dividends paid by the Company totalled £64.7m (2019: £30.0m). No dividends are proposed after the year end.

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

Political affiliations, donations and expenditure

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

WPD does not engage in any lobbying activities with the Government. However, as part of its RIIO-ED2 price control 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 also a member of various trade associations such as the Energy Network Association ("ENA"), that provide a strategic focus and channel of communication for the industry.

Financial assistance from the governments

WPD has not received any financial assistance from the Government during the year. The Company can potentially access an additional 10% of its Apprenticeship Levy payments in order to fund approved training programmes for apprentices. However, for the year ended 31 March 2020, the payments into the fund by the Company were in excess of the funding the Company reclaimed.

Financial risk management objectives and policies

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

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

Liquidity and going concern

WPD East Midlands is supported by its credit facilities. At 31 March 2020, WPD East Midlands had committed borrowing facilities available, in respect of which all conditions precedent had been met at that date, of £300m maturing in July 2021. At 31 March 2020, no borrowings had been drawn against the facility and no letters of credit issued.

Financial risk management objectives and policies (continued)

Liquidity and going concern (continued)
On a day-to-day basis, WPD South West provides liquidity to the whole of WPD with balances with other group companies being settled periodically. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2020, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £245.0m maturing in July 2021, of which £100.0m was drawn. In addition, it had uncommitted facilities of £100.0m of which £5.0m can only be used for the issue of letters of credit; at 31 March 2020 no borrowings had been drawn and letters of credit of £3.5m were issued.

At 31 March 2020, WPD East Midlands had £1,646.7m (2019: £1,482.9m) of external debt outstanding of which none (2019: £90.5m) was due within one year. It had cash and short-term deposits of £108.6m (2019: £2.5m). Short term deposits of £106.6m are considered corporate assets and can be accessed by any entity within the WPD Group. Balances owed by other Group undertakings decreased by £14.8m in the year.

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, credit ratings of the Company and the anticipated ability of the Company and WPD Group to be able to raise additional long term debt in the future.

The directors have assessed the principal risks discussed in the Strategic report (pages 19 to 24) and the impacts of COVID-19 and related uncertainties have also been taken into consideration in arriving at the going concern assumption for the preparation of the financial statements.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Company is an essential part of the country's response to COVID-19, as what we do is crucial for the continuation of existing essential services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Therefore, even in these unprecedented times, where many business sectors are impacted severely, the Company has a continuing licence obligation to be a sustainable business and to continue to provide essential services to our customers.

Allowed revenues are fixed over a price control period and any adverse impact on revenues due to COVID-19 is considered a temporary cash flow implication and is expected to be recovered in future years. Some of the material cash flows impacts that have been taken into consideration are:

- Reduction in demand leading to reduced DUoS revenues;
- Working capital implications as a result of changes to operational work programmes;
- Reduction in cash outflow associated with capital work due to Government restrictions;
- Reduction in customer driven non-trade recharge activities and associated revenue;
- Ofgem's supplier payment deferral scheme.

After consideration of all cash flow impacts related to the pandemic, the Company has sufficient liquidity over the next 12 months. A reasonable worst case scenario plan, considering an extension of Government restrictions until the end of 2020 has been deliberated by the Company; under this scenario there is sufficient headroom available in order to meet liquidity and covenant requirements.

Financial risk management objectives and policies (continued)

Liquidity and going concern (continued)
The Company is actively monitoring recovery of receivables and its overall liquidity position. Since March 2020 to date there has been no material slow down in the cash receipts of the Company and the Company has access to sufficient borrowing facilities. In May 2020, the committed credit facility detailed above, expiring in July 2021, was terminated early. This has been replaced with a new facility of £250.0m expiring in May 2023.

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

Thus, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future 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 group companies other than WPD East Midlands, WPD West Midlands, WPD South West and WPD South Wales. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WPD East Midlands, WPD West Midlands, WPD South West and WPD South Wales.

Strategic report
The following information required in the Directors' report has been included in the Strategic report:
- an indication of future developments in the business - see pages 16-17;
- an indication of activities of the Company in the field of research and development - see page 17;
- a statement on the policy for disabled employees - see page 5;
- employee policies - see page 5.

Corporate governance statement
The Company's Corporate governance statement is detailed on page 28.

Employee engagement statement
Details of how the directors have engaged with employees and considered employees' interests during the year can be found in the Corporate governance statement on pages 28 and 34.

A key decision on staff engagement as detailed in our Section 172 statement illustrates how employees' interests are always taken into account. See pages 39 and 40.

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

Customers
- Strategic report - see page 4, 12 and 22;
- Corporate governance statement - see page 33 and 34;
- Section 172 statement - Key decision in relation to DSO strategy outlines how customer interests have been considered at each step of transitioning to DSO. See pages 38 and 39.

Business relationships statement (continued)

Suppliers

- Strategic report - see pages 5 and 13;
- Corporate governance statement - see page 35.

Regulators

- Strategic report - see page 5 and 23;
- Corporate governance statement - see pages 34 and 35.

Streamline energy and carbon reporting ("SECR")

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

	tCO_2e		tCO_2e per employee	
	2020	2019	**2020**	2019
Scope 1 (direct emissions)				
Operational transport	**11,538**	9,050	**6.13**	4.79
SF6 gas	**2,495**	1,575	**1.32**	0.83
Fuel combustion (diesel / gas oil)	**2,519**	2,457	**1.34**	1.30
Buildings	**126**	147	**0.07**	0.08
	16,678	13,229	**8.86**	7.00
Scope 2 (energy indirect emissions)				
Buildings electricity	**1,366**	1,576	**0.73**	0.83
Substation electricity	**5,145**	7,223	**2.73**	3.82
WPD Telecoms	**327**	103	**0.17**	0.05
	6,838	8,902	**3.63**	4.70
Total scope 1 & 2	**23,516**	22,131	**12.49**	11.70
Scope 3 (other indirect emissions)				
Business transport	**1,082**	1,031	**0.57**	0.55
Total scope 1, 2 & 3	**24,598**	23,162	**13.06**	12.25

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

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

Electricity energy consumed for the year to 31 March 2020 is kWH 6,625,543 (2019: kWH 5,932,493).

Gas energy consumed for the year to 31 March 2020 is kWH 686,970 (2019: kWH 685,969).

Energy consumed for helicopters for the year to 31 March 2020 is kWH 1,205,937 (2019: kWH 2,041,196).

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.

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

Methodologies used in calculating energy and carbon reporting data (continued)
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") reporting protocol and ISO14064-1. ISO14064-1 specifies principles and requirements at the organisation level for quantification and reporting of GHG emissions and removals. Our published BCF data has been verified and data assured for accuracy and compliance with the standards detailed above.

Where only Group wide data is available the emission totals have been apportioned according to the following allocations:

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

Measures for increasing Company's efficiency during the year
During 2019/20, 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;
- continuing to trial and purchase 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;
- the on-going replacement with more modern and energy efficient heating / cooling systems throughout our property portfolio plus undertaking an energy efficiency review at many of our non-operational and operational sites including employee energy awareness campaigns.

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

P Swift, Chief Executive
IR Williams, Finance Director
AJ Sleightholm, Resources and External Affairs Director
G Halladay, Operations Director
ME Fletcher, non-executive independent director
AJ Cardew, non-executive independent director

During and at the end of the financial year, no director was interested in any contract of significance in relation to the Company's business other than service contracts. Insurance in respect of directors and officers is maintained by WPD's ultimate parent, PPL Corporation. The insurance is third party qualifying insurance and is subject to the conditions set out in the companies acts and remains in force at the date of signing the Annual Report and Financial Statements.

Directors' report (continued)

For the year ended 31 March 2020

Statement of disclosure to 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 re-appointment will be put before the Annual General Meeting.

By Order of the Board

P Swift
Chief Executive Officer

23 July 2020

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

Directors' responsibilities statement

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard ("FRS") 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

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

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

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

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

Report on the audit of the financial statements

1. Opinion
In our opinion the financial statements of Western Power Distribution (East Midlands) plc (the 'Company'):
- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Procedures including Financial Reporting Standard 101 "Reduced Disclosed Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the profit and loss account;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet;
- the statement of cash flows; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Company for the year are disclosed in note 6 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

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

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Capitalisation of overheads; and
- Pensions asset valuation

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

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

3. Summary of our audit approach (continued)

<u>Materiality</u>
The materiality that we used in the current year was £12.7m (2019: £12.0m) which was determined on the basis of 5% (2019: 5%) of profit before tax.

<u>Scoping</u>
Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

<u>Significant changes in our approach</u>
As a consequence of the Covid-19 outbreak, there has been an increased level of risk and volatility as at the year-end of certain markets to which the Company is exposed. This includes property markets where the Company's pension scheme assets are partially invested. As a result we have considered the valuation of pension assets as a new key audit matter due to external valuers including material uncertainty clauses in property asset valuations as at 31 March 2020 in response to the market volatility and uncertainty caused by Covid-19.

There have been no other significant changes to our audit approach.

4. Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:
- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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.

5.1 Capitalisation of overheads

<u>Key audit matter description</u>
Amounts capitalised as network assets include indirect costs associated with corporate 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 related 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.

5. Key audit matters - Capitalisation of overheads (continued)

Key audit matter description (continued)

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 £36.6m in the year (2019: £35.8m), of which £22.0m (2019: £22.0m) has been capitalised to fixed assets.

Refer to note 2 'significant accounting policies', note 3 'critical accounting judgements and key sources of estimation uncertainty', note 10 'employee benefit expense', and note 12 'tangible fixed assets' in the financial statements for further discussion of the Company's policy and judgements in capitalisation of overheads.

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

We have performed the following procedures around this key audit matter:

- Obtained an understanding of and tested the relevant key controls related to the estimate of corporate overhead costs, and those that are directly associated with capital projects and capitalisation rates.
- Evaluated the appropriateness of the accounting treatment for capitalising overheads by reference to the requirements of IAS 16 Property, Plant and Equipment.
- Reviewed the policies, procedures and assumptions used in estimating the value of overheads that are directly attributable to capital projects.
- Agreed a sample of costs capitalised to appropriate support to test that they have been recorded accurately.
- 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.
- 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 corporate overheads within the fixed assets balance are reasonable as at 31 March 2020.

5.2 Pension asset valuation

Key audit matter description

The retirement benefit surplus of the Company includes assets totalling £1,654.1m (2019: £1,663.3m) of which £55.1m (2019: £58.4m), 3.3% (2019: 3.5%) are property assets.

Consistent with guidance provided by the Royal Institute of Chartered Surveyors ("RICS"), the external valuers' reports, include "material valuation uncertainty" in respect of pension property assets due to the Covid-19 pandemic leading to increased risk and volatility in property valuations as at 31 March 2020.

Given the estimation uncertainty could give rise to a range of valuations, we identified a key audit matter associated with the valuation of property assets within the pension asset portfolio.

Refer to note 2 'significant accounting policies', note 3 'critical accounting judgements and key sources of estimation uncertainty', and note 25 'pension commitments' in the financial statements for further discussion of the Company's policy and valuation judgements in pension property assets.

Independent auditor's report

to the members of Western Power Distribution (East Midlands) plc (continued)

5. Key audit matters - Pension asset valuation (continued)

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

We have performed the following procedures around this key audit matter:

- Obtained an understanding of and tested the relevant key controls over the valuation of pension property assets.
- Obtained details of the property funds that include material uncertainties from the investment managers and reviewed a summary of the pension property assets in the funds to understand their nature.
- Challenged management's valuation, with input from our internal valuation specialists, of certain pension property assets. Our work included verifying that the valuation methodologies are in accordance with RICS guidance and suitable for use in determining the carrying value in the balance sheet.
- Developed an independent valuation through reviewing publicly available information on these assets and other independent sources, and comparing it to the inputs used by management to determine the asset values.

Key observations

We consider management's valuation of pension property assets to be reasonable and the disclosures in notes 3 and 25 in the financial statements regarding the estimation uncertainty and sensitivity of the pension assets are appropriate.

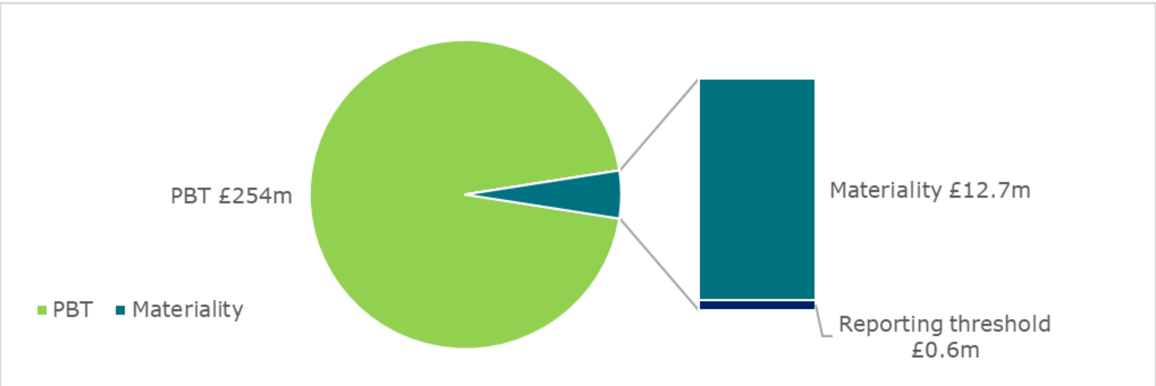
6. Our application of materiality

6.1 Materiality

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

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

Materiality:	£12.7m (2019: £12m)
Basis for determining materiality:	5% of profit before tax. This is consistent with the methodology applied in 2019.
Rationale for the benchmark applied:	We have determined materiality based on profit before tax as this is the key metric used by management, investors, analysts and lenders, with shareholder value being driven by the result.



6. 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. Performance materiality was set at 70% (2019: 70%) of materiality for the 2020 audit. In determining performance materiality, we considered the following factors:

- Our cumulative experience from prior year audits;
- The low level of corrected and uncorrected misstatements identified;
- Our risk assessment, including our understanding of the entity and its environment; and
- Our assessment of the Company’s overall control environment and that we consider it appropriate to rely on controls over property, plant and equipment, revenue, operating expenses and payroll.

6.3 Error reporting threshold
We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.6m (2019: £0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Scoping
Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2 Our consideration of the control environment
The Company’s IT landscape contains a number of IT systems, applications and tools used to support business processes and for financial reporting. We engaged with our internal IT specialists to perform 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.

Using 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.

In order to evaluate the operating effectiveness of IT controls, we performed walkthrough procedures of the key controls relevant to the business cycles, including revenue, property, plant and equipment and operating expenses 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 (see section 6.2).

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

9. Responsibilities of directors

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

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

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

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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:

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)

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the Board of Directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT 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 in the 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 Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation 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 Company's ability to operate or to avoid a material penalty. These included the Company's operating licence as set out by the energy regulator, Ofgem, were fundamental to the Company's ability to continue as a going concern.

11.2 Audit response to risks identified

As a result of performing the above, we 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

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

11.2 Audit response to risks identified (continued)
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

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

13.1 Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of these matters.

14. Other matters

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 four years, covering the years ending 31 March 2017 to 31 March 2020.

14. Other matters (continued)

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

Delyth Jones, Senior Statutory Auditor
for and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom

28 July 2020

Profit and loss account

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
Turnover	4	**526.3**	506.2
Operating expenses	5	**(198.5)**	(199.2)
Operating profit	6	**327.8**	307.0
Income from fixed asset investments		**0.1**	0.1
Profit on disposal of fixed assets		**0.1**	0.4
Profit before interest and tax		**328.0**	307.5
Interest receivable and similar income	7	**0.6**	0.4
Interest payable and similar charges	7	**(74.1)**	(68.1)
Net interest income/(expense) relating to pensions and other post-retirement benefits	25	**0.9**	(0.6)
Profit before tax		**255.4**	239.2
Tax	8	**(66.1)**	(40.5)
Profit for the financial year		**189.3**	198.7

All activities relate to continuing operations.

The accompanying notes 1 to 31 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 March 2020

	Note	**2020** **£m**	2019 £m
Profit for the year		**189.3**	198.7
Other comprehensive gain:			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Loss arising on cash flow hedges during the year		**(21.2)**	(2.7)
Reclassification adjustments for gains on cash flow hedges included in profit or loss (interest payable)		**1.6**	0.5
Income tax effect		**3.8**	0.4
		(15.8)	(1.8)
Other comprehensive gain not to be reclassified to profit or loss in subsequent periods			
Re-measurement gains on defined benefit pension plan	25	**83.7**	37.5
Re-measurement gain on unfunded pension liability	25	**0.1**	0.2
Income tax effect		**(16.4)**	(6.6)
		67.4	31.1
Other comprehensive gain for the year, net of tax		**51.6**	29.3
Total comprehensive income for the year, net of tax, attributable to equity holder of the parent		**240.9**	228.0

Statement of changes in equity

For the year ended 31 March 2020

	Note	Share capital £m	Share premium account £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
At 1 April 2018		287.6	46.2	(4.3)	972.1	1,301.6
Profit for the year		-	-	-	198.7	198.7
Other comprehensive (loss)/income		-	-	(1.8)	31.1	29.3
Total comprehensive income for the year		-	-	(1.8)	229.8	228.0
Equity dividends paid	9	-	-	-	(30.0)	(30.0)
At 1 April 2019		287.6	46.2	(6.1)	1,171.9	1,499.6
Profit for the year		-	-	-	189.3	189.3
Other comprehensive (loss)/income		-	-	(15.8)	67.4	51.6
Total comprehensive income for the year		-	-	(15.8)	256.7	240.9
Equity dividends paid	9	-	-	-	(64.7)	(64.7)
At 31 March 2020		**287.6**	**46.2**	**(21.9)**	**1,363.9**	**1,675.8**

Balance sheet

As at 31 March 2020

	Note	**2020** **£m**	2019 £m
Non-current assets			
Tangible fixed assets	12	**4,422.4**	4,215.6
Right-of-use assets	13	**2.3**	-
Intangible assets	14	**9.1**	7.9
Pension asset	25	**146.4**	28.5
Trade and other receivables	16	**0.5**	0.6
		4,580.7	4,252.6
Current assets			
Stocks	15	**19.1**	11.3
Trade and other receivables	16	**88.6**	104.2
Derivative financial instruments	20	**-**	0.1
Cash at bank and in hand	17	**108.6**	2.5
		216.3	118.1
Creditors			
Amounts falling due within one year	18	**(185.8)**	(280.5)
Derivative financial instruments	20	-	(2.8)
Lease liabilities	21	**(0.3)**	-
Net current assets/(liabilities)		**30.2**	(165.2)
Total assets less current liabilities		**4,610.9**	4,087.4
Creditors			
Amounts falling due after more than one year	18	**(2,667.9)**	(2,374.8)
Lease liabilities	21	**(2.0)**	-
Provisions for liabilities			
Deferred tax	23	**(245.7)**	(195.2)
Other	24	**(16.2)**	(14.2)
Pensions liability	25	**(3.3)**	(3.6)
Net assets		**1,675.8**	1,499.6
Capital and reserves			
Called-up share capital	26	**287.6**	287.6
Share premium account	27	**46.2**	46.2
Hedging reserve	27	**(21.9)**	(6.1)
Profit and loss account	27	**1,363.9**	1,171.9
Equity shareholder's funds		**1,675.8**	1,499.6

The accompanying notes 1 to 31 are an integral part of these financial statements.

The financial statements of the Company (registered number 2366923) on pages 57 to 100 were approved and authorised for issue by the Board of Directors on 23 July 2020 and were signed on its behalf by:

P Swift, Chief Executive Officer

IR Williams, Finance Director

Statement of cash flows

For the year ended 31 March 2020

	Note	2020 £m	2019 £m
Operating activities			
Profit for the year		**189.3**	198.7
Adjustments to reconcile profit for the year to net cash flows from operating activities:			
Income tax expense		**66.1**	40.5
Interest payable		**74.1**	68.7
Interest receivable		**(1.5)**	(0.4)
Depreciation of tangible fixed assets	6	**78.9**	75.7
Amortisation of customer contributions	6	**(17.9)**	(17.8)
Amortisation of intangible assets	6	**1.4**	1.0
Loss/(gain) on disposal of tangible fixed assets		**0.2**	(0.7)
Loss on disposal of intangible fixed assets		**-**	0.3
Investment income		**(0.1)**	(0.1)
Difference between pension contributions paid and amounts recognised in the profit and loss account		**(33.5)**	(28.2)
Increase in provisions		**2.0**	0.1
Working capital adjustments:			
Increase in inventories		**(7.8)**	(0.6)
Decrease in trade and other receivables		**15.7**	26.0
Increase in trade and other payables		**0.1**	3.7
Interest paid		**(86.2)**	(59.7)
Interest received		**0.6**	0.4
Customers' contributions received*		**54.8**	57.4
Income taxes paid		**(37.9)**	(23.4)
Net cash from operating activities		**298.3**	341.6
Investing activities			
Purchase of tangible fixed assets		**(281.1)**	(267.7)
Proceeds from sale of tangible fixed assets		**0.2**	0.5
Purchase of intangible assets		**(2.6)**	(4.1)
Dividends received		**0.1**	0.1
Net cash used in investing activities		**(283.4)**	(271.2)
Financing activities			
Payment of lease liabilities		**(0.3)**	-
Net decrease in short-term borrowings		**(90.5)**	(39.5)
Proceeds from long-term borrowings		**246.7**	-
Dividends or equivalent distributions paid		**(64.7)**	(30.0)
Net cash from/(used in) financing activities		**91.2**	(69.5)
Net increase in cash at bank and in hand		**106.1**	0.9
Cash at bank and in hand at beginning of year		**2.5**	1.6
Cash at bank and in hand at end of year	17	**108.6**	2.5

*Contributions received from customers towards the cost of capital projects have been reclassified from investing to operating because the underlying nature of the cash inflow is from the business' ongoing regular activities.

Notes to the financial statements

For the year ended 31 March 2020

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

The financial statements of Western Power Distribution (East Midlands) plc ("the Company") for the year ended 31 March 2020 were authorised for issue by the Board of Directors on 23 July 2020 and the balance sheet was signed on the Board's behalf by P Swift and IR Williams. The Company is a public limited company, limited by shares and incorporated and registered in England and Wales. The address of the Company's registered office is shown on page 100.

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

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

2. Significant accounting policies

Basis of preparation

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective, related party transactions and share based payments.

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in note 31.

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

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

The Comparative financial information has been presented on the same as basis as current year financial information and statement of cash flows has been restated in relation to reclassification of customer contributions from investing activities to operating activities. Contributions received from customers towards the cost of capital projects have been reclassified from investing activities to operating activities because the underlying nature of the cash inflow is from the business' ongoing regular activities

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.

2. Significant accounting policies (continued)

Going concern
The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This is discussed further under ‘Financial risk management objectives and policies’ within the Directors’ report (pages 41 to 43).

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

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 2019, for the first time for their annual reporting period commencing 1 April 2019:

- IFRS 16 "Leases";
- Prepayment Features with Negative Compensation – Amendments to IFRS 9;
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28;
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle;
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19;
- IFRIC 23 "Uncertainty over Income Tax Treatments".

Except as defined below in relation to IFRS 16, the Company has concluded that these standards do not have any material impact on the Company's financial statements.

<u>IFRS 16</u>
IFRS 16 "Leases" supersedes the previous lease guidance including IAS 17 "Leases" and the related interpretations and is effective for accounting periods beginning on or after 1 January 2019. IFRS 16 provides comprehensive guidance for the identification of lease arrangements for both lessee and lessor and a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, are accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset and unwinding of the lease liability using an appropriate discount rate over the lease term.

The Company has adopted IFRS 16 retrospectively with effect from 1 April 2019 but has elected not to restate comparatives on initial adoption, as permitted within the Standard.

(i) Impact of the new definition of lease
The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 April 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17. The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 April 2019.

2. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

IFRS 16 (continued)

(ii) Measurement of lease liabilities

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.85%.

In accordance with the relevant provisions of the Standard, the Company has elected not to recognise short term leases and low value leases on the balance sheet. The lease payments associated with these leases are recognised as an expense on a straight line basis over the lease term.

In measuring the initial lease liability, the Company has also adopted the practical expedient for accounting for operating leases with a remaining lease term of less than 12 months as at the application date as short-term leases.

	2019 £m
Operating lease commitments as disclosed as at 31 March 2019	**2.2**
Operating lease commitments at 31 March 2019 discounted using incremental borrowing rate	**2.1**
Contracts incorrectly excluded as operating lease commitments under IAS 17	**0.4**
Lease liability recognised as at 1 April 2019	**2.5**

(iii) Measurement of right-of-use asset

Right-of use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. The right-of-use assets recognised as at 1 April 2019 amount to £2.6m.

(iv) Retained earnings impact

There is no retained earnings impact on the initial transition to IFRS 16, since the right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

(v) Lessor accounting

The adoption of IFRS 16 did not result in any changes to the accounting for operating leases as a lessor.

(vi) Impact of adoption of IFRS 16 on the balance sheet as at 31 March 2020

	2020 £m
Right-of-use-assets	**2.3**
Lease liabilities - current	**0.3**
Lease liabilities - non-current	**2.0**

Notes to the financial statements

For the year ended 31 March 2020

2. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

IFRS 16 (continued)

(vii) Impact of adoption of IFRS 16 on the profit and loss account for the year ended 31 March 2020

	2020 £m
Depreciation of right-of-use assets	**(0.3)**
Interest payable on lease liabilities	**(0.1)**
Operating rent expense	**0.3**
Net impact on profit before tax	**(0.1)**

(viii) Impact of adoption of IFRS 16 on the statement of cash flows for the year ended 31 March 2020

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. On adoption of IFRS 16, the Company recognises cash flows pertaining to leases as below:

- Short term lease payments and payments for low value leases are recognised as part of operating activities;
- Cash payments for the interest portion of lease liabilities are recognised as part of operating activities; and
- Cash payments for the principal portion of lease liabilities are recognised as part of financing activities.

Consequently, the net cash generated by operating activities has increased by £0.2m, being the lease payments, and net cash used in financing activities has increased by the same amount. The adoption of IFRS 16 did not have an impact on net cash flows.

Foreign currencies

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

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

Turnover recognition

Distribution Use of System ("DUoS") Revenue

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

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

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

2. Significant accounting policies (continued)

Turnover recognition (continued)

Distribution Use of System ("DUoS") Revenue (continued)
WPD measures the progress of the performance obligation using the output method. Output method recognised revenue is based on direct measurements of value transferred to the customer. Accordingly WPD records turnover on a monthly basis, based on the amount of KWh of electricity delivered.

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

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

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

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

Customer contributions
Contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the profit and loss account over the estimated weighted life of the related assets of 69 years.

Other operating income and expense
Other operating income and expense includes 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.

Financial assets
Financial assets are classified as debt instruments at amortised cost; debt instruments at fair value through other comprehensive income ("FVOCI"); financial assets at fair value through profit and loss ("FVTPL"); or as equity instruments designated at FVOCI, as appropriate. Financial assets include cash at bank and in hand, trade and other receivables, 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 the profit and loss account.

The subsequent measurement of financial assets depends on their classification, as follows:

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

2. Significant accounting policies (continued)

Financial assets (continued)

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 Company 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 includes 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.

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

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

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

Trade and other receivables including accrued income
WPD applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. Lifetime ECL results from all possible default events over the life of financial instruments.

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

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

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

Cash at bank and in hand
This comprises cash at bank, in hand and short-term deposits. Since short-term deposits are FVTPL, they are not subject to the impairment requirements of IFRS 9. 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.

2. Significant accounting policies (continued)

Cash and cash equivalents
In the cash flow statement and related notes, cash and cash equivalents includes cash at bank and in hand and short-term deposits which are readily convertible into known amounts of cash and have 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 creditors, accruals, and borrowings. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

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

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

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

This category of financial liabilities includes trade and other creditors, accruals, and loans and other borrowings.

Derivative financial instruments and hedging activities
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 profit and loss account. 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 hedged 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:

2. Significant accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

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 profit and loss account. Amounts taken to other comprehensive income are transferred to the profit and loss account when the hedged transaction affects the profit and loss account, 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 profit and loss account. 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 profit and loss account 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 profit and loss account.

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.

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

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

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

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

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

2. Significant accounting policies (continued)

Leases (continued)

WPD East Midlands as a lessee (continued)

- 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 useful life of the underlying asset.

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

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

WPD East Midlands as a lessor

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

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

2. Significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairments. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in International Accounting Standard ("IAS") 23 are capitalised as part of the cost of that asset.

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

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

Contributions received towards the cost of tangible fixed assets which include low carbon network funding are included in trade and other payables as deferred income and credited on a straight-line basis to the profit and loss account over the estimated economic useful lives of the assets to which they relate.

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

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

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

An item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the profit and loss account in the period of derecognition.

2. Significant accounting policies (continued)

Intangible assets
Intangible assets are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses.

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

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives.

The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

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

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

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

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

2. Significant accounting policies (continued)

Stocks
Stocks are valued 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 be recognised in other comprehensive income.

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

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;
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

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

Pension benefits
The Company participates in one defined benefit pension plan, which is a section of the industry-wide Electricity Supply Pension Scheme ("ESPS"). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. The Company also has an unfunded pension liability in respect of previous executives.

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

2. Significant accounting policies (continued)

Pension benefits (continued)
The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognised immediately when amendments or curtailments occur. The current service cost (including administration costs) is allocated to the profit and loss account 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 profit and loss account.

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

Contributions to defined contribution schemes are recognised in the profit and loss account or capital expenditure as appropriate in the year in which they become payable.

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

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

2. Significant accounting policies (continued)

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.

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.

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

Capitalisation of overheads - Nature of costs capitalised
Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the income statement with a portion being capitalised based on management's assessment of the costs incurred that are directly linked to the capital work performed. The nature of costs to be included for capitalisation is a key judgement and is based on an analysis of the activities directly attributable to capital work. During the current year, following a detailed management review, certain costs are no longer deemed directly attributable to capital work and have therefore been excluded from capitalisation.

Uncertain tax positions
The Company’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 Company’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 Company, but apply to finance costs of PPL affiliate companies which may impact the amount of group relief available to the Company. Management has assessed the impact of this legislation on the Company’s tax position and has taken necessary actions to ensure that the Company 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 Company’s financial results and positions.

Notes to the financial statements

For the year ended 31 March 2020

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

Key sources of estimation uncertainty

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

Capitalisation of overheads - capitalisation rate

Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the profit and loss account with a portion being capitalised using an appropriate rate. In previous years the rate of capitalisation has been based the analysis of total labour costs, as split between capital and revenue activities. In the current year, following a detailed management review, certain costs are no longer considered directly attributable to capital work and the capitalisation rate for some costs has been based on an analysis of total costs, as split between capital and revenue activities. The net impact of these changes on the overall capitalisation of overheads is immaterial. The rate is reviewed in detail annually and a reasonableness test is performed in light of total capital spend during the year. The total amount of overheads capitalised at 31 March 2020 is £22.0m (2019: £22.0m). Information on sensitivity to the rate is as below:

	2020	2019
	Profit and loss account +/- £m	Profit and loss account +/- £m
Change in rate +/- 1%	**0.3**	0.4
Change in rate +/- 5%	**1.7**	1.8

Pension obligations

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

The discount rate used is based on interest rates of relevant high quality corporate bonds. The increase in discount rates due to the global COVID-19 outbreak has been accompanied by a fall in inflation expectations, thus resulting in an overall surplus on the Company’s defined benefit schemes of £146.4m (2019: £28.5m).

The long term mortality rates may also be impacted to some extent by COVID-19 but due to uncertainty surrounding the outbreak, the impact is currently unclear and therefore has been excluded from life expectancy assumptions used in the valuation of pension liabilities.

In light of the COVID-19 pandemic, the valuation of certain pension assets has been identified as an additional area of estimation uncertainty that impacts the Company's position as at 31 March 2020. Due to uncertainty in the markets, property valuations by independent valuers have been reported on the basis of material valuation uncertainty in line with current industry practice. The balance of pension assets invested in property amounts to £55.1m, which represents 3% of total pension assets. The aggregate surplus of the defined benefit plans is sufficient to cover the loss, if any, on the long term value of property assets.

Refer to note 25 for further details and sensitivity information.

Notes to the financial statements
For the year ended 31 March 2020

4. Segmental reporting

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

Revenue from its five largest customers amounted to £86.6m, £71.9m, £67.9m, £58.6m and £44.0m (2019: £92.9m, £71.3m, £67.8m, £64.4m and £54.3m).

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

5. Operating expenses

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

	2020 £m	2019 £m
Employee costs (note 10)	**38.2**	36.4
Depreciation (note 6)	**78.9**	75.7
Amortisation of intangible assets (note 6)	**1.4**	1.0
Amortisation of customer contributions (note 6)	**(17.9)**	(17.8)
Property rates	**34.5**	35.7
Other operating expenses	**63.4**	68.2
Operating expenses	**198.5**	199.2

6. Operating profit

	2020 £m	2019 £m
Operating profit is stated after charging/(crediting):		
Depreciation*	**78.9**	75.7
Amortisation of intangible assets	**1.4**	1.0
Rent expense**:		
Plant, machinery and equipment	**1.3**	1.7
Land and buildings	**1.2**	1.3
Amortisation of customer contributions	**(17.9)**	(17.8)
Auditor's remuneration***:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.3**	0.3
Non audit fee	**-**	-

* Depreciation of fixed assets is stated net of depreciation capitalised of £10.5m (2019: £10.4m) in respect of equipment consumed during the construction of the electricity network. Depreciation includes depreciation on right-of-use-assets amounting to £0.3m.

** Rent expense pertains to short term and low value leases (refer note 21).

*** Audit fees are included within operating expenses.

Notes to the financial statements

For the year ended 31 March 2020

7. Net interest

	2020 £m	2019 £m
Interest receivable		
Interest on loans to other WPD undertakings	**(0.1)**	(0.4)
Other	**(0.5)**	-
Total interest receivable	**(0.6)**	(0.4)
Interest payable		
Interest payable on bank loans and overdrafts	**0.8**	1.3
Interest payable on loans from other WPD undertakings	**0.1**	0.2
Interest payable on other loans	**73.1**	68.5
Interest payable on lease liabilities	**0.1**	-
Less: interest capitalised	-	(1.9)
Total interest payable	**74.1**	68.1
Net interest expense	**73.5**	67.7

Interest in 2020 was capitalised at a rate of 2.2% (2019: 2.4%), based on the yield on the Company's borrowings.

8. Tax

Tax charged to the profit and loss account:

	2020 £m	2019 £m
Current tax:		
UK corporation tax on profits for the year (see below)	**28.5**	23.0
Adjustment in respect of prior years	**(0.2)**	(0.2)
Deferred tax (note 23):		
Origination and reversal of temporary differences	**14.9**	18.0
Impact of tax rate change	**22.9**	(0.4)
Adjustment in respect of prior years	-	0.1
Tax expense in the profit and loss account	**66.1**	40.5

8. Tax (continued)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2019: 19%) as follows:

	2020	2019
	£m	£m
Profit before tax	**255.4**	239.2
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	**48.5**	45.4
Effects of:		
Expenses not deductible and income not taxable for tax purposes	**(0.1)**	(0.1)
Group relief received at non-standard rates	**(5.0)**	(4.3)
Impact of tax rate change	**22.9**	(0.4)
Adjustments to tax charge in respect of prior years	**(0.2)**	(0.1)
Total tax expense reported in the profit and loss account	**66.1**	40.5

The total tax expense as a percentage of profit before tax gives an effective tax rate of 25.9% (2019: 16.9%) compared to the standard rate of 19% (2019: 19%) due to the effects of the items stated above. Expenses not deductible and income not taxable have been netted off as individually they are not material. Currently tax losses surrendered to the Company ("group relief") by PPL affiliates not owned by the immediate parent undertaking are not paid for and therefore the Company benefits by the tax value of these losses. The impact of the tax rate change in the current year is 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 are expected to reverse and in the prior year was due to the lower tax rate being used in the deferred tax calculations (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.

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

	2020	2019
	£m	£m
Deferred tax:		
On cash flow hedges	**(3.8)**	(0.4)
On re-measurement of pension liabilities	**16.4**	6.6
Total tax charge in the statement of other comprehensive income	**12.6**	6.2

8. Tax (continued)

UK corporation tax on profits for the year

The calculation of the amount of UK corporation tax payable on profits for the year is determined by tax legislation. The starting point for the calculation is the profit before tax shown in the profit and loss account and adjustments required by the legislation are made to arrive at the profit chargeable to corporation tax. The calculation of the amount of corporation tax expected to be paid for the year is shown below. The actual amount payable will be determined following further detailed analysis at the time when the tax return for the year is filed with HMRC.

	2020 **£m**	2019 £m
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	**48.5**	45.4
Adjustments:		
Depreciation and amortisation (note i)	**(5.8)**	(9.9)
Pensions (note ii)	**(9.0)**	(7.6)
Other timing adjustments (note iii)	**-**	(0.3)
Other adjustments (note iv)	**(0.2)**	(0.3)
Corporation tax payable on profits before group relief	**33.5**	27.3
Group relief (note v):		
Losses received from other group companies payable at standard rate	**(0.5)**	(0.9)
Losses received from other group companies for free	**(5.0)**	(4.3)
Corporation tax payable on profits after group relief	**28.0**	22.1

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

Corporation tax payable to HMRC	**28.0**	22.1
Group relief payable to other group companies	**0.5**	0.9
	28.5	23.0

8. Tax (continued)

UK corporation tax on profits for the year (continued)

(i) Expenditure on tangible and intangible assets (net of related customer contributions) is initially recorded on the balance sheet and then depreciated or amortised over the useful economic lives of the assets. Tax deductions are not allowed for the depreciation or amortisation, except to the extent that the expenditure is regarded as maintaining or replacing part of an asset, and instead tax deductions are given for eligible expenditure at the rates prescribed by tax legislation ("capital allowances").

(ii) The expense of providing pensions to employees is deductible from taxable profits at the time when contributions are paid into the pension schemes and not when the expense is charged to the profit and loss account. As a proportion of the pension expense is capitalised (see note 10), the deduction for contributions paid in a year is greater than the expense in the profit and loss account.

(iii) Adjustments are required for the timing of other deductions. These include interest capitalised (see note 7) and employee benefit expense (see note 10). A proportion of interest expense is included in tangible fixed asset additions, but the tax legislation provides for this expense to be deducted against profits for the year. Contrary to this, a deduction for employee benefit expense must be deferred until the year of payment if the payment is not made within nine months of the year end.

(iv) Other adjustments are required for costs that are not deductible, such as legal fees relating to certain property transactions, and non-taxable income, such as dividends received from investments that have already paid tax on their income. In addition, the profit or loss on disposal of tangible fixed assets shown in the profit and loss account is not taxable or deductible and is instead replaced with a gain or loss calculated in accordance with tax legislation.

(v) The tax legislation allows a company that incurs a loss to surrender it to other companies within the same group to deduct from their taxable profits. Payment may be made up to the value of the loss without tax consequence.

Change in corporation tax rate

The Finance Act 2016 reduced the standard rate of corporation tax to 17% from 1 April 2020 and as this rate was enacted at 31 March 2019 it was used in the prior year to calculate the provision for deferred tax with respect to those temporary differences that were expected to reverse after the effective date. This rate reduction has been reversed by the Finance Bill 2020 and the rate will remain at 19% for the foreseeable future. This was substantively enacted on 17 March 2020 and the rate change has been reflected in the calculation of deferred tax for the current year.

9. Dividends

	2020 **£m**	2019 £m
Dividends on equity shares:		
Interim dividends - 12.8 pence per share (2019: 5.9 pence)	**64.7**	30.0

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

10. Employee benefit expense

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

	2020 **£m**	2019 £m
Wages and salaries	**103.7**	98.5
Social security costs	**11.8**	11.5
Pension costs	**18.1**	17.4
Total employee costs	**133.6**	127.4
Less allocated to capital expenditure	**(95.4)**	(91.0)
Charged to the profit and loss account	**38.2**	36.4

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

The average number of employees in the year was 1,883 (2019: 1,891). All employees work for the network distribution activity. This includes a proportion of other WPD DNO staff who work in part for WPD East Midlands and excludes a proportion of WPD East Midlands staff who work in part for other WPD DNOs.

11. Directors' emoluments

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

	Highest paid director		**Total**	
	2020	2019	**2020**	2019
WPD Group	**£000**	£000	**£000**	£000
The emoluments of the executive directors comprised:				
Base salary (note i)	**423**	465	**1,266**	1,520
Performance dependent bonus (note ii)	**316**	360	**820**	1,271
Pension compensation allowance (note iii)	**217**	212	**374**	363
Sub-total directors' remuneration	**956**	1,037	**2,460**	3,154
Long term incentive plan (note iv)	**749**	481	**1,435**	988
Fees to the independent non executive directors (notes v, vi)	-	-	**100**	100
Other (note vii)	-	-	-	9,400
	1,705	1,518	**3,995**	13,642

(i) Base salary also includes benefits in kind.

(ii) The amount of the annual bonus is based on WPD's financial performance, the reliability of the electricity network, and other factors.

(iii) As a result of changes in tax applicable to UK pensions, two of the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 25). Thus WPD no longer contributes for ongoing service to the ESPS in respect of these executive directors. Instead and subject to their service contract, WPD pays cash compensation to them individually equivalent to the value of WPD’s contribution into the ESPS that would have been made had they remained active members (as determined by external actuaries). The remaining two executive directors are accruing ESPS service and WPD is contributing for ongoing service.

(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 were granted new options in either year; none of the executive directors exercised options (2019: two). In addition, the executive directors receive annually a grant of PPL Corporation shares which cannot generally be accessed for 3 years; the pay-out value of some 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 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 (2019: five) were members of the defined benefit ESPS.

(vii) Following the passing of WPD's previous Chief Executive officer in November 2018, based on contractual obligations, an accrual of £9.4m was booked in the prior year with payment to the estate made in the current year in relation to death in service benefit.

12. Tangible fixed assets

	Non network land & buildings £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
Cost					
At 1 April 2019	0.9	5,535.1	82.1	29.7	5,647.8
Additions	-	283.6	8.8	3.9	296.3
Disposals and retirements	-	-	(11.0)	(1.0)	(12.0)
At 31 March 2020	0.9	5,818.7	79.9	32.6	5,932.1
Depreciation					
At 1 April 2019	0.2	1,375.7	40.8	15.5	1,432.2
Charge for the year	0.1	75.3	10.2	3.5	89.1
Disposals and retirements	-	-	(11.0)	(0.6)	(11.6)
At 31 March 2020	0.3	1,451.0	40.0	18.4	1,509.7
Net book value					
At 31 March 2020	**0.6**	**4,367.7**	**39.9**	**14.2**	**4,422.4**
At 31 March 2019	0.7	4,159.4	41.3	14.2	4,215.6

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

	2020 £m	2019 £m
Freehold	**199.2**	255.6

Included within the Company's fixed assets is land at a cost of £108.5m (2019: £97.0m).

Included within the Company's distribution network and vehicles & mobile plant are assets in the course of construction amounting at 31 March 2020 to £44.0m (2019: £32.5m).

Included in additions are staff costs of £95.4m (2019: £91.0m).

13. Right-of-use-assets

	Land & buildings £m	Radio sites £m	Total £m
Opening - transition at 1 April 2019	2.5	0.1	2.6
Depreciation	(0.3)	-	(0.3)
At 31 March 2020	**2.2**	**0.1**	**2.3**

Lease liabilities and the corresponding right-of-use-assets have been recognised on the balance sheet due to transition to the new IFRS 16 "Leases" effective for the Company from 1 April 2019.

14. Intangible assets

	Computer software £m
Cost	
At 1 April 2019	10.5
Additions	2.6
At 31 March 2020	13.1
Amortisation	
At 1 April 2019	2.6
Charge for the year	1.4
At 31 March 2020	4.0
Carrying amount	
At 31 March 2020	**9.1**
At 31 March 2019	7.9

15. Stocks

	2020 £m	2019 £m
Raw materials and consumables	**18.9**	11.2
Work in progress	**0.2**	0.1
	19.1	11.3

Stock comprises of critical items ordered in bulk in response to risk of any potential inventory shortage due to Brexit.

The cost of stocks recognised as an expense during the year was £3.1m (2019: £3.6m).

The cost of stocks recognised as an expense includes £0.5m (2019: £0.2m) in respect of write downs of stocks to net realisable value and has been reduced by £nil (2019: £0.2m) in respect of reversal of such write downs.

16. Trade and other receivables

	2020 £m	2019 £m
Current receivables		
Trade receivables	**80.9**	76.1
Amounts owed by other WPD undertakings	**3.7**	23.1
Accrued income	**2.0**	2.9
Prepayments	**2.0**	2.1
Total current receivables	**88.6**	104.2
Non-current receivables		
Other receivables	**0.5**	0.6
Total trade and other receivables	**89.1**	104.8

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

The impact of COVID-19 on ECL has been assessed and is not considered to be 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 Distribution Connection Use of System Agreement, thus minimising any potential credit risk to the Company. Further, since mid-March 2020 no material slowdown in receipts has been noted.

17. Cash at bank and in hand

	2020	2019
	£m	£m
Cash at bank	**2.0**	2.5
Short-term bank deposits	**106.6**	-
Cash at bank and in hand	**108.6**	2.5

Short-term bank deposits comprise the cash remaining unutilised from the long term debt issuance during the year. The cash is held in a mixture of deposit accounts and sterling liquidity funds, earning interest of between 0.49% and 0.73%.

At 31 March 2020, the Company had available £300.0m (2019: £209.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates.

Included in cash and short-term bank deposits are restricted amounts totalling £1.8m (2019: £2.3m) which are not readily available for the general purposes of the Company. The restrictions relate to cash balances that can only be used for Low Carbon Network Fund projects.

For the purposes of the cash flow statement, cash at bank and in hand comprise the following at 31 March:

	2020	2019
	£m	£m
Cash at bank and in hand (from above)	**108.6**	2.5

18. Creditors

	2020	2019
	£m	£m
Amounts falling due within one year:		
Short-term borrowing	**-**	90.5
Payments received on account	**59.2**	60.2
Trade creditors	**13.0**	16.8
Amounts owed to other WPD undertakings	**5.6**	10.2
Current tax payable	**0.9**	10.5
Other taxation and social security	**17.1**	17.8
Other creditors	**18.1**	15.3
Deferred contributions	**17.8**	17.8
Accruals and deferred income	**54.1**	41.4
	185.8	280.5

The current tax payable balance includes group relief payable.

Amounts falling due after more than one year:		
Deferred contributions	**1,021.2**	982.4
Unsecured borrowings repayable:		
£250m 6.25% bonds 2040	**245.8**	245.6
£700m 5.25% bonds 2023	**700.8**	701.1
£140m 2.671% indexed linked bonds 2043	**207.1**	203.9
£105m 1.676% indexed linked bonds 2052	**136.2**	133.4
£100m 0.4975% indexed linked bonds 2026	**111.3**	108.4
£250m 1.75% bonds 2031	**245.5**	-
	2,667.9	2,374.8

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

Unsecured borrowings are stated net of unamortised issue costs of £4.9m (2019: £4.1m) and discount on issue of £7.0m (2019: £4.2m), and gross of premium on issue of £50.1m (2019: £52.9m). These costs, together with the interest expense, are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount. Interest on bonds is paid semi-annually or annually.

19. Net debt

	2020 £m	2019 £m
Short-term borrowings	**-**	90.5
Long-term borrowings	**1,646.7**	1,392.4
Lease liabilities	**2.3**	-
Amounts owed to other WPD undertakings	**5.6**	10.2
Less: Cash at bank and in hand	**(106.8)**	(0.2)
Net debt	**1,547.8**	1,492.9

Reconciliation of cash flows to net debt	**2020** £m	2019 £m
Net (increase)/decrease in cash and cash equivalents	**(106.6)**	1.4
Net decrease in short-term borrowings	**(90.5)**	(39.5)
Net decrease in amounts owed to other WPD undertakings	**(4.6)**	(8.7)
Payment of lease liabilities	**(0.3)**	-
Change in debt resulting from cash flows	**(202.0)**	(46.8)
Net increase in borrowings due to indexation	**10.7**	9.8
Amortisation of premiums, discounts and issue costs	**(1.7)**	(1.9)
Leases acquired/(terminated) during the year	**2.5**	-
Net increase in long-term borrowings	**245.3**	-
Interest expense on leases	**0.1**	-
Movement in net debt in the year	**54.9**	(38.9)
Net debt at beginning of year	**1,492.9**	1,531.8
Net debt at end of year	**1,547.8**	1,492.9

20. Derivative financial instruments

As at 31 March 2020 the Company held the following derivative financial instruments measured at fair value:

	2020			2019		
	Assets £m	**Liabilities** £m	**Total** £m	Assets £m	Liabilities £m	Total £m
Forward starting interest rate swap						
Current	**-**	**-**	**-**	0.1	(2.8)	(2.7)

As at 31 March 2020 the Company had no forward starting interest rate swap agreements. The forward starting interest rate swaps entered into in 2019 were cashed out in the year when the Company issued a £250m loan note (see note 18).

21. Lease liabilities

	£m
At 1 April 2019	**2.5**
Payments during the year	**(0.3)**
Interest expense	**0.1**
At 31 March 2020	**2.3**
of which	
Current	**0.3**
Non-current	**2.0**

WPD East Midlands leases various properties including land for substations and radio sites and also radio site towers under non-cancellable lease arrangements. The leases have various terms, escalation clauses and renewable rights. Lease terms and rentals to be paid during the lease term are defined within the agreement. In some cases, lease rentals may be subject to a rent review on dates specified within the agreement at the then prevailing market rate.

Short term leases and low value leases are excluded from recognition on balance sheet. The amount of expense charged to rent expense pertaining to short term leases amounts to £2.3m and pertaining to low value leases amounts to £0.2m.

Lease liabilities and the corresponding right-of-use-assets have been recognised on the balance sheet due to transition to the new IFRS 16 "Leases" effective for the Company from 1 April 2019.

22. Reconciliation of changes in liabilities arising from financing activities

	2020	2019
	£m	£m
Borrowings	**1,646.7**	1,482.9
Lease liabilities	**2.3**	-
Gross debt	**1,649.0**	1,482.9

22. Reconciliation of liabilities arising from financing activities (continued)

Change in liabilities arising from financing activities

	2020 £m	2019 £m
Proceeds from long-term borrowings	**245.3**	**-**
Repayments of short-term borrowings	**(90.5)**	**(39.5)**
Payment of lease liabilities	**(0.3)**	-
Change in liabilities arising from financing cash flows	**154.5**	**(39.5)**
Net increase in borrowings due to indexation	**10.7**	9.8
Amortisation of premiums, discounts and issue costs	**(1.7)**	(1.9)
Leases acquired/(terminated) during the year	**2.5**	-
Interest expense on leases	**0.1**	**-**
Movement in gross debt in the year	**166.1**	(31.6)
Gross debt at beginning of year	**1,482.9**	1,514.5
Gross debt at end of year	**1,649.0**	1,482.9

23. Deferred tax

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

	Accelerated capital allowances £m	Retirement benefit obligations £m	Other £m	**Total £m**
At 1 April 2018	182.1	(7.6)	(3.1)	**171.4**
Charge to the profit and loss account	12.4	5.1	0.1	**17.6**
Charge to equity	**-**	6.6	(0.4)	**6.2**
At 1 April 2019	194.5	4.1	(3.4)	**195.2**
Charge to the profit and loss account	31.9	6.5	(0.6)	**37.8**
Charge to equity	**-**	16.4	(3.7)	**12.7**
At 31 March 2020	**226.4**	**27.0**	**(7.7)**	**245.7**

23. Deferred tax (continued)

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:

	2020	2019
	£m	£m
Deferred tax liabilities	**254.2**	199.2
Deferred tax assets	**(8.5)**	(4.0)
Provision for deferred tax at 31 March	**245.7**	195.2

The net deferred tax liability due after more than one year is £248.8m (2019: £198.4m).

24. Provisions for liabilities

	Deferred taxation (note 23) £m	Asset retirement obligations £m	Other £m	Total £m
At 1 April 2019	195.2	12.3	1.9	209.4
Arising during the year	50.5	2.7	-	53.2
Utilised during the year	-	(0.5)	(0.2)	(0.7)
At 31 March 2020	**245.7**	**14.5**	**1.7**	**261.9**

Asset retirement obligations ("ARO") relate to an estimate of the costs of dismantling and removing items of property, plant and equipment at the end of their useful lives and are expected to be settled over the next 70 years.

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

Other provisions at 31 March 2020 substantially relate to uninsured losses and an expected settlement of liabilities relating to the Electricity Association Technology Limited ("EATL") of £1.0m relating primarily to a pension deficit relating to that company. The liability in respect of the EATL is being settled over a period of approximately nine years; the directors expect the remaining provisions to be settled within the next two years.

25. Pension commitments

Electricity Supply Pension Scheme ("ESPS")

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

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

25. Pension commitments (continued)

Electricity Supply Pension Scheme ("ESPS") (continued)
The asset or liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries, Aon Hewitt Limited, using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

The scheme is a funded, defined benefit, final salary and cash balance pension plan. The level of benefits provided for final salary members (who make up the majority of the scheme) depends on members' length of service and their salary at their date of leaving the Company. The majority of pensions in payment receive inflationary increases in line with the RPI (Retail Prices Index) inflation (subject to caps and collars, as appropriate). The benefit payments are from trustee-administered funds. The amount of contributions to be paid is decided jointly by the employer and the Trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The scheme's investment strategy is decided by the Trustees, in consultation with the employer. The Board of Trustees must be composed of representatives of the employer and plan participants in accordance with the scheme's legal documentation.

The net defined benefit cost and net surplus or deficit of the plan have been allocated to WPD East Midlands and WPD West Midlands in accordance with pensionable salaries, currently 46.2% to WPD East Midlands (2019: 46.4%). The figures below show the proportion allocated to WPD East Midlands.

The Company also has an unfunded liability in respect of previous executives.

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

	2020	2019
	£m	£m
Present value of obligations	**1,507.7**	1,634.8
Fair value of plan assets	**(1,654.1)**	(1,663.3)
Surplus of funded plan	**(146.4)**	(28.5)
Unfunded pension obligation (not part of ESPS)	**3.3**	3.6
Total pension asset	**(143.1)**	(24.9)

The regulator, Ofgem, currently allows ongoing service costs and a proportion of the deficit costs to be recovered through regulated income.

25. Pension commitments (continued)

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

Analysis of the amount charged to profit before interest and taxation or to capital expenditure:

	2020 £m	2019 £m
Current service cost	**15.0**	14.6
Administrative costs	**1.0**	0.8
Past service cost and gains and losses on settlements*	**-**	3.2
Operating charge relating to defined benefit plan	**16.0**	18.6
Interest income on plan assets	**(39.0)**	(40.0)
Interest on plan liabilities	**38.0**	40.5
Interest on unfunded liabilities	**0.1**	0.1
Other finance (income)/expense	**(0.9)**	0.6

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

Analysis of the amount recognised in other comprehensive income:

	2020 £m	2019 £m
Loss/(gain) on plan assets excluding amounts included in interest income	**20.0**	(73.1)
Gain from change in demographic assumptions	**-**	(60.9)
(Gain)/loss from change in financial assumptions	**(112.6)**	89.6
Experience losses	**8.2**	7.1
MEPS DC bulk transfer**	**0.5**	-
Change in percentage allocation rate	**0.2**	(0.2)
Re-measurement gains recognised in other comprehensive income	**(83.7)**	(37.5)

25. Pension commitments (continued)

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

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

	Year ended 31 March 2020			Year ended 31 March 2019		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	**1,634.8**	**(1,663.3)**	**(28.5)**	1,596.7	(1,560.2)	36.5
Current service cost	**15.0**	**-**	**15.0**	14.6	-	14.6
Administrative cost	**1.0**	**-**	**1.0**	0.8	-	0.8
Interest expense/(income)	**38.0**	**(39.0)**	**(1.0)**	40.5	(40.0)	0.5
Past service cost and gains and losses on settlements*	**-**	**-**	**-**	3.2	-	3.2
	54.0	**(39.0)**	**15.0**	59.1	(40.0)	19.1
Re-measurements:						
Loss/(gain) on plan assets excluding amounts included in interest income	**-**	**20.0**	**20.0**	-	(73.1)	(73.1)
Gain from change in demographic assumptions	**-**	**-**	**-**	(60.9)	-	(60.9)
(Gain)/loss from change in financial assumptions	**(112.6)**	**-**	**(112.6)**	89.6	-	89.6
Experience losses	**8.2**	**-**	**8.2**	7.1	-	7.1
Change in percentage allocation rate	**(7.3)**	**7.5**	**0.2**	10.4	(10.6)	(0.2)
	(111.7)	**27.5**	**(84.2)**	46.2	(83.7)	(37.5)
Contributions:						
Employer	**-**	**(49.2)**	**(49.2)**	-	(46.6)	(46.6)
Plan participants	**2.6**	**(2.6)**	**-**	2.5	(2.5)	-
	2.6	**(51.8)**	**(49.2)**	2.5	(49.1)	(46.6)
Payments from plan:						
Benefit payments	**(69.6)**	**69.6**	**-**	(68.9)	68.9	-
Administrative costs	**(1.0)**	**1.0**	**-**	(0.8)	0.8	-
MEPS DC bulk transfer**	**(1.4)**	**1.9**	**0.5**	-	-	-
	(72.0)	**72.5**	**0.5**	(69.7)	69.7	-
Liability/(asset) at 31 March	**1,507.7**	**(1,654.1)**	**(146.4)**	1,634.8	(1,663.3)	(28.5)

* Following the High Court ruling in October 2018, a Guaranteed Minimum Pension ("GMP") equalisation is required and various methods are permissible for the same. £3.2m represents the Company's estimate of likely additional pension liabilities using the default Method C2 for equalising for the effect of GMP.

** During the year the MEPS DC section of the scheme has been transferred into WPD's defined contribution scheme.

25. Pension commitments (continued)

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

The significant actuarial assumptions made were as follows:

	2020	2019
RPI inflation	**2.60**	3.15
CPI inflation	**2.00**	2.05
Rate of general long-term salary increases	**3.10**	3.65
RPI-linked pension increases (with 5% cap)	**2.60**	3.10
Post-88 GMP pension increases	**1.85**	1.90
Discount rate for scheme liabilities	**2.31**	2.36

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 mortality assumptions. These assumptions translate into an average life expectancy in years for a member at age 60:

	31 March 2020	31 March 2019
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**	25.8
Life expectancy for a female currently aged 60	**27.9**	27.9
Life expectancy at 60 for a male currently aged 40	**26.7**	26.6
Life expectancy at 60 for a female currently aged 40	**28.8**	28.8

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

	Change in assumption %	Impact on defined benefit obligation £m
Discount rate	-/+0.50%	+127.9 / -115.2
RPI inflation	+/-0.50%	+119.7 / -101.6
Life expectancy	+ 1 year	67.0

The above sensitivity analysis on the discount rate is based on a change in that assumption while holding all other assumptions constant. The change in RPI inflation assumption impacts on the salary increases, CPI assumption, revaluation in deferment and pension increase assumptions. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised in the balance sheet.

25. Pension commitments (continued)

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

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

	31 March 2020		31 March 2019	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Global equities	**272.8**	**-**	307.4	-
Global credit	**41.2**	**-**	47.2	-
Property (i)	**55.1**	**55.1**	58.4	58.4
Macro-orientated	**100.6**	**100.6**	178.0	178.0
Multi strategy	**367.1**	**-**	315.4	-
LDI strategy	**760.8**	**-**	708.4	-
Other including cash and net current assets	**56.5**		48.5	
Total	**1,654.1**	**155.7**	1,663.3	236.4

(i) Due to the COVID-19 outbreak, there is some uncertainty in respect of property valuations and fair values by independent valuers, in line with current market practice, have been reported on the basis of material valuation uncertainty. However, as is evident in the table above, property assets represent a small fraction of total scheme assets and the aggregate surplus of the defined benefit plan is sufficient to cover the loss, if any, on the long term value of property assets. The sensitivity of the fair value of plan assets to change in valuation of property assets is as follows:

	Change in assumption %	Impact on fair value of planned assets £m
Fair value of property assets	- 10 %	(11.2)
Fair value of property assets	- 15 %	(16.7)

There is no self-investment in the Scheme.

Through its defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (e.g. equities) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the scheme's long-term objectives.

25. Pension commitments (continued)

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

Change in bond yields	A decrease in corporate bond yields will increase the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The scheme uses government bonds, corporate bonds and cash as matching assets. The remainder of the assets are used as growth assets.

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

The current agreed employer contributions are 27.9% per annum of pensionable salaries from 1 April 2020 to 31 March 2023 and 37.0% per annum of pensionable salaries thereafter in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits, plus an additional £0.8m per annum in respect of expenses. Company deficit contributions are £37.0m from 1 April 2020 to 31 March 2021 and £16.6m per annum payable from 1 April 2021 to 31 July 2024.

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 to the Scheme for the year ending 31 March 2021 are £48.5m.

The results of the actuarial funding valuation as at 31 March 2022 may give rise to a revised schedule of contributions and as such the quantities above may be liable to change.

The weighted average duration of the defined benefit obligation is around 16 years.

Other scheme

WPD also operates a defined contribution scheme. The assets of the scheme are held separately from those of WPD in an independent fund administered by the scheme trustee. The scheme has two sections and the following relates to the WPD Group as a whole:

(a) a closed section with no active members. All of the active members in this scheme have transferred to the ESPS. At 31 March 2020 there were 198 members with deferred benefits in the scheme (2019: 199) and 4 pensioners (2019: 5). Market value of the assets was £1.9m (2019: £2.1m).

(b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2020 there were 4,058 members (2019: 3,767). The market value of the assets of the open section of the scheme was £97.0m (2019: £89.2m). Employer contributions to the scheme across WPD amounted to £9.7m in the year (2019: £8.6m).

26. Authorised and issued share capital

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
506,128,706 ordinary shares of 56 9/11 pence each	**287,573,128**	287,573,128

27. Reserves

	Share premium account £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2018	46.2	(4.3)	972.1
Profit for the financial year	-	-	198.7
Dividends paid	-	-	(30.0)
Net movement on cash flow hedges (net of tax)	-	(1.8)	-
Actuarial losses on defined benefit pension plan (net of tax)	-	-	31.1
At 31 March 2019	46.2	(6.1)	1,171.9
Profit for the financial year	-	-	189.3
Dividends paid	-	-	(64.7)
Net movement on cash flow hedges (net of tax)	-	(15.8)	-
Actuarial gains on defined benefit pension plan (net of tax)	-	-	67.4
At 31 March 2020	**46.2**	**(21.9)**	**1,363.9**

The share premium account arose on the issue of shares under share option schemes prior to acquisition together with the issue of shares to the Company's parent for cash since acquisition.

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 profit and loss account over the term of the bond.

28. Contingent liabilities

Legal proceedings

WPD East Midlands is party to various legal claims, actions and complaints. Although WPD East Midlands is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on WPD East Midlands' financial statements.

29. Commitments

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

	2020	2019
	£m	£m
Tangible fixed assets	**17.2**	10.0

30. Events after the reporting period

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

Subsequent to the year end the COVID-19 situation continues to unfold. We have outlined our detailed response to COVID-19 and the impacts of COVID-19 on the Company in the Strategic report. The impact of COVID-19 on our liquidity and going concern have been discussed in detail in the Directors' report.

In June 2020, in response to the cash flow implications of COVID-19 on electricity suppliers, Ofgem, in conjunction with the Energy Networks Association ("ENA"), developed a payment deferral scheme in order to provide relief to cash flow constrained suppliers. The scheme is limited to suppliers without an investment grade credit rating, i.e. those suppliers that have fewer alternative options for securing financing, and is considered as a last resort option should other financing routes be unavailable. Under the scheme, suppliers can request an extended period for payment of monthly network charges without any additional security. The deferred payments would accrue interest at the default rates set out in the relevant industry codes and will be required to be repaid by 31 March 2021 and prior to any payment of dividends or executive bonuses by the suppliers. The Company does not anticipate this deferral scheme to have a material impact on the Company's ECL. The impact, if any, would pertain to the timing of cash receipts over the next 12 months and has been taken into consideration in determining going concern.

31. Ultimate parent undertaking

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

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

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 its accounts may be obtained from its registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

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