Registered Number: 02366985

WESTERN POWER DISTRIBUTION (SOUTH WALES) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2021

Western Power Distribution (South Wales) plc

Contents

Strategic report

For the year ended 31 March 2021

The directors present their annual report and the audited financial statements of Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales"), company number 02366985, for the year ended 31 March 2021.

Ownership

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

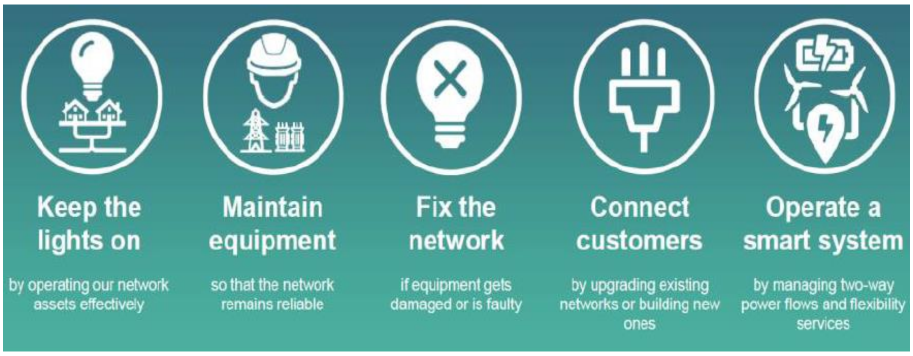
On 18 March 2021, PPL announced that it has reached an agreement to sell its UK investment, which includes Western Power Distribution plc, to National Grid Plc. This announcement follows the decision by PPL's Board of Directors to strategically reposition PPL as a U.S.-focused energy business. The transaction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

Business model

WPD South Wales is an electricity Distribution Network Operator ("DNO"), delivering electricity to approximately 1.1 million (2020: 1.1 million) customers over an area of 11,800 square kilometres in South Wales and employing 1,033 (2020: 1,034) staff.

Our 1.1 million customers are registered with licensed electricity suppliers, who in turn pay WPD South Wales for distributing electricity across its network. Our costs are regulated and based on an agreed allowance by Office of Gas and Electricity Markets ("Ofgem"); on average GB customers pay £93 per annum (in 2019/20 real prices) (2020: £90 per annum in real 2018/19 price terms) for electricity distribution costs.

Our main responsibilities are:



WPD South Wales' network comprises approximately 18,000 km (2020: 18,000 km) of overhead lines, 18,000 km (2020: 18,000 km) of underground cable and 41,000 (2020: 41,000) transformers. In 2020/21 WPD South Wales distributed 1,861 (2020: 1,851) megawatts of electricity.

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

Group background

Western Power Distribution plc is the parent of a group ("WPD Group" or "WPD") 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.

Strategic report (continued)

For the year ended 31 March 2021

Group background (continued)

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

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

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

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

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

Our RIIO-ED1 business plan is available at the link below:
https://yourpowerfuture.westernpower.co.uk/our-future-business-plan/our-riioed1-business-plan

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

Purpose, strategy and goals

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

Our strategic direction is essential to achieving our purpose and entails providing excellent network and customer service, delivering our RIIO-ED1 commitments by investing our allowances efficiently, adapting to stakeholder needs and laying the foundation for delivery of the outputs within RIIO-ED2.

Adapting to change and investing in innovation is core to our strategic direction and an integral part of what we do; we are used to adopting technological innovation to create a more cost effective electricity network. The transition to a Distribution System Operator ("DSO") will help the Company to be ready for future challenges. Through the implementation of our DSO Transition Programme, we are building on our Future Networks Programme to ensure that our network, and our business, has the capacity to deliver all the emerging system requirements our customers have, both now and in the future.

Purpose, strategy and goals (continued)

As a result of the changing energy landscape, we have adopted flexible power as business as usual. We have adapted our network, traditionally designed for 14GW of demand, so that it can now accept a total of 24.8GW of embedded generation. Although the majority of this capacity has been provided through flexible connections, we have also contracted for 440MW as at 31 March 2021 of customer provided flexibility services as the most efficient method. In addition, the WPD Group's digitalisation strategy is the first step towards moving from a legacy analogue system to a modern, digitalised energy system. Digitalisation is critical to enable the Company's transition to build a smart and efficient energy system that supports our commitment to net zero carbon emissions while keeping the lights on.

Our 76 commitments within the RIIO-ED1 business plan fall within the following 6 categories; safety, reliability, environment, connections, customer satisfaction and social obligations. Looking beyond RIIO-ED1, we have combined our commitments into three core output categories for RIIO-ED2 and they are as follows:

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

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

Safety

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

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

WPD South Wales's 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. WPD has engaged NQA to undertake an external audit of its Safety Management System as part of its proposed plan to transition from OHSAS 18001 to ISO 45001 in 2021.

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

Our detailed safety policy can be found at:
https://www.westernpower.co.uk/customers-and-community/health-safety

Network performance & security

WPD South Wales is committed to providing a secure, reliable and continuous network connection to its customers. Our network is available 99.999% of the time. We not only look at the physical security aspects of the network but also at preventing any cyber breach incidents. WPD South Wales 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.

Purpose, strategy and goals (continued)

Financial stability

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

Environment

WPD South Wales 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. During RIIO-ED1, we have committed to achieve various environmental improvements throughout our business such as a reduction in our carbon footprint and in the leaks from our equipment. For RIIO-ED2, we believe it is our fundamental responsibility to go further and help achieve the Government's net zero carbon target.

Every member of staff is made aware of 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.

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

More detailed information on our environmental 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. Our aim is 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 are:

- Customers

WPD South Wales 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. Our portion of an average domestic electricity bill is around 17% (2019/20: 17%), charged by suppliers. We are planning to keep this broadly at the same level in RIIO- ED2.

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

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

Purpose, strategy and goals (continued)

Stakeholder value and engagement (continued)

- Employees

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

Equality of opportunity is key to WPD South Wales's approach to hiring, training and promoting employees. WPD South Wales acknowledges the value that a diverse workforce brings to the organisation. We have an established Equality and Diversity policy demonstrating our clear commitment to empowering an inclusive workplace that offers equal treatment of all existing and future employees and is free from unfair and discriminatory employment practices. During the current year, a new training programme in relation to diversity and inclusion has also been launched.

For more information on our commitment to equality and diversity, refer to our website at:
https://careers.westernpower.co.uk/category/why-join-us/equality-and-diversity

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 South Wales maintains open and positive communication with all suppliers and contractors and treats them fairly, evenly and with honesty.

- Regulators

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

WPD has a significant role to play in supporting the Government's move to deliver a net zero carbon economy by 2050. WPD is engaging with Ofgem, to help develop the next price control framework which contains the right customer focused outputs and economic incentives to help deliver the Government's objective.

WPD continues to promote transparency of performance and returns. WPD's Regulatory Financial Performance Reporting ("RFPR") provides clarity on our financial and operational performance from a regulatory perspective, including WPD's performance against incentives under the RIIO price control arrangements, and the RoRE earned for the period. Our latest RFPR can be found on our website at the link below:
https://yourpowerfuture.westernpower.co.uk/our-future-business-plan/regulatory-financial-performance-reporting-rfpr

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

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

Purpose, strategy and goals (continued)

Stakeholder value and engagement (continued)

- Regulators (continued)

- WPD's Chief Executive and Senior Managers meet with key HSE staff throughout the year to discuss matters and, where appropriate, collaborate on strategic Health and Safety issues and initiatives; and
- WPD aligns its internal safety campaigns to the HSE 'Helping Great Britain Work Well' safety message and separately the HSE supported, National HESAC led 'Powering Improvement' H&S programme.

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

- Shareholder

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

Business review

Progress against our plans and commitments in our RIIO-ED1 business plan is actively monitored and each year, a detailed report is published for our stakeholders, which details our progress against the plan targets. We continue to be on track to outperform the majority of these targets as well as simultaneously responding to the changing requirements associated with a smarter, more flexible energy system.

We have reduced the number of customer interruptions and customer minutes lost that customers experience as a result of power cuts and reduced our business carbon footprint. Once again we have achieved excellent ratings for customer satisfaction in the Broad Measure of Customer Satisfaction ("BMCS") with the Company achieving higher scores compared to our 2019/20 performance. This performance is achieved through a strong business ethos of customer service and our efforts are demonstrated by our connections results where we achieved an overall score of 9.18 (2019/2020: 9.11) out of 10 for customer satisfaction.

A comprehensive view of our progress against the full range of commitments made within the Business Plan, including expenditure, can be found on our website at the link below:
https://yourpowerfuture.westernpower.co.uk/performance-reporting-riio-ed1

The majority of our revenue is fixed over the price control period but year on year can vary through under or over recovery as actual energy demand varies against volume forecasts used to set tariffs, as well as other variables such as actual incentive revenues achieved. Our revenue for the year ended 31 March 2021 amounts to £248.0m (2020: £263.6m). In the year, there has been a decline in revenue, mainly attributable to reduced energy demand as a result of the Government's restrictions in response to the Coronavirus ("COVID-19") pandemic. This under recovery of revenue is a regulatory timing difference and will be recovered in financial year ending March 2023.

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

Business review (continued)

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

COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic. Since then, the COVID-19 crisis has presented unprecedented challenges and the role that the Company plays in keeping the lights on for customers has never been more crucial. During the last 12 months, a form of restriction or national lockdown have been in place, impacting electricity demand, operational activities and working locations. Amidst all these restrictions and uncertainties, we have continued to work around the clock, 7 days a week to keep power flowing to our 2.7 million customers across our region, ensuring vital energy reaches homes, hospitals, factories, supermarkets and other essential services.

Impacts on historical performance and year end position

For the year ended 31 March 2021, revenues have been impacted due to a reduced load demand from industrial and commercial customers, slightly offset by an increased demand from domestic customers as a direct result of businesses and the public adhering to government restrictions. The impact of COVID-19 in relation to revenues is estimated to be a reduction of £9.2m, with the highest impact being during the first national lockdown covering April to June 2020. However any impact on revenue is largely a timing issue due to the regulatory regime that ensures that allowed revenue within a price control period is recovered in future years. Due to the sufficient availability of committed financing facilities within the Company, the decline in revenue did not result in any liquidity concerns. For details on the Company's liquidity position and the available headroom in relation to the Company's facilities, refer to page 55 in the Directors' report.

During the first national lockdown, commencing on 23 March 2020, as guided by the regulator, operational work focused on essential activities only. This included fault restoration and repair work, as well as activities of a safety critical nature and critical connection work in support of the response to the COVID-19 pandemic (e.g. connections to care homes, hospitals and other health care facilities, food shops and wholesalers, food production, telecoms and broadband). Subsequent to that, since July 2020, following UK Government advice and industry regulator updates, the Company has resumed the capital operations in relation to non-safety critical capital programmes, subject to appropriate safety measures. Our actual capital related spend during the period of April-July 2020 was £11.2m lower than planned. A reduction in the capital programme during the year resulted in unproductive labour and other costs of £3.2m in the income statement, which would have otherwise been capitalised.

In June 2020, in response to the cash flow implications of COVID-19 on electricity suppliers, Ofgem, in conjunction with the Energy Networks Association Limited ("ENA"), developed a payment deferral scheme in order to provide relief to cash flow constrained suppliers. Under the scheme, suppliers were allowed to request an extended period for payment of monthly network charges without any additional security. The scheme was only applicable for invoices billed during the period June - September 2020. 16 suppliers applied for the scheme and credit was applied to £1.3m. Amount outstanding in respect of the scheme at 31 March 2021 is £0.1m. The impact of COVID-19 on the expected credit loss ("ECL") of the Company is not material. Ofgem regulations allow for full recoverability of credit losses in relation to revenue from providing distribution use of system services ("DUoS"). DUoS debtors are protected, provided certain credit management protocols are performed in accordance with industry standards as governed by the Distribution and Connection Use of System Agreement ("DCUSA"), thus minimising any potential credit risk to the Company on the majority of its trade receivables.

Business review (continued)

COVID-19 (continued)

Impacts on historical performance and year end position (continued)
In relation to the pension schemes, the Company has an overall surplus on its defined benefit schemes amounting to £114.3m (2020: £201.3m). The key assumptions in relation to the measurement of pension liabilities are in relation to discount rates, inflation rates and mortality rates.

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

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

Total pension assets of the Company amount to £1,622.9m (2020: £1,551.1m), of which 96% (2020: 96%) are quoted in an active market and 4% (2020: 4%) are not quoted in an active market. The value of quoted pension assets has increased from £1,490.5m as at 31 March 2020 to £1,562.8m at 31 March 2021. The pension assets that are not quoted in an active market pertain to properties and amount to £60.1m (2020: £60.6m). Based on preliminary asset valuations, the return of pension assets over 12 months to 31 March 2021 have been +9.3% and +0.4% for the Electricity Supply Pension Scheme ("ESPS") and the Western Power Utilities Pension Scheme ("WPUPS") respectively. Despite the pandemic, the Company continues to have a stable pension asset portfolio.

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

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

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

Business review (continued)

COVID-19 (continued)

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

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

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

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

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

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

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

Business review (continued)

COVID-19 (continued)

Establishing a network of support (continued)

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

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

In these challenging times, we recognise our responsibility to assist in managing the impact of COVID-19 on the energy market and therefore supported Ofgem in the scheme to provide relief to the cash flow constrained suppliers. Under the payment deferral scheme, suppliers without an investment grade rating were able to request an extended period of payment of monthly network charges without any additional security. Refer page 7 for details.

Joining the fight against COVID-19

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

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

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

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

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

We were able to develop to join this fight against COVID-19 and establish our network of support without obtaining any available financial assistance from the Government in relation to the pandemic.

For more information on our COVID-19 response, refer to our website at:
https://www.westernpower.co.uk/coronavirus

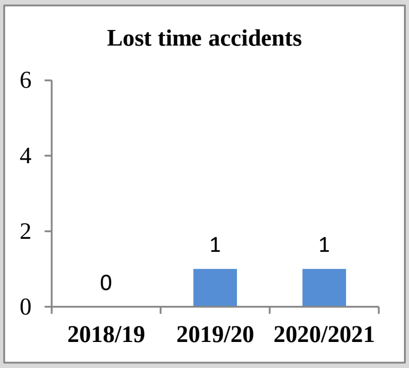
Key performance indicators (KPIs)

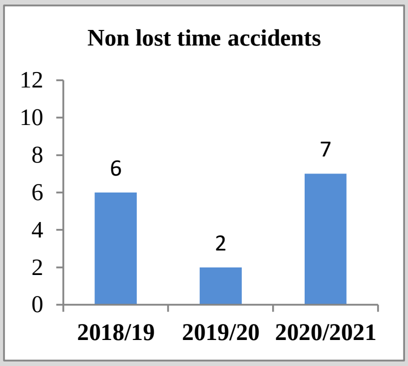
WPD South Wales utilises KPIs to assess progress against the overall strategy and key goals.

	KPI	Performance and comments

Safety

Number of accidents





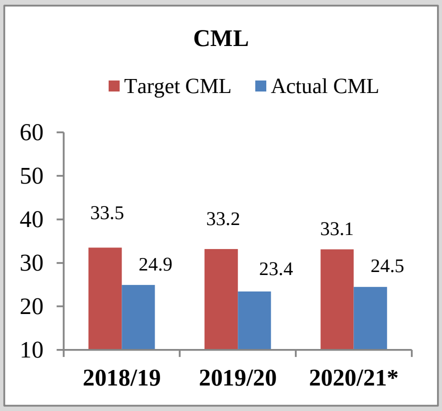
The total number of accidents to staff increased from 3 in 2019/20 to 8 in 2020/21. The increase in total number of accidents during the year was mainly due to the accidents pertaining to usage of moving equipment. Details of these incidents, along with reminders about the correct use of the work equipment were shared with the 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. Constant emphasis is places on awareness of hazards in the work environment.

In addition WPD monitors the overall rate of accidents per 100 employees (as reported to Ofgem). The accident rate for the WPD Group for 2020/21 is 0.68 (2019/20: 0.75), outperforming the RIIO-ED1 target of 1.61. Further details on our performance reporting to Ofgem regarding safety can be found at the link below:

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

Network performance & security

Customer minutes lost ("CML")



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

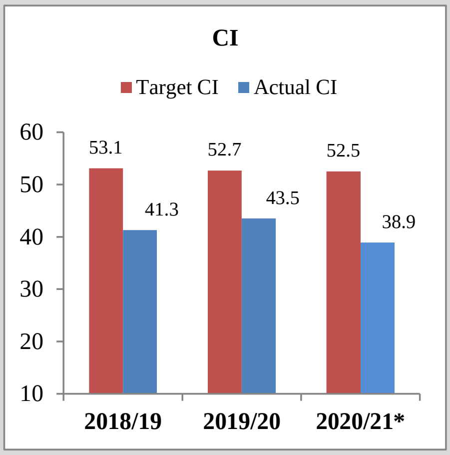
CML represents the average time a customer is without power during the year. It is calculated by taking the sum of customer minutes lost for all incidents, excluding the allowed exceptional events, divided by customers connected. The targets are defined by Ofgem at each DNO level. Year on year WPD is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

Key performance indicators (KPIs) (continued)

	KPI	Performance and comments

Network performance & security

Number of customer interruptions ("CI")



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

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

Other measures (WPD Group)

- In 2020/21 87.5% (2019/20: 88.0%) of customers had their power restored within an hour of a high voltage fault, the target being 87.5% (2019/20: 87.5%).
- One of the guaranteed standards of performance ("GSOPs") set by Ofgem is the restoration of customers left without electricity for more than 12 hours. The number of customers without electricity for more than 12 hours was 1,049 (2019/20: 1,277), an improvement of over 97% on our 2012/13 benchmark performance. Unless an exclusion is applicable, such as due to access issues, customers are eligible for a set payment. In 2020/21 155 (2019/20: 270) customers received a set payment where we failed to achieve the GSOP.

Financial stability

Revenue

2020/21 (£m)	2019/20 (£m)
248.0	263.6

The majority of WPD South Wales' 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. The decline in the revenue is mainly attributable to COVID-19. Refer to page 7 for details.

Profit before taxation ("PBT")

2020/21 (£m)	2019/20 (£m)
104.4	116.4

As part of 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 South Wales 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. The decline in PBT is mainly due to a decline in revenue, attributable to COVID-19.

Key performance indicators (KPIs) (continued)

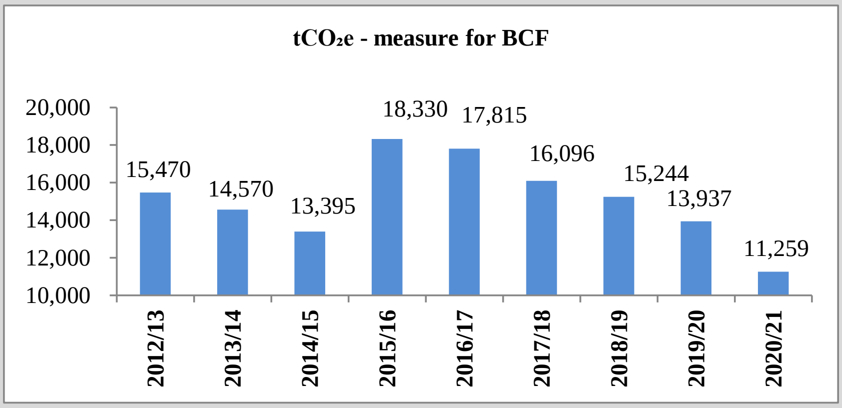
	KPI	Performance and comments		
Financial stability	**Fixed asset additions** Tangible fixed asset additions	**2020/21 (£m)** 162.3	**2019/20 (£m)** 138.1	WPD South Wales operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure, as evident from the total extent of our capital expenditure, as well as increase during the year. Due to the age of the network and technological advancements significant investment is required in capital related activities. During the RIIO-ED1 period to date we have invested £885m in capital related activities. Planned investment in the network for the remainder of the RIIO-ED1 period (until March 2023) is £319m.
	Regulatory asset value (RAV)* * Due to timing the RAV used in these calculations is the latest draft and not the finalised value.	**2020/21 (£m)** 1,244.9	**2019/20 (£m)** 1,186.3	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 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 ratio	**2020/21 (£m)**	**2019/20 (£m)**	Gearing for the Company is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the revolving credit facility covenants for several of the WPD companies and is used as a key internal measure. To comply with bank covenants the gearing ratio does not exceed 85%. WPD South Wales aims to keep the gearing at 65% or less.
	Net debt*	739.4	661.6	
	RAV	1,244.9	1,186.3	
		59.4%	55.8%	
	* refer to note 21 on page 100 for the calculation of net debt			

Key performance indicators (KPIs) (continued)

	KPI			Performance and comments
Financial stability	**Interest cover**	**2020/21 (£m)**	**2019/20 (£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	104.4	116.4	
	Interest payable	34.3	38.3	
	Depreciation	39.3	37.3	
	Amortisation-intangible assets	0.8	0.6	
	Amortisation-customer contributions	(7.0)	(6.5)	
	Earnings before interest, taxation, depreciation, and amortisation ("EBITDA")	171.8	186.1	Refer note 5 for all components of EBITDA.
	Interest payable	34.3	38.3	
	Interest cover	5.0	4.9	

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 South Wales follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") carbon reporting guidance, the 2020 UK Government GHG Conversion Factors for company reporting and ISO14064-3.

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

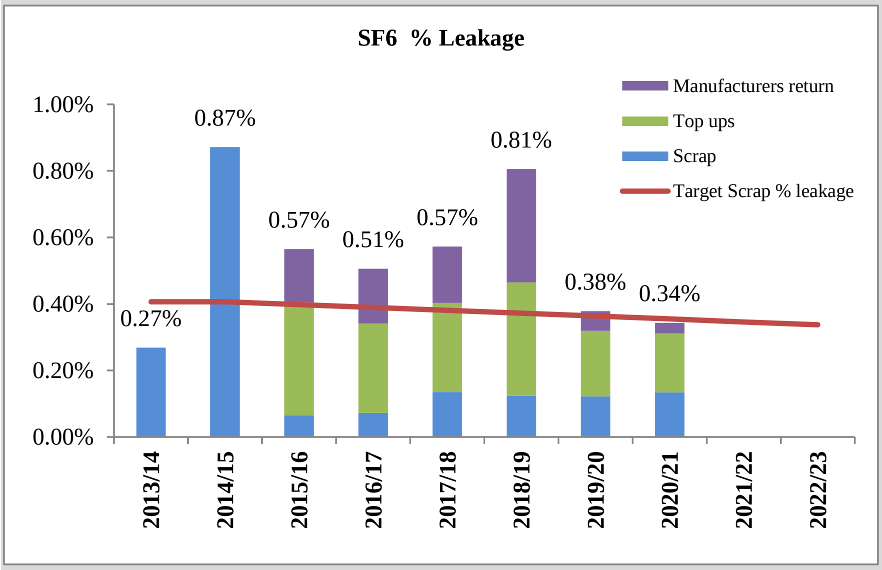
For further details on various elements that make up our BCF refer to our detailed environment report at the link below:

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

For details on methodology for calculation of our BCF refer to page 57.

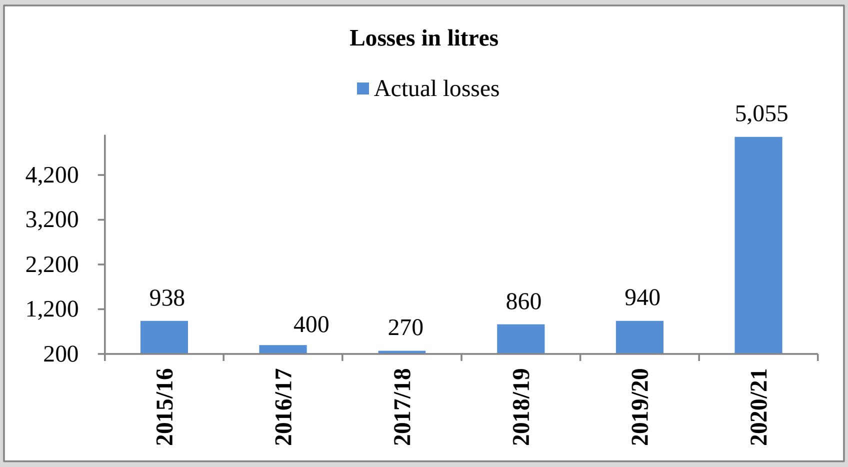
Key performance indicators (KPIs) (continued)

	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.



Overall the level of leakage is reducing over time as older units are replaced with new units which also contain lower levels of SF6. The WPD 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.

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 South Wales 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 South Wales' 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. The WPD Group's current target is a 75% reduction over the RIIO-ED1 period based on the baseline year of 2012/13.
	Other measures	*<u>- Environmental management standard</u>* In May 2017, WPD South Wales gained certification to the new ISO14001:2015 environmental management standard. ISO14001 sets out the criteria for an environment management system and maps out a framework that an organisation can follow to set up an effective environment management system. A re-certification audit was completed successfully in May 2020 with no major non-conformances raised and the Company's certification has been extended until June 2023. A routine surveillance visit in March 2021 was successfully completed with no major or minor non-conformances raised.

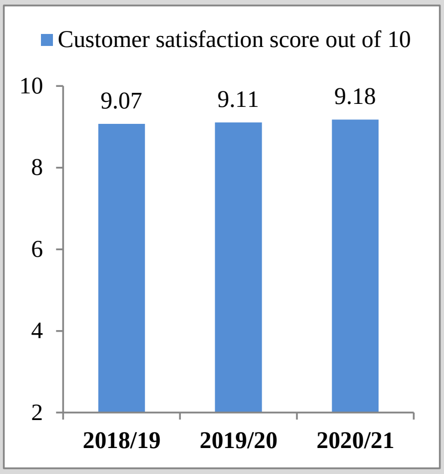
Key Performance Indicators (KPIs) (continued)

KPI	Performance and comments

Stakeholder value & engagement

Customers

Overall customer satisfaction (WPD Group)

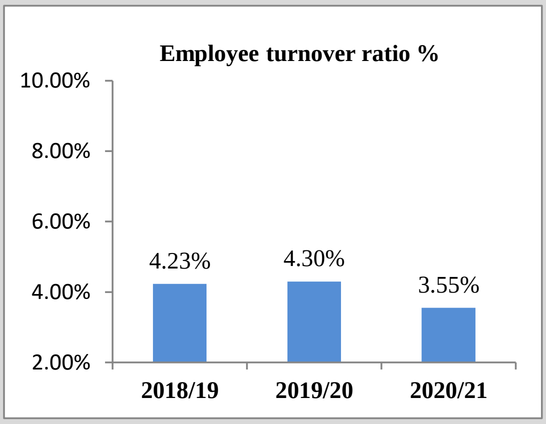


As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connection quotations and delivery, interruptions and general enquiries. The customer satisfaction score is given out of 10. For WPD's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

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

Employee

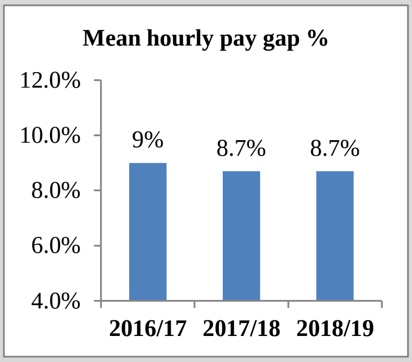
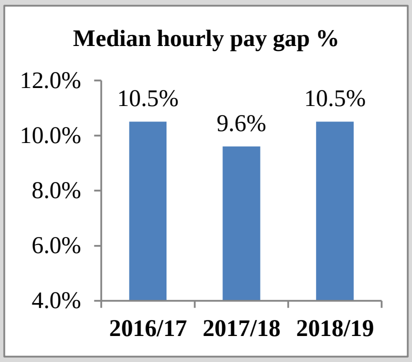
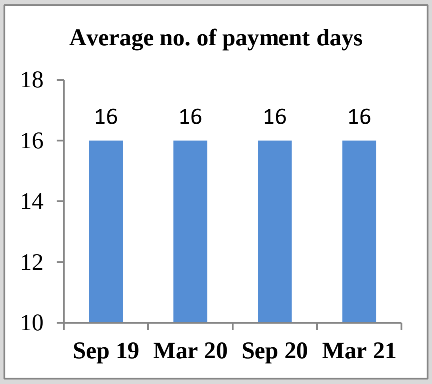
Employee turnover ratio (WPD Group)



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

Key performance indicators (KPIs) (continued)

Stakeholder value & engagement

KPI	Performance and comments
Employee (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 over year in part due to a greater female representation in senior roles. 2019/20 data has not yet been published. Further information about the WPD gender pay gap can be found at: https://www.westernpower.co.uk/about-us
Suppliers	
Payment performance	 The Company reports on its payment performance every six months. Of invoices paid: - 96% are within 30 days (2020: 96%) - 3% are within 31 to 60 days (2020: 3%) - 1% are in 61 days or more (2020: 1%) Invoices due but not paid within agreed terms: 11% (2020: 9%).

Future developments

Transition to DSO

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

As WPD South Wales adds DSO to its existing DNO role, the Company will carry out its existing functions and take on some new ones so as to:

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

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

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

RIIO-ED2

The RIIO-ED2 is set to be a five year period from April 2023-March 2028. On 1 July 2021 the first full Business Plan submission is required to be presented to Ofgem's Challenge Group with the final submission to be submitted to Ofgem on 1 December 2021. Following an open hearing early in 2022, Ofgem will publish its RIIO-ED2 draft determination in June 2022 and the final determination in November 2022.

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

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

Future developments (continued)

RIIO-ED2 (continued)
- Simplifying the price controls by focusing on items of greatest value to consumers.

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

Similar to RIIO-ED1, our RIIO-ED2 plan is underpinned by core commitments which have been identified by stakeholders as their key priorities and will be reflected across all aspects of our Business Plan. Our core commitments are separated into the following three high level categories which align with Ofgem's output categories:
- Meet the needs of consumers and network users: WPD must deliver a high quality and reliable service to all network users and consumers including those that are in a vulnerable situation;
- Maintain a safe and resilient network: WPD must deliver a safe and resilient network that is efficient and responsive to change; and
- Deliver an environmentally sustainable network: WPD must manage the impacts of it activities on the environment and enable transition towards a smart, flexible, low cost and low carbon energy system for all consumers and network users.

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

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

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

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

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

Future developments (continued)

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

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

For more details on the Green Recovery initiative, refer to our website at:
https://www.westernpower.co.uk/green-recovery

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

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

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

Risk management and controls
WPD South Wales 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.

Risk management and controls (continued)

As, during the year ended 31 March 2021, WPD is owned by a US publicly quoted company, it is subject to the requirements of the US Sarbanes-Oxley Act of 2002 (the "Act"). In accordance with the requirements of the Act, WPD's management undertakes an annual assessment of internal controls over financial reporting. This includes ensuring all key financial processes have been documented with specific details on the controls in place. Also a self-certification process is in place whereby senior managers affirm quarterly that disclosure controls are operating effectively and that all material information is disclosed in the financial reports. Key controls are reviewed and tested by the WPD Internal Audit team. Some of the controls in place to satisfy the Act apply to the processes that underpin the IFRS books and records.

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

As WPD South Wales 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 South Wales has robust safety policies and procedures in place to ensure a safe working environment. There is a system for reporting near misses and incidents and policies are reviewed and amended accordingly to avoid any future recurrence. - The safety team actively supports managers with their safety responsibilities and provides assistance to enable them to maintain a clear focus on safety. During 2021 the safety team have provided, on a monthly basis, information for managers to use in their team meetings with their staff, which supports the 4 core areas of the 2021 safety action plan which are Safety, Health, Competence and Communication and also to keep staff informed about the measures required to prevent the spread of Covid-19 within the workplace. - Regular safety site visits are undertaken to ensure that all safety policies and procedures are being followed and implemented. Site safety visits undertaken during the year were 1,932 (2020: 1,681) versus a target of 1,116 (2020: 1,017).
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 South Wales has comprehensive emergency plans for network emergencies such as the recovery from a partial or country wide loss of electricity supply, referred to as the System Restoration Plan. WPD maintains a presence on a number of national industry working groups, along with Government Departments such as the Department of Business Energy and Industrial Strategy ("BEIS") and the regulator, Ofgem, which plan and prepare for such events. These groups ensure a consistent approach to resilience and a swift response to network emergencies across the industry. -WPD South Wales is committed to regular training sessions with its Network Control Centre Engineers to exercise a response to a System Emergency. To supplement this, general awareness sessions have been delivered to staff from the wider business. This ensures everyone is aware of the potential impacts and aids business continuity planning across a range of departments.

Risk management and controls (continued)

	Risk	Mitigating actions
Network performance & security	**Network disruptions (continued)**	- WPD maintains a suite of Control Room Disaster Recovery sites that have played an instrumental part in our response to COVID-19. These have allowed WPD to split control rooms, limiting interaction between teams/individuals and allowing for segregation through working "bubbles" as part of our pandemic planning. - Established restoration plans are in place and reviewed with National Grid and contracted Power Stations. - Local operational teams undertake desktop exercises to ensure resilience and business continuity plans remain appropriate. All learning is shared across the business. - Diligent and extensive routine maintenance for network assets including tree cutting costs is conducted. Assets are managed to an accredited asset management standard, ISO55001, to support the right decision making with respect to asset maintenance and replacement. - In addition to normal equipment stocks, WPD also keeps a small number of additional strategic spares and is part of the National Grid strategic spares group. Throughout the pandemic, WPD has also procured additional PPE materials and vehicles to ensure the business remains able to respond and assist to the nation's power needs. - WPD South Wales has a resilient IT infrastructure with multi-site running with fault tolerant/mirrored systems with the ability to quickly shift to home working when required. - Flood resilience plans are in place for major substations and other critical sites. - There are reciprocal arrangements in place with other network operators for backup support through NEWSAC ("North East West South Area Consortium"). This allows for the sharing of physical labour, materials and/or plant amongst the industry when required. - In order to better support customers impacted by network events, WPD has arrangements in place with the British Red Cross to provide emotional and physical support and a contract with National Caterers Association ("NCASS) in order to provide hot food provision for communities impacted for longer durations.
	Cyber breach threat: Unauthorised access to our key networks and systems.	- Stringent policies and procedures are in place to provide controls around network security, proactive threat intelligence gathering, asset management, data backups and incident response. - A dedicated and qualified team is in place that continually reviews and monitors our cyber security position and reporting capabilities. - WPD limits direct connection of WPD's corporate network to the internet, direct cloud based services and personal devices. - Data considered to be 'in transit' is secured where possible using a variety of methods and techniques including HTTPS, SFTP, TLS and SSH. - 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.

Risk management and controls (continued)

	Risk	Mitigating actions
Network performance & security	**Cyber breach threat (continued):**	- Regular security drills are performed involving the Information Resources department and other teams. - Extra measures have been put in place due to the heightened risk from COVID-19 relating to a high number of employees working from home. Users have been advised of security measures to follow when using WPD assets from home, along with guidance to ensure the safe use of video conference facilities. Extra monitoring controls have been implemented around the Company's externally facing systems and the Company's VPN/RDP connections. We have also conducted additional penetration tests and vulnerability scans to ensure our external connections remain secure, and reviewed our incident response procedures relating to our internet infrastructure. - Network segmentation of sensitive environments is either in place or currently being introduced to prevent unauthorised access. - Distribution denial-of-service attacks ("DDOS") protection services on our key internet links have been introduced to prevent malicious disruption of our staff's connectivity to WPD systems whilst working from home continues at a heightened rate due to COVID-19. - WPD took part in a ransomware simulation exercise to test our readiness to a significant ransomware event at WPD. - A proactive approach is being taken to penetration testing and vulnerability management to identify and introduce mitigations to reduce the cyber risk of WPD systems. - As a result of an attempted cyber breach in the year, where an unknown attacker attempted and failed to gain control of WPD Telecoms management severs, WPD unknowingly installed an infected vendor supplied update file to its management servers but due to WPD’s existing Cyber controls the malware failed to execute resulting in no actual compromise or loss of data. An expert third party forensic response team were engaged and validated WPD’s incident impact assessment. A further update file from the vendor then removed the malware and allowed the management servers to be returned back into operation. A full lessons learned document was produced which resulted in increased levels of system logging and analysis has been implemented in the affected area.
Financial stability	**Interest rate risk:** WPD South Wales 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 South Wales's interest rate risk management policy includes trying to achieve the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows. - An element of the long-term debt is index linked which creates a natural hedge against the Company's regulated income, which is also index linked. - WPD South Wales also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecasted issuances of debt.

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 South Wales is exposed to credit risk on its billed and unbilled portion of customer contributions in relation to any capital work undertaken. The Company maintains credit policies and procedures with respect to counterparties. Depending on the creditworthiness of the counterparty, the Company may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees. - WPD South Wales 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 South Wales' 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 South Wales' 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.
Environment	**Regulatory changes:** Changes in legislation relating to environmental and other matters are not adopted by WPD South Wales.	- WPD South Wales 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.
	Negative impact of network assets on the environment: Due to the nature of the equipment used in the industry, network assets may have a harmful impact on the environment.	- Use of best technology to minimise the impact of network assets on the environment, such as the use of Perfluorocarbon Trace ("PFT") technology within WPD South Wales, 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,

Risk management and controls (continued)

	Risk	Mitigating actions
Environment	**Negative impact of network assets on the environment (continued):**	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 Panel ("CP") meets quarterly and expert members represent a wide range of customers and other key stakeholder groups. CP, with 30 members met virtually throughout 2020/21. Through the panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. The CP critically reviews our performance and, through extensive expert knowledge, provides strategic steer on our short and long term priorities. Members provide an external view to our business, acting as a sounding board for new ideas and initiatives as well as collaborating with WPD to create and influence future policy and processes. - As part of RIIO-ED2's enhanced engagement, our Customer Engagement Group ("CEG") was established to scrutinise our business plan. WPD followed a robust, independent and transparent process to appoint all 14 members of the CEG and was the first DNO to set up the CEG. The CEG reflects the needs and preferences of existing and future consumers and promotes good value customer outcomes, with a focus on affordability, the protection of vulnerable consumers, the environment, sustainability and the transition to a low carbon energy system. The Board members have actively engaged with the CEG to allow them the opportunity to assure themselves of the effectiveness of interactions between the Board and the business plan delivery team. - Annually WPD hosts workshops to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. During the year ended 31 March 2021, the Group held two rounds of workshops. Nine virtual events were attended by a record 479 stakeholders from a range of different backgrounds (including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors). This included five topic-specific workshops in February 2021 which allowed us greater scope to obtain granular feedback from stakeholders who proposed focus areas and actions across WPD's key delivery strategies for RIIO-ED2.

Risk Management and Controls (continued)

	Risk	Mitigating actions
Stakeholder value & engagement	**Lack of skilled employees:** Failure to attract, retain and develop our employees.	- WPD maintains good practices and safe working conditions. - WPD's employees have access to pension schemes (Defined Contribution schemes for the new members). - WPD has benchmarked terms and conditions for all employees. - Employees are kept informed of WPD's goals, objectives, performance and plans, and their effect on them as employees through monthly business updates, regular team briefings, as well as through WPD's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. - Employee surveys are conducted to seek feedback and to ensure engagement across the workforce. - Various training programmes are offered under the Trainee Development Scheme and Technical Apprentice Scheme. - WPD has five in-house training centres. - For last 20 years, WPD has been recruiting approximately 100 new apprentices each year.
	Reliance on suppliers: WPD South Wales relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery.	- There are sufficient alternative suppliers for cable laying, tree cutting etc. such that, should an existing contractor or supplier be unable to undertake the activity or to make supplies, there will be no significant long-term impact on WPD South Wales' ability to operate the network. - Most of the electricity which enters WPD South Wales' network is carried on the National Grid's network and connects with the WPD network at grid supply points. The Company is dependent on National Grid. National Grid is the electricity transmission and electricity system operator ("ESO") regulated by Ofgem and thus the risk of a major failure is considered very remote. - All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity.
	Regulatory risk: WPD South Wales' revenue is regulated and is subject to a review at the end of each price control period. Thus the Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the next RIIO-ED2.	- WPD deploys significant resources in engaging with Ofgem on all new consultations and decisions. - WPD is actively involved in the RIIO-ED2 consultations. - WPD's RIIO-ED2 business plan is being evolved based on guidance from Ofgem and the core commitments within WPD's draft business plan are driven by Ofgem's output categories. - WPD engages with its shareholder on all changes and encourages investor dialogue between PPL, its shareholders, and Ofgem. - WPD actively engages with Ofgem in relation to all industry initiatives such as the Green Recovery Initiative which involved unlocking investment for green projects.

Risk Management and Controls (continued)

Other current risks

<u>*COVID-19*</u>

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

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

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

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

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

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

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

Risk management and controls (continued)

Other current risks (continued)

COVID-19 (continued)

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

Brexit

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

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

Uncertainty around Brexit did result in the weakening of sterling; however the Company's revenues and assets are principally sterling denominated, thus minimising any foreign currency risk for the Company.

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

Risk management and controls (continued)

Other current risks (continued)

Ofgem investigation into compliance with Priority Services Register obligations

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

Corporate and social responsibility

We care about our customers and our communities, the way we interact with our stakeholders and how we take responsibility within the communities we serve.

Social and community

Working with our communities is important in creating shared value for us as a business, the people we serve and the communities we operate in.

In the year to March 2021, WPD assisted 90 (2020: 276) separate charitable and non-charitable organisations as part of a £83,000 (2020: £259,000) commitment. This included support for an electricity exhibition that combined art with science, sponsorship of a regional Science, technology, engineering and mathematics ("STEM") Challenge and support for the Duke of Edinburgh's Diversity Programme for underprivileged children. The reduction during the year was due to Covid-19, largely attributable to the urgent focus on supporting groups impacted by the pandemic and partially also due to the challenge of providing certain commitments during the pandemic.

Due to COVID-19, WPD moved quickly to adapt its efforts towards supporting charities, councils and community groups that were directly supporting vulnerable people and communities affected by the pandemic. £1million of funding was provided to 871 organisation to aid efforts such as food and medical supply deliveries, online services for those in isolation and PPE for hospitals.

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

Vulnerable customers

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

WPD has established a dedicated team of people to proactively contact customers and check the detail held about them. This is a process that will be repeated every two years to ensure that the register remains up to date. WPD is also developing processes to share data with other service centred organisations that hold information about vulnerable customers, in line with data protection laws. WPD already sends PSR data monthly to six water companies and has recently trialled receiving data from two of them. Links have been established with many organisations such as the British Red Cross to improve the understanding of the needs of vulnerable customers. These partners work with WPD to improve the services that are provided and we will continue to work with them.

Corporate and social responsibility (continued)

Social and community (continued)

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

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

In addition our, 'Affordable Warmth' schemes work in a similar way but for customers not already known to us. Partner organisations, such as Marches Energy Agency and Nottingham Energy Partnership, help us identify hard-to-reach fuel poor customers and they provide the same support as detailed above and then refer customers to WPD's PSR.

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

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

Deaf awareness charter mark
WPD South Wales 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 South Wales is committed to comply fully with the UK tax legislation and endeavours to pay the right amount of tax at the right time, taking a reasonable approach where there is any uncertainty. The Company 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 South Wales 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.

Corporate and social responsibility (continued)

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

Human rights
WPD South Wales is dedicated to conducting its business with honesty, integrity and fairness. In support of these principles, it is WPD South Wales' 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

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

Climate change
Our BCF details the impact that our operational activities have on the environment in terms of associated CO2 emissions and takes account of the energy usage from offices and substations, transport emissions (both operational and business), fuel combustion and the release of greenhouse gases (SF6) into the atmosphere. The reported data for operational transport (road) and fuel combustion also takes account of a number of our larger contractor emissions. All of our published BCF data has been verified externally for accuracy and compliance with international business carbon footprint standards, the Greenhouse Gas ("GHG") reporting protocol and ISO14064-1. Refer to page 57 in the Directors' report for our BCF data.

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

- A reduction in technical network losses;
  - Installing oversized transformers when replacing assets at highly loaded locations.
  - Using larger sized cables when installing new network in Low Carbon Technology ("LCT") hotspots.
  - Undertaking innovation projects specifically related to technical losses.

- A reduction in our carbon footprint;
  - All replacement vehicles to have lower CO2 emissions than those they are replacing.
  - Ensuring all new or refurbished WPD buildings achieve a minimum rating of 'Excellent' for new build and 'very good' for refurbishment under the Building Research Establishment Environmental Assessment Method ("BREEAM") rating.
  - Reducing the amount of waste we produce and send to landfill.

Climate change (continued)

- Reduction in the leaks from our equipment, specifically;
  - The volume of oil lost through leaks from fluid filled cable.
  - The volume of SF6 gas that is lost from switchgear.
  - Installing effective oil containment ‘bunds’ around plant containing high volumes of oil.

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

Looking beyond RIIO-ED1, our draft business plan for RIIO-ED2, identifies achieving net zero (across scope 1 and 2 emissions and excluding network losses) in our internal business carbon footprint by 2028 as a core commitment. Net zero means achieving a balance between the greenhouse gases put into the atmosphere and those taken out. When the amount of greenhouse gas (tCO2e) we add is no more than what we take away, we have achieved net zero, also referred to as carbon neutral. Some of the key actions that have been recognised in this regard are:

- Install Low Carbon Technology ("LCT") generation at all suitable depots and offices to produce electricity to meet operational demand;
- Purchase all building energy from a renewable source and account for this in our reported BCF;
- Reduce energy use in our buildings;
- Ensure that all new WPD buildings achieve an ‘Excellent’ BREEAM rating;
- Replace a minimum of 89% of our existing operational fleet with electric vehicles by 2028;
- Cut carbon emissions from our operational fleet by 50%;
- Install electric vehicle charging infrastructure at all our operational sites;
- Include only non-carbon technology cars in our company car scheme by 2025;
- Reduce business travel by encouraging more remote working and virtual meetings; and
- Increase use of small scale battery powered generation, where appropriate reducing reliance on diesel generation, helping to reduce our carbon footprint when restoring customer supply.

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

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

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

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

Climate change (continued)

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

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

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

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

Non-financial information statement

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

- Business model
Refer to page 1.

- Environment
Refer to pages 4 and 32-34 for details on our policy regarding the environment.
Refer to pages 14, 15 and 16 for details of impact of our activities on the environment and our performance in this area.
Refer to page 25 for our principal risks in relation to the environment and our actions to mitigate those risks.

- Employees
Refer to pages 4-5 for details on our policies regarding employees.
Refer to pages 17-18 for our performance in relation to employee satisfaction.
Refer to page 27 for our principal risk in relation to employees and our actions to mitigate that risk.

- Social matters
Refer to pages 30 and 31 in relation to details on our policies and activities in relation to our social responsibilities.

- Human rights
Refer to page 31.

Strategic report (continued)
For the year ended 31 March 2021

Non-financial information statement (continued)

- Anti-corruption and anti-bribery matters
Refer to page 32.

Section 172 Statement
Refer to pages 47-53 for the Section 172 statement.

Approved by the Board and signed on its behalf by:

P Swift
Chief Executive Officer
30 June 2021

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

Corporate governance statement

For the year ended 31 March 2021

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

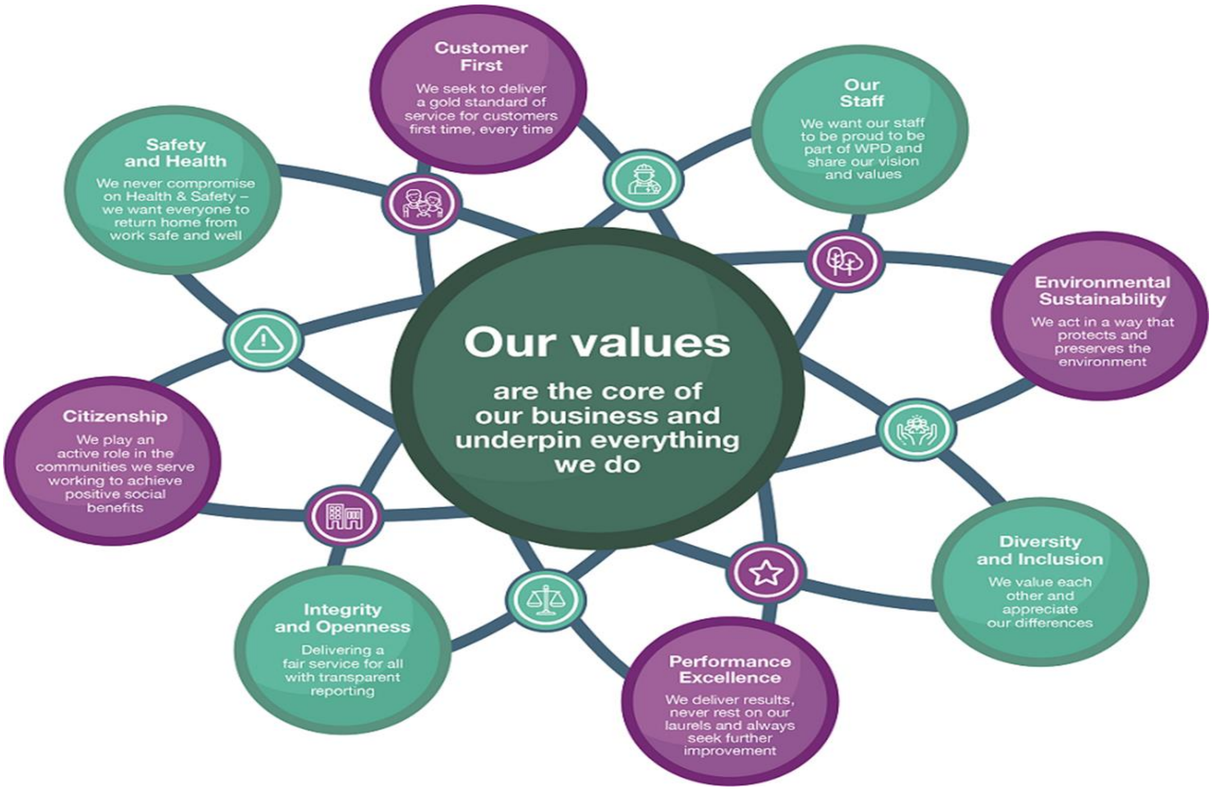
The principles below have been applied throughout the year ended 31 March 2021.

Purpose and leadership

Our purpose and values are the long term fundamentals of our business, they are what motivate us and drive how we behave. During the current year, the Board has been focused on reaffirming the Company's purpose and values.

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

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



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

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

Purpose and leadership (continued)

Our purpose and values are essential to the effective and efficient operation of our core business to provide safe and reliable electricity supplies to our 1.1 million customers who rely on us each and every day. The service we provide is critical to the lives and livelihoods of the communities that we serve. In order to fulfil our purpose of delivering the needs of our customers and communities, we listen to our stakeholders and have an extensive stakeholder engagement programme that is explained in more detail in the 'Stakeholder relations and engagement' section below.

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

The Board recognises the important contribution made by all employees in delivering our purpose. Our values are constantly reinforced to employees through various internal communications such as our in-house magazine, regular news updates and direct emails from the Chief Executive and other executive directors. For further details on how the Board engages with its employees, refer to the 'Stakeholder relations and engagement' section below.

Board composition

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

Independent oversight responsibilities lie with the non-executive directors. The non-executive directors fulfil their responsibility in offering constructive challenge by regularly attending board meeting of the Company. In addition, the non-executive directors regularly attend the group holding company board meetings and in doing so, gain an understanding of matters at the group level and the views of the Shareholder. Outside of formal meetings, the non-executive directors are provided with timely information and given access to relevant updates, including invitations to meeting, on which they are encouraged to offer constructive feedback.

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

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

The Chief Executive is appointed by the 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.

Board composition (continued)

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.

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 for the WPD Group each year. In addition, there are four principal DNO Board meetings each year. If the need arises, the directors can call additional meetings at any time, organised through the Company Secretary. Due to the pandemic, all meetings in the current year were conducted virtually. The Board receives and is updated on all key and important business information by the executive directors at the Board meetings. The Board is supported by the Company Secretary to provide guidance on key governance requirements.

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.

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

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

Directors' responsibility (continued)

Accountability and discharge of responsibilities (continued)
The directors are conscious of the changing reporting and governance landscape and are committed to fulfilling their responsibilities effectively by ensuring that their skills and knowledge are refreshed and updated regularly. In the current year, the directors had a detailed training program in relation to their duties and responsibilities so that they continue to lead with high standards of business conduct and good governance.

The executive directors understand the importance of leading with integrity. Annual training on 'Standards of integrity', as endorsed by the Board, is mandatory for all staff, including the executive directors. Group policy sets out potential conflicts of interest and at each Board meeting the directors disclose any potential conflicts of interest in any of the Group transactions or arrangements. In addition, the Company Secretary administers an annual process, whereby the directors disclose any interests in related parties or any related party transactions.

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

Key financial information is taken from the 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.

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

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

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

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.

Opportunity and risk (continued)

Opportunity (continued)

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

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

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

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

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

Opportunity and risk (continued)

Opportunity (continued)

- UK Green Recovery initiative – Under this initiative, Ofgem has agreed to allow DNOs to unlock investment funding for targeted areas. We will be investing up to £9.5m in the electricity grid to boost green growth and jobs across our region. To help target this network investment we called on community groups, local authorities, developers and green investors to submit evidence of any ‘ready to go’ green projects that require a connection to the electricity network via an industry ‘call for evidence’. WPD is keen to ensure that investment is directed to the network areas where investment will be most effective, and supports the move to a net zero carbon emission economy. Thus, the required evidence shaped WPD's submission to Ofgem of the proposed network upgrades.

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

Risk

The WPD Board oversees the risk management of the Group and develops the Group's overall risk appetite whilst in pursuit of its strategic goals. The responsibility for internal controls cascades from the Chief Executive and the executive directors to senior management teams responsible for risk assessment and implementation of appropriate mitigation. Managers are responsible for the identification of risks and the deployment of appropriate controls within their areas of responsibility. Policies are established, reviewed regularly and made available on the Group website to assist the managers with establishing an appropriate control environment. We consider the involvement of qualified and competent employees with the appropriate level of expertise throughout the business, a key factor for implementing an effective internal control environment.

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

An Enterprise Risk Management process is in operation, with a focus on recognising emerging and significant risks. Consideration of significant and emerging risks and related decisions, are undertaken by the Executive Council. The Executive Council exercises suitable judgement as to any control decisions that merit Board attention. Emerging and significant risks are regularly reported to the Board, facilitating the oversight of the risk management process of the Group. Pages 21 to 29 of the Strategic report outline the key risks and the related mitigating actions for the WPD Group.

Opportunity and risk (continued)

Risk (continued)
We have an established Internal Audit function reporting directly to the Chief Executive. The Head of Internal Audit also attends and reports directly to the WPD Group Board members at their quarterly meetings. The WPD Internal Audit function also reports into the Audit Committee of the shareholder, PPL. For the purpose of the Group's US GAAP reporting as at 30 November, the Internal Audit approach follows a recognised audit framework to ensure the WPD 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 latest statement can be found at:
https://pplweb.investorroom.com/proxy

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

Remuneration of the other executive director roles is approved by the shareholder PPL, with input from the WPD Chief Executive 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 majority of WPD's wider workforce is consulted and agreed upon with the recognised trade unions, with the aim to ensure that the terms and conditions are aligned to current industry practices.

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

Some recent examples are as follows:

- Extensive stakeholder engagement before the release of our first and second draft RIIO-ED2 business plan in January 2021 and March 2021 respectively. To date we have engaged with over 19,000 stakeholders (6,400 of these were direct, in-person engagements) so far; more than ever before. Customers have shaped the outcomes themselves, leading to the identification of our core commitments which can be used to measure our performance throughout RIIO-ED2. Further details on this can be found on pages 50-52 in the S172 statement.

- Staff engagement has also been specifically requested on our RIIO-ED2 business plan, with staff being invited to share their views via email and our Intranet pages. Two leadership workshops were held on RIIO-ED2 plans and the plans were shared with trade unions at every iteration.

Stakeholder relations and engagement (continued)

- Stakeholder engagement has been launched across community groups, local authorities, developers and green investors to ensure effective network investment in relation to our UK Green Recovery initiative. Further details on this can be found in the Opportunities section above on page 41.

- Since 2016/17, each year, WPD creates Distribution Future Energy Scenarios ("DFES") for all its licence areas. The outputs of these studies are used by the Company to inform long term strategic planning and flexibility analysis. The annual publication of these projections on our website follows unprecedented engagement with local authorities and other stakeholders across our region. These publications are a testimony to the fact that the directors are keen on actively utilising stakeholder engagement for the benefit of the Company, its customers and for the industry as a whole. By building a clearer picture of stakeholders' own energy plans, we can map out possible future energy scenarios to help inform our strategic network planning and investment, ensuring that the investment best serves customers' future needs and support decarbonisation.

Further details of engagement with each our key stakeholder are as follows:

Customers

The Board strives to deliver the class leading service that our customers expect and is keen on continuing to support all our customers, including our vulnerable customers. We have an established customer panel that meets four times a year with members, who represent a wide range of customers and other key stakeholder groups. The panel is attended by the Chief Executive and other directors and through the panel, they seek honest and challenging customer views about the way we operate and our future plans. This level of engagement plays an important role in helping 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 Group. The directors participate in these workshops and improvement actions identified are subsequently considered and, where appropriate, implemented. This year the workshops were held virtually and with attendance of 479 stakeholders, were as productive as ever.

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

The directors' commitment, and in turn that of senior management and the wider workforce, of being proactive in customer engagement is evident from external assessment of customer service and engagement under the CSE Standard and British Standards Institution ("BSI") Standard for Inclusive Service Provision (BS18477). For CSE, WPD is the top UK performer out of 600 companies, achieving 45 out of 57 'Compliance Plus' Ratings. WPD was the first network group to achieve the BSI and has achieved 8 years of full compliance. Far from providing just validation, accreditations such as the CSE Standard and the BSI Standard continue to provide a level of independent scrutiny and perspective that pushes their impact way beyond - giving stakeholders the peace of mind that we are credible, responsible and demonstrably compliant.

Stakeholder relations and engagement (continued)

Customers (continued)

For further details on engagement with customers please refer to pages 4, 17 and 26 of the Strategic report. For details on engagement with vulnerable customers refer to pages 30 and 31 of the Strategic report.

Employees

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

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

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

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

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

Stakeholder relations and engagement (continued)

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.

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 Futures Group.

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

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

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

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

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

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

Stakeholder relations and engagement (continued)

Suppliers (continued)

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

We also carry out payment performance reporting for suppliers, details of which can be found on page 18 of the Strategic report.

Shareholder

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

Environment

For the benefit of all its current and future stakeholders, the Board is dedicated to conducting its business as a responsible steward of the environment. Our draft RIIO-ED2 business plan reflects our ambitions for the future of electricity in the UK, specifically in relation to the Government's net zero targets.

The Board actively monitors its impact in terms of carbon footprint, waste recycling and fluid loss. For details on WPD's environment KPI performance as well as various actions to mitigate any key environment risks refer to pages 14 - 16 and 25 of the Strategic report.

Section 172 statement

For the year ended 31 March 2021

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

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

Strategy and long-term decision-making

Our purpose and our strategy, as 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 stakeholders' needs. Five key goals underpin our long term strategy: Safety, Network Performance & Security, Financial Stability, Environment, and Stakeholder Value & Engagement. These goals form the basis of all of the Board's key decisions and the risk framework of the Company is linked to the achievement of these goals. The key goals are monitored by the Board through established key performance indicators ("KPIs"), as detailed in the Strategic report on pages 11 to 18.

The Board devolves day-to-day management and decision-making to its senior management team, and maintains oversight of the Company's performance, and reserves specific matters for approval. Policies are in place defining the powers of delegation by the Board, the matters reserved for the Board and the areas of responsibilities and accountability of each executive director. Policies have been established that define the framework within which we expect managers and employees to operate. These policies represent one of the means through which decisions on stakeholder interests are enacted.

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

The Board has oversight responsibility for the risk management framework of the Company and the Board ensures the alignment of strategy and the appetite for risk. For the purposes of business resilience, the Board satisfies itself that there is an appropriate risk management approach and that reasonable mitigations are in place for the key risks of the Company. For details on the Company's risk management approach refer to pages 41 and 42 in the Corporate governance statement.

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.

One example of this during the current year was the development of a formal home working policy in response to employee feedback received in a staff survey. Due to the pandemic and in response to the Government's guidance, nearly 2,000 employees of the WPD Group transitioned to remote home working successfully. The survey sought to seek the view of employees in relation to their experience of working from home, returning to the office and the future of home working. The results of the home working staff survey suggested that most employees found the experience of working from home positive citing benefits such as greater flexibility. The new home working policy will give employees an opportunity to make homeworking a part of their enduring working arrangements, suitable for their individual needs, in line with the nature of their role and business requirements.

For additional details relating to employee engagement and key KPIs pertaining to our employees refer to page 44 of our Corporate governance statement and pages 4, 5, 17, 18 and 27 of the Strategic report.

For details on our support for our employees during COVID-19 refer to pages 8 and 9 of the Strategic report.

Stakeholder engagement

Our key stakeholders are customers, other network users, employees, regulators, suppliers and our shareholder. Our stakeholder engagement strategy is approved by the Executive Council annually. Detailed engagement with our stakeholders and regular reporting to them is conducted on our business plans, both reporting on our RIIO-ED1 commitments and in developing our RIIO-ED2 priorities. Engagement on strategic areas and long term energy scenarios such as DSO, electric vehicle strategy and green recovery is also conducted. This demonstrates our commitment to dynamic business planning built on stakeholder feedback.

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

Further details on engagement with each of our stakeholders is detailed on pages 42-46 of the Corporate governance statement. Also refer to the 'key decisions' section below on pages 50-52, which highlights the initiatives undertaken by the Board to ensure that stakeholder engagement is a key cornerstone in determining the strategic direction of the Company.

Further there are KPIs and actions mitigating risks associated with each of these stakeholders that ensure that stakeholder relations are duly monitored by the Board. These can be found on pages 17-18 and 26-27 of the Strategic report.

Impact on communities and environment

The service we provide is critical to our communities and impacts the businesses and homes we serve on a daily basis. The directors believe that working closely with our communities is important in creating shared value for the business, the people we serve and the communities we operate in. In the current year, we achieved environmental, social and governance ("ESG") corporate rating of Prime status. This rating by the Institutional Shareholder Services ("ISS") is only given to companies with an ESG performance above the ambitious threshold for the sector set by ISS. The rating reflects the Board's commitment to incorporating sustainability and wider environmental and social considerations into our decision making, as we carry out our work to keep the power flowing and to meet the energy challenges of the future.

WPD's longstanding approach to consumer vulnerability has focused on helping customers to cope during a power cut. In recent years, with the help of our stakeholders, we have extended our range of services to recognise and address the broad and multidimensional nature of vulnerability. This includes taking steps to address fuel poverty. During the current year, we have supported over 22,000 (2020: 18,000) fuel poor customers in making £10m (2020: £10m) annual savings. Further details on our corporate social responsibility, including vulnerable customers, can be found on pages 30-31 of the Strategic report.

Looking to the future, we face exciting challenges as the UK works towards achieving the Government's de-carbonisation target of net-zero carbon emissions by 2050. We have long recognised the role that the electricity sector plays in contributing to the UK's ambitions towards carbon reduction and one of our commitments within RIIO-ED2 is reducing our internal carbon footprint to net zero by 2028 (excluding network losses), 22 years ahead of the Government's UK-wide target. The directors remain focused on fostering an environment that supports innovation and creativity for ensuring that technology is utilised to best effect to meet the changing demands placed upon our network. During the current year, we launched the Net Zero Communities Strategy and the UK Green Recovery Initiative. Both these initiatives will allow us to make a contribution to the Government's net zero carbon emissions target and to their ambitions for making green growth a key part of rebuilding the economy following the pandemic.

Impact on communities and environment (continued)

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

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, 14, 15, 16 and 25 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

For details on our support for our communities during COVID-19 refer to pages 9 and 10 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 decisions taken throughout the organisation.

Regular internal communications and senior leadership conferences are instrumental in driving a customer focused approach within each level of the organisation. Details of these engagements can be found on page 44 of our 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.

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

Our commitment to excellent business conduct is also evidenced by WPD earning 4 category awards at the International Engage Customer Service Awards in December 2020. The awards celebrate companies that have demonstrated excellent performance in customer and employee engagement. WPD fought off competition from many reputable household names to take home three gold awards and a bronze award as well as being shortlisted for a further category with an honourable mention from the lead judge. This achievement is a validation of the emphasis placed by the Board on the quality of our services for our customers, especially in light of this year's pandemic.

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

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

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

RIIO-ED2 business plan (2023-2028)
WPD’s RIIO-ED2 business plan outlines how the WPD Group will invest £6 billion in its network to meet the future needs of communities, businesses and energy consumers, while committing to help them deliver net zero by 2050. With active engagement from the WPD Board, the business plan has been co-created in partnership with our broadest range of stakeholders, including perspectives from bill paying customers and future customers.

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

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

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

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

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

Examples of key decisions during the year (continued)

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

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

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

The CEG reflects the needs and preferences of existing and future consumers and promotes good value customer outcomes, with a focus on affordability, the protection of vulnerable consumers, the environment, sustainability and the transition to a low carbon energy system. The Board members have actively engaged with the CEG to allow them the opportunity to assure themselves on the effectiveness of interactions between the Board and the business plan delivery team.

The core commitments, as included in our business plan, fall within three key headings driven by Ofgem. These focus on meeting the needs of consumers, network users, maintaining a safe and resilient network, and delivering an environmentally sustainable service. Every core commitment in our draft business plan is in response to an area of focus identified as a priority by stakeholders. Some of the key commitments include:
- 90% on average for customer satisfaction.
- 1.2 million customers in vulnerable situations offered a smart energy advice plan every two years.
- Supporting 113,000 fuel poor customers to save £60m over 5 years.
- Lowest ever power cut levels (improve the current average customer experience of one power cut lasting 24 minutes every two years).
- 70 schemes benefitting 8,260 Worst Served Customers.
- School children safer at 780 sites by undergrounding, insulating or diverting overhead lines crossing school play areas.
- Ready for up to 1.5 million electric vehicles; affordable Low Carbon Technology connections when required by our customers.
- Net Zero by 2028 for WPD's own business carbon footprint, and ready to enable local authorities to achieve Net Zero by as early as 2030.
- Community Energy Surgeries to be held for local energy groups.

Throughout the process, the executive directors have also been seeking active engagement of employees. In leadership conferences, the executive directors provided the senior management team with detailed updates on the proposed RIIO-ED2 business plan and invited open and honest feedback. At each stage of the planning process, through email communications and news bulletins, employees are encouraged to participate in consultations on the business plan or to otherwise provide feedback in relation to it.

Examples of key decisions during the year (continued)

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

This process, through which our business plan is being developed, highlights the Board's commitment to create value for the shareholder and to promote the interests of the Company in a manner that is aligned with the needs and priorities of all our stakeholder groups. The core commitments within our proposed business plan are reflective of the fact that our priority remains to maintain an electricity network that supports the ever-changing needs of all our customers, including vulnerable customers, and best meets their expectations in terms of providing operational excellence, ensuring the safety and resilience of the network and doing this in a manner that is affordable, environmentally sustainable and meets the ambitions for the future of electricity in the UK.

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

Digitalisation strategy

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

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

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

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

Examples of key decisions during the year (continued)

Digitalisation strategy (continued)

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

Declaration of dividend

During the year the Board has declared a dividend of £40.0m (2020: £9.3m). In considering capital distributions, the Board is mindful of stakeholders' views and takes account of our latest financial position, the long-term sustainability for the Company in addition to the allowed rate of return and any incentive rewards received. In its capacity of providing oversight also for the operational performance of the business, the Board also takes account of the prevailing performance against customer performance targets, other RIIO-ED1 output commitments and future requirements such as DSO, to assess investment requirements.

As part of the regulatory process, Ofgem sets the allowed rate of return within each price control period. Ofgem set WPD's cost of equity at 6.4% for RIIO-ED1. As is evident from the levels of our annual capital expenditure (see page 13 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. The Board acts in the shareholder's best interests by proposing an amount of dividend in accordance with the financial parameters of our regulatory allowance whilst maintaining strong financial health metrics.

Directors' report

For the year ended 31 March 2021

The directors present their annual report on the affairs of Western Power Distribution (South Wales) plc, together with the financial statements and auditor's report, for the year ended 31 March 2021.

Company's registered number

The Company's registered number is 02366985.

Ownership

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

There were no transactions between WPD South Wales and the ultimate owner.

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

Results, dividends and share issue

The profit for the year to 31 March 2021 was £83.6m (2020: £84.6m).

The Company also reports other comprehensive losses, which were posted directly to capital and reserves, of £45.5m (2020: £15.6m gain). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

For the year to 31 March 2021 dividends paid by the Company totalled £40.0m (2020: £9.3m). Dividends of £20.0m were paid after the year end.

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

Political affiliations, donations and expenditure

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

WPD does not engage in any lobbying activities with the Government. However, as part of its RIIO-ED2 business planning process, WPD engages with a wide range of stakeholders to seek their input on the business plan which then drives the outputs that the Group delivers. WPD is a member of the industry trade association, the ENA, which provides a strategic focus and channel of communication for the industry.

Financial assistance from the Government

WPD has not received any financial assistance from the Government during the year, including COVID-19 pandemic support. 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 2021, 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 South Wales is denominated in sterling and therefore there is no currency risk exposure.

Financial risk management objectives and policies (continued)

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

Liquidity and going concern

WPD South Wales is supported by its credit facility. At 31 March 2021, WPD South Wales had committed borrowing facility available, in respect of which all conditions precedent had been met at that date, of £125.0m maturing in May 2023. At 31 March 2021, no borrowings had been drawn against the facility.

On a day-to-day basis, WPD South West provides liquidity to the whole of WPD with balances with other group companies being settled periodically. At 31 March 2021, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £220.0m maturing in May 2023, of which £75.0m 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 2021 no borrowings had been drawn and letters of credit of £3.5m were issued.

The Company has net current assets of £0.1m (2020: £172.0m net current liability). The Company's liabilities will be settled with a combination of cash flows from operating activities, borrowings from the WPD Group undertakings, use of existing facilities, and issuances of long-term debt. The Company has cash and short term deposits of £18.1m (2020: £0.5m) Balances owed by other Group undertakings increased by £4.3m in the year (2020: £7.1m decrease). The Company has sufficient head room available, under existing committed facilities, to meet all cash flow needs for a period of at least 12 months from the date of signing of the accounts.

At 31 March 2021 WPD South Wales had £755.0m (2020: £507.7m) of external debt outstanding which was due after more than one year and £nil due within one year (2020: £149.9m). The Company can access both short term borrowing, as well as the long term debt market to finance any repayments.

The directors have considered the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of the Company, the existing and future forecasted covenant compliance of the Company, which includes the gearing ratio and the anticipated ability of the Company and the WPD Group to be able to raise additional long term debt in the future. The directors have also assessed the principal risks discussed in the Strategic report (pages 22-29) and have taken the impacts of COVID-19 and related uncertainties into consideration in arriving at the going concern assumption for the preparation of the financial statements.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Company 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. Our allowed revenues are fixed over a price control period and no significant slowdown in cash receipts of the Company has been noted. Thus, COVID-19 has not materially impacted the liquidity position of the Group. For further details on the impacts of COVID-19 refer to the business review section on pages 7-10 in the Strategic report.

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

Financial risk management objectives and policies (continued)

Liquidity and going concern (continued)
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 South Wales, WPD South West, WPD East Midlands and WPD West Midlands. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WPD South Wales, WPD South West, WPD East Midlands and WPD West Midlands.

Strategic report
The following information required in the Directors' report has been included in the Strategic report:
- an indication of future developments in the business - see pages 19 to 21;
- an indication of activities of the Company in the field of research and development - see page 20;
- a statement on the policy for disabled employees - see page 5; and
- employee policies - see page 5.

Corporate governance statement
The Company's Corporate governance statement is detailed on pages 36-46.

Employee engagement statement
Details of how the directors have engaged with employees and considered employees' interests during the year can be found in the Corporate governance statement on page 44.

Business relationships statement
The Company's key business relations are 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 our Strategic report, Corporate governance statement and Section 172 statement.

Customers
- Strategic report - see page 4, 17 and 26;
- Corporate governance statement - see pages 43 and 44; and
- Section 172 statement - Key decisions in relation to the RIIO-ED2 business plan strategy outlines how customer interests have been considered at each step. See pages 50-52.

Suppliers
- Strategic report - see pages 5 and 18; and
- Corporate governance statement - see page 45 and 46.

Regulators
- Strategic report - see page 5 and 27; and
- Corporate governance statement - see page 45.

Directors' report (continued)
For the year ended 31 March 2021

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**	
	2021	2020	**2021**	2020
Scope 1 (direct emissions)				
Operational transport	**3,151**	3,829	**3.05**	3.70
SF6 gas	**1,519**	1,660	**1.47**	1.61
Fuel combustion (diesel / gas oil)	**365**	455	**0.35**	0.44
Buildings	**48**	48	**0.05**	0.05
	5,083	5,992	**4.92**	5.80
Scope 2 (energy indirect emissions)				
Buildings electricity	**702**	928	**0.68**	0.90
Substation electricity	**2,145**	1,848	**2.08**	1.79
WPD Telecoms	**135**	130	**0.13**	0.13
	2,981	2,906	**2.89**	2.82
Total scope 1 & 2	**8,064**	8,898	**7.81**	8.62
Scope 3 (other indirect emissions)				
Business transport	**234**	541	**0.23**	0.52
Operational transport (contractors)	**2,124**	2,789	**2.06**	2.70
Fuel combustion (diesel / gas oil) (contractor)	**837**	1,708	**0.81**	1.65
Total scope 1, 2 & 3	**11,259**	13,937	**8.04**	9.14

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 2021 is kWH 3,587,104 (2020: kWH 3,557,970).

Gas energy consumed for the year to 31 March 2021 is kWH 259,009 (2020: kWH 259,009).

Energy consumed for helicopters for the year to 31 March 2021 is kWH 512,818 (2020: kWH 764,384).

Methodologies used in calculating energy and carbon reporting data
Our BCF details the impact that our operational activities have on the environment in terms of tonnes of equivalent carbon dioxide ("tCO2e") emissions and takes account of our energy usage from offices, transport emissions (operational and business), fuel combustion and the release of greenhouse gases (SF6). The reported data for operational transport (road) and fuel combustion also takes account of a number of our larger contractor emissions as required under the Ofgem reporting requirements.

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

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

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

- Scope 1 (direct emissions) emissions are those from activities owned or controlled by the Company. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, generators and vehicles; and releases of fugitive emissions, for example SF6.
- Scope 2 (energy indirect) emissions are those released into the atmosphere that are associated with consumption of purchased electricity, heat, steam and cooling. These indirect emissions are a consequence of the Company's energy use, but occur at sources that the Company does not own or control. Network losses are identified by Ofgem as being Scope 2 emissions (pending clarification from Ofgem).
- Scope 3 (other indirect) emissions are a consequence of the Company's activities that occur at sources that are not controlled by the Company and are not classed as Scope 2 emissions. Examples of Scope 3 emissions include business travel by means not owned or controlled by the Company, water supply and materials / services that the Company purchases.

Where only Group wide data is available, such as business transport, 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 2020/21, the Company has implemented the following energy efficiency measures:

- replacement of older operational fleet vehicles with more fuel efficient alternatives and improving awareness of the impacts of driving style on fuel efficiency and vehicle emissions;
- the purchase and roll-out of electric operational fleet vehicles;
- installation of electric vehicle charging points at many of our non-operational depot sites for both fleet and employee owned electric vehicles;
- improvements to the reporting of SF6 gas leaks from our installed equipment and fully utilising the infrared SF6 detection cameras enabling us to quickly pinpoint the source of leaks;
- ensuring that all newly built WPD depots achieve the UK Building Research Establishment Environment Assessment Method ("BREEAM") standard of 'Excellent' as a minimum and that refurbished existing depots achieve the 'Very Good' standard; and
- the on-going replacement with more modern and energy efficient heating / 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.

Directors' report (continued)

For the year ended 31 March 2021

Directors and their interests (continued)

Insurance in respect of directors and officers is now maintained by WPD's ultimate parent, National Grid plc. The insurance is third party qualifying insurance and is subject to the conditions set out in the companies acts and remains in ultimate force at the date of signing the Annual Report and Financial Statements.

Statement of disclosure to independent auditor

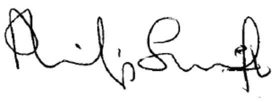
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, of which the auditor is unaware. Each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information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

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

Independent auditor

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

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



P Swift
Chief Executive Officer

30 June 2021

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

Directors' responsibilities

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 the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

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

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

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

Directors’ responsibility statement

We confirm that to the best of our knowledge:

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

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

P Swift
Chief Executive Officer

30 June 2021

Independent auditor's report

to the members of Western Power Distribution (South Wales) plc

<u>Report on the audit of the financial statements</u>

1. Opinion

In our opinion the financial statements of Western Power Distribution (South Wales) plc (the 'Company'):

- **give a true and fair view of the state of the Company's affairs as at 31 March 2021 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. 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

<u>Key audit matters</u>

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

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

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

3. Summary of our audit approach (continued)

Materiality
The materiality that we used in the current year was £5.2m (2020: £5.8m) which was determined on the basis of 5% (2020: 5%) of profit before tax.

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

Significant changes in our approach
We have not identified any new key audit matters in the current year. We identified a key audit matter in the prior year related to pension asset valuations. We have concluded that this is not a key audit matter for this year’s audit. The basis for materiality remains consistent with last year and we have continued to take a controls reliance approach for the Company audit.

4. Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors’ assessment of the Company’s ability to continue to adopt the going concern basis of accounting included:

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

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

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

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

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

We identified a key audit matter in the prior year related to pension asset valuations due to the increased level of risk and volatility as at 31 March 2020. We have concluded that this is not a key audit matter for this year’s audit given the level of risk and volatility has decreased as at 31 March 2021.

5.1 Capitalisation of overheads

Key audit matter description (continued)
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.

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 £19.1m in the year (2020: £18.3m), of which £11.3m (2020: £11.0m) has been capitalised to fixed assets.

Refer to note 2 ‘significant accounting policies’, note 3 ‘critical accounting judgements and key sources of estimation uncertainty’ and note 12 ‘tangible fixed assets’ in the financial statements for further discussion of the group’s policy and judgements in capitalisation of overheads.

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

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

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

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

6. Our application of materiality

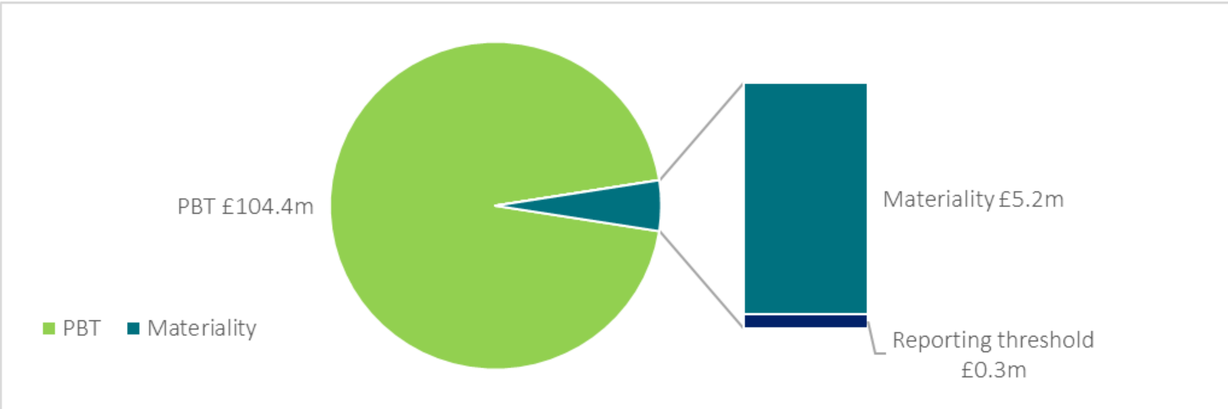
6.1 Materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating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

6. Our application of materiality (continued)

6.1 Materiality (continued)

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

Materiality:	£5.2m (2020: £5.8m)
Basis for determining materiality:	5% of profit before tax. This is consistent with the methodology applied in 2020.
Rationale for the benchmark applied:	We have determined materiality based on profit before tax as this is the key metric used by management, investors, analysts and lenders, with shareholder value being driven by the result.



6.2 Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% (2020: 70%) of materiality for the 2021 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 from prior year audits;
- Our risk assessment, including our understanding of the entity and its environment; and
- Our assessment of the Company’s overall control environment and that we consider it appropriate to rely on internal controls over a number of business processes including fixed assets and revenue.

6.3 Error reporting threshold
We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.3m (2020: £0.3m), 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. An overview of the scope of our audit (continued)

7.2 Our consideration of the control environment

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

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

The Company’s IT landscape contains a number of IT systems, applications and tools used to support business processes and for financial reporting. We involved our internal IT specialists in performing an independent risk assessment of the systems, applications and tools to determine those which are of greatest relevance to the Company’s financial reporting, including those that contain system configured automated controls that host financially relevant data and associated reports.

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

In order to evaluate operating effectiveness of IT controls, we performed walkthrough procedures of the key controls relevant to the business cycles in scope to understand whether the purpose of the control was effectively designed to address the IT related risk. We subsequently performed testing of the control across the audit period, to determine whether the control had been consistently applied as designed.

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

8. Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud 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.

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

11.1 Identifying and assessing potential risks related to irregularities (continued)
We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation.

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

Independent auditor's report

to the members of Western Power Distribution (South Wales) plc (continued)

Report on other legal and regulatory requirements (continued)

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

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Board of Directors, we were appointed by the shareholders on 16 June 2017 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 March 2017 to 31 March 2021.

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

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

15. Use of our report

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

Delyth Jones

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

Profit and loss account

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Turnover	4	**248.0**	263.6
Operating expenses	5	**(111.0)**	(109.0)
Operating profit	6	**137.0**	154.6
Income from fixed asset investments		**-**	0.1
Profit/(loss) on sale of fixed assets		**0.2**	(0.1)
Profit before interest and tax		**137.2**	154.6
Interest receivable and similar income	7	**0.1**	0.1
Interest payable and similar charges	7	**(34.3)**	(38.3)
Net interest income relating to pensions and other post-retirement benefits	25	**1.4**	-
Profit before tax		**104.4**	116.4
Tax on profit	8	**(20.8)**	(31.8)
Profit for the financial year		**83.6**	84.6

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 2021

	Note	2021 £m	2020 £m
Profit for the financial year		**83.6**	84.6
Other comprehensive (loss)/gain:			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Loss arising on cash flow hedges during the year		**(2.7)**	(4.5)
Reclassification adjustments for losses on cash flow hedges included in profit or loss (interest payable)		**(0.4)**	(0.7)
Income tax effect		**0.6**	0.9
		(2.5)	(4.3)
Other comprehensive (loss)/gain not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (losses)/gains on defined benefit pension plans	25	**(119.7)**	88.6
Reimbursement agreement relating to WPUPS pension scheme	25	**54.0**	(49.8)
Income tax effect		**22.7**	(18.9)
		(43.0)	19.9
Other comprehensive (loss)/gain for the year, net of tax		**(45.5)**	15.6
Total comprehensive income for the year, net of tax, attributable to equity holder of the parent		**38.1**	100.2

Statement of changes in equity

For the year ended 31 March 2021

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
At 1 April 2019		291.7	23.2	5.1	4.8	423.1	747.9
Profit for the year		-	-	-	-	84.6	84.6
Other comprehensive (loss)/income		-	-	-	(4.3)	19.9	15.6
Total comprehensive income for the year		-	-	-	(4.3)	104.5	100.2
Equity dividends paid	9	-	-	-	-	(9.3)	(9.3)
At 31 March 2020		291.7	23.2	5.1	0.5	518.3	838.8
Profit for the year		-	-	-	-	83.6	83.6
Other comprehensive loss		-	-	-	(2.5)	(43.0)	(45.5)
Total comprehensive income for the year		-	-	-	(2.5)	40.6	38.1
Equity dividends paid	9	-	-	-	-	(40.0)	(40.0)
At 31 March 2021		**291.7**	**23.2**	**5.1**	**(2.0)**	**518.9**	**836.9**

Balance sheet

As at 31 March 2021

	Note	2021 £m	2020 £m
Non-current assets			
Tangible fixed assets	12	**2,135.2**	2,017.8
Right-of-use asset	14	**1.6**	1.4
Intangible assets	13	**5.3**	4.3
Pension asset	25	**114.3**	201.3
Trade and other receivables	16	**3.3**	0.1
		2,259.7	2,224.9
Current assets			
Stocks	15	**2.6**	2.4
Trade and other receivables	16	**50.7**	45.9
Derivative financial instruments	19	**-**	0.4
Cash at bank and in hand	17	**18.1**	0.5
		71.4	49.2
Creditors			
Amounts falling due within one year	18	**(71.2)**	(216.2)
Derivative financial instruments	19	**-**	(4.9)
Lease liabilities	20	**(0.1)**	(0.1)
Net current assets/(liabilities)		**0.1**	(172.0)
Total assets less current assets/(liabilities)		**2,259.8**	2,052.9
Creditors			
Amounts falling due after more than one year	18	**(1,166.3)**	(898.9)
Lease liabilities	20	**(1.5)**	(1.3)
Provisions for liabilities			
Deferred tax	23	**(143.5)**	(155.3)
Reimbursement agreement re WPUPS	24	**(98.4)**	(149.4)
Other provisions for liabilities	24	**(10.1)**	(9.2)
Pensions liability	25	**(3.1)**	-
Net assets		**836.9**	838.8
Capital and reserves			
Share capital	26	**291.7**	291.7
Share premium account	27	**23.2**	23.2
Capital redemption reserve	27	**5.1**	5.1
Hedging reserve	27	**(2.0)**	0.5
Profit and loss account	27	**518.9**	518.3
Total shareholder's funds		**836.9**	838.8

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

The financial statements of the Company (registered number 2366985) on pages 69 to 115 were approved and authorised for issue by the Board of Directors on 30 June 2021 and were signed on its behalf by:

P Swift
Chief Executive

IR Williams
Finance Director

Statement of cash flows

For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Operating activities			
Profit for the year		**83.6**	84.6
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax expense		**20.8**	31.8
Finance costs		**34.3**	38.3
Finance revenue		**(1.5)**	(0.1)
Depreciation of tangible fixed assets	6	**39.3**	37.3
Amortisation of customer contributions	6	**(7.0)**	(6.5)
Amortisation of intangible assets	6	**0.8**	0.6
(Gain)/loss on disposal of tangible fixed assets		**(0.2)**	0.1
Difference between pension contributions paid and amounts recognised in the profit and loss account		**(25.2)**	(30.0)
Increase in provisions		**0.9**	1.3
Working capital adjustments:			
Increase in inventories		**(0.2)**	(2.0)
(Increase)/decrease in trade and other receivables		**(9.1)**	7.3
Decrease in trade and other payables		**(0.9)**	(2.6)
Interest paid		**(44.0)**	(36.5)
Interest received		**0.1**	0.1
Customers' contributions received		**32.0**	25.4
Income taxes paid		**(7.8)**	(10.8)
Net cash from operating activities		**115.9**	138.3
Investing activities			
Purchase of tangible fixed assets		**(152.5)**	(132.2)
Purchase of intangible assets		**(1.8)**	(1.1)
Proceeds from sale of tangible fixed assets		**0.1**	0.2
Dividends received		**-**	0.1
Net cash used in investing activities		**(154.2)**	(133.0)
Financing activities			
Payment of lease liabilities		**(0.1)**	(0.1)
Repayment of long-term borrowings		**(150.0)**	-
Dividends or equivalent distributions paid		**(40.0)**	(9.3)
Proceeds from long-term borrowings		**246.0**	-
Net cash from/(used in) financing activities		**55.9**	(9.4)
Net increase/(decrease) in cash and cash equivalents		**17.6**	(4.1)
Cash and cash equivalents at beginning of year		**0.5**	4.6
Cash and cash equivalents at end of year	17	**18.1**	0.5

Notes to the financial statements

For the year ended 31 March 2021

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

The financial statements of Western Power Distribution (South Wales) plc ("the Company") for the year ended 31 March 2021 were authorised for issue by the Board of Directors on 30 June 2021 and the balance sheet was signed on the Board's behalf by P Swift and 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 115.

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 the current year financial information.

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 the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This is discussed further under 'Financial risk management objectives and policies' within the Director's report (pages 54 to 56).

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 (South Wales) 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 2020, for the first time for their annual reporting period commencing 1 April 2020:

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

The Company has assessed the impact of these standards and concluded that these standards do not have any material impact on the Company's financial statements.

Foreign currencies

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

Revenue recognition

Distribution Use of System ("DUoS") Revenue

The Company, as a DNO, earns the majority of its turnover from providing distribution use of system services. The services are provided under a Distribution Connection and Use of System 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; and
c) WPD has the right to payment from the customer for the service that has been provided.

2. Significant accounting policies (continued)

Revenue 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 and adjustments will be made to future prices to reflect this over-recovery; an 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.

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

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

Customer contributions
Contributions receivable in respect of 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.

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 and trade and other receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in the profit and loss account.

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

2. Significant accounting policies (continued)

Financial assets (continued)

Debt instruments at amortised cost

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

Financial assets at FVTPL

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

Derecognition of financial assets

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

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

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 Company; or
(ii) Borrower is unlikely to pay its credit obligation to the Company 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 instrument.

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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.

Financial liabilities (continued)

Financial liabilities measured at amortised cost (continued)
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 borrowings.

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

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

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

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.

2. Significant accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

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:

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 South Wales 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.

2. Significant accounting policies (continued)

Leases (continued)

WPD South Wales as a lessee (continued)

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.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the assets are classified as operating leases and rentals payable are charged to the profit and loss account on a straight-line basis over the lease term.

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

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

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

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

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 South Wales 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 their 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:

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

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

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

Intangible assets

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

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

2. Significant accounting policies (continued)

Intangible assets (continued)
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.

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.

2. Significant accounting policies (continued)

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").

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

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

Deferred tax is recognised on all temporary differences except:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

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

Pension benefits

The Company participates in three defined benefit pension plans, the WPD Group segment of the industry-wide Electricity Supply Pension Scheme ("ESPS"), the Infralec 1992 Pension Scheme ("Infralec 92") and the Western Power Utilities Pension Scheme ("WPUPS"). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. Neither the Infralec 92 nor the WPUPS schemes have active members.

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 South West. The net defined benefit cost and net deficit of the plan have been allocated to WPD South West and WPD South Wales in accordance with pensionable salaries.

2. Significant accounting policies (continued)

Pension benefits (continued)
WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the deficit. However, as another WPD Group company (Western Power Distribution Holding Company Limited, formerly PPL WPD Investments Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated under provisions in the balance sheet and matches the gross asset recorded under IAS 19.

The cost of providing benefits under the defined benefit plans 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. WPUPS reimbursement in relation to remeasurement of net defined benefit liability or asset are also recognised within other comprehensive income.

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

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

Share-based payments
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.

2. Significant accounting policies (continued)

Provisions (continued)
If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

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

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes 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 has the most significant effect on the amounts recognised in the financial statements.

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

Uncertain tax positions
The 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.

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

Critical judgements in applying the Company's accounting policies (continued)

Uncertain tax positions (continued)
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.

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

Capitalisation of overheads - capitalisation rate
Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the profit and loss account with a portion being capitalised using an appropriate rate. The capitalisation rate is based on an analysis of total costs or total labour costs, as appropriate, split between capital and expense. The rate is reviewed in detail annually and a reasonableness test is performed in light of total capital spend during the year. The total amount of overheads capitalised at 31 March 2021 is £11.3m (2020: £11.0m). Information on sensitivity to the rate is as below:

	2021 **Profit and loss account +/- £m**	2020 Profit and loss account +/- £m
Change in rate +/- 1%	**0.2**	0.2
Change in rate +/- 5%	**0.9**	0.8

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.

Despite the pandemic, the discount rate assumption during the current year has fallen from 2.31% to 2.01% and the RPI inflation rate assumption has increased from 2.60% to 3.20%. The discount rate as at 31 March 2020 was noticeably higher than the surrounding month ends, accompanied by a fall in inflation expectation. It is likely that this was as a result of the outset of the pandemic and early fears of corporate distress leading to higher credit spreads. As these fears reduced, the discount rates quickly reverted to the previous levels, resulting in an overall surplus on the Company's defined benefit schemes of £114.3m (2020: £201.3m).

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

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

In light of the COVID-19 pandemic, the valuation of property pension assets has been identified as an additional area of estimation uncertainty that impacts the Company's position as at 31 March 2021. The balance of pension assets invested in property amounts to £60.1m (2020: £60.6m), which represents 4% 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.

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 £50.9m, £39.6m, £31.8m, £22.9m and £22.2m (2020: £58.5m, £44.2m, £31.4m, £27.2m and £22.1m).

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.

	2021	2020
	£m	£m
Employee costs (note 10)	**26.5**	23.9
Depreciation (note 6)	**39.3**	37.3
Amortisation of intangible assets (note 6)	**0.8**	0.6
Amortisation of customer contributions (note 6)	**(7.0)**	(6.5)
Property rates	**14.2**	14.0
Other operating expenses*	**37.2**	39.7
Operating expenses	**111.0**	109.0

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

6. Operating profit

	2021 **£m**	2020 £m
Operating profit is stated after charging/(crediting):		
Employee costs	**26.5**	23.9
Depreciation *	**39.3**	37.3
Amortisation of intangible assets	**0.8**	0.6
Rent expense**:		
Plant, machinery and equipment	**0.7**	0.4
Land and buildings	**0.5**	0.5
Amortisation of customer contributions	**(7.0)**	(6.5)
Auditor remuneration:		
Audit fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.1
Non audit fee	**-**	-

Auditor remuneration is included within operating expenses.

* Depreciation is stated net of depreciation capitalised of £5.8m (2020: £5.6m) in respect of equipment consumed during the construction of the electricity network. Depreciation includes depreciation on right-of-use-assets amounting to £0.1m (2020: £0.1m).

** Rent expense pertains to short term and low value leases (refer to note 20).

7. Net interest expense

	2021 **£m**	2020 £m
Interest receivable		
Other	**(0.1)**	(0.1)
Interest payable		
Interest payable on bank loans and overdrafts	**0.7**	-
Interest payable on other loans	**33.9**	38.3
Less: interest capitalised	**(0.3)**	-
Total interest payable	**34.3**	38.3
Net interest expense	**34.2**	38.2

Interest in 2021 was capitalised at a rate of 1.9% (2020: 2.6%), based on the yield on the Company's borrowings.

8. Tax

Tax charged to the profit and loss account:

	2021	2020
	£m	£m
Current tax:		
UK corporation tax on profits for the year (see below)	**9.3**	7.5
Adjustment in respect of prior years	**-**	(0.1)
Deferred tax (note 23):		
Origination and reversal of temporary differences	**9.1**	12.4
Impact of tax rate change	**-**	12.0
Adjustment in respect of prior years	**2.4**	-
Tax expense in the profit and loss account	**20.8**	31.8

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

	2021	2020
	£m	£m
Profit before tax	**104.4**	116.4
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**19.8**	22.1
Effects of:		
Net expenses not deductible/(income not taxable) for tax purposes	**0.4**	0.3
Group relief received at non-standard rates	**(1.8)**	(2.5)
Impact of tax rate change	**-**	12.0
Adjustment to tax charge in respect of prior years	**2.4**	(0.1)
Total tax expense reported in the profit and loss account	**20.8**	31.8

The total tax expense as a percentage of profit before tax gives an effective tax rate of 19.9% (2020: 27.3%) compared to the standard rate of 19% (2020: 19%) due to the effects of the items stated above. Expenses not deductible and income not taxable have been netted off as 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 previous 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 (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, a review of the tax base of fixed assets 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.

8. Tax (continued)

	2021	2020
	£m	£m
Deferred tax:		
On cash flow hedges	**(0.6)**	(0.9)
On re-measurement of pension liabilities	**(22.7)**	18.9
Total tax (credit)/charge in the statement of other comprehensive income	**(23.3)**	18.0

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.

	2021	2020
	£m	£m
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**19.8**	22.1
Adjustments:		
Depreciation and amortisation (note i)	**(1.2)**	(1.0)
Pensions (note ii)	**(7.8)**	(11.2)
Other adjustments (note iv)	**0.3**	0.1
Corporation tax payable on profits before group relief	**11.1**	10.0
Group relief (note v):		
Losses received from other group companies payable at standard rate	**(0.2)**	(0.2)
Losses received from other group companies for free	**(1.8)**	(2.5)
Corporation tax payable on profits after group relief	**9.1**	7.3

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

Corporation tax payable to HM Revenue & Customs	**9.1**	7.3
Group relief payable to other group companies	**0.2**	0.2
	9.3	7.5

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 had reduced the standard rate of corporation tax from 19% to 17% effective from 1 April 2020, but this reduction was reversed by the Finance Act 2020 so the rate remained at 19%. As this reversal was substantively enacted on 17 March 2020, 19% has been used in the calculations of deferred tax for the prior year and the current year. The Finance (No.2) Bill 2021 published on 11 March 2021 increases the standard rate of corporation tax to 25% effective from 1 April 2023. As this rate increase was not substantively enacted until 24 May 2021, it will only affect calculations of deferred tax in future years. Based on the temporary differences at 31 March 2021, the estimated impact of the rate increase would be to increase the deferred tax liability by £44.9m, with £38.4m being charged to the income statement and £6.5m being charged to other comprehensive income.

9. Dividends

	2021	2020
	£m	£m
Dividends on equity shares:		
Interim dividends - 6.9 pence per share (2020: 1.6 pence per share)	**40.0**	9.3

Notes to the financial statements

For the year ended 31 March 2021

10. Employee benefit expense

Employee benefit expense, including director's remuneration, was as follows:

	2021	2020
	£m	£m
Wages and salaries	**54.4**	54.1
Social security costs	**6.4**	6.1
Pension costs	**11.8**	12.6
	72.6	72.8
Less: amounts capitalised	**(46.1)**	(48.9)
Charged to the profit and loss account	**26.5**	23.9

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 during the year was 1,033 (2020: 1,034). All employees work for the network distribution activity. The number of staff and costs shown include a proportion of other WPD DNO staff who work in part for WPD South Wales, and exclude a proportion of WPD South Wales staff who work in part for other WPD DNOs.

Employee costs in the year were capitalised at a rate of 62.9% (2020: 67.2%).

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

11. Directors' emoluments (continued)

(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. The 2021 bonus includes a transition incentive payment in relation to the announcement on 18 March 2021 of the sale of the WPD Group to National Grid plc, the cost of which was covered by PPL.

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

(iv) Under a long term incentive plan, the executive directors were granted phantom stock options. The option price is set at the quoted share price of WPD's parent in the US, PPL Corporation, at the date the phantom options were granted. Options outstanding may be exercised during fixed periods and the gain is payable through the payroll. The values above include any payments made to the executive directors in respect of gains in value of phantom options exercised in the year. None of the executive directors was granted new options in either year; none of the executive directors exercised options (2020: none). In addition, the executive directors receive annually a grant of PPL Corporation shares which cannot generally be accessed for three years; the pay-out value of some of these shares is dependent on the achievement of certain performance criteria which may or may not be met and thus the final value may be considerably less. The value of the shares granted in the year is shown within this line.

(v) The independent UK non-executive directors are entitled to fees as determined by the appropriate Board. No emoluments are paid to US based non-executive directors, who are officers of PPL, in respect of their services as directors to the WPD Group.

(vi) During the year, four executive directors (2020: four) were members of the defined benefit ESPS.

12. Tangible fixed assets

	Leasehold improvements £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
Cost					
At 1 April 2020	10.7	2,745.8	41.5	21.5	2,819.5
Additions	7.0	142.9	9.4	3.0	162.3
Disposals and retirements	-	(7.2)	(3.8)	(0.5)	(11.5)
At 31 March 2021	17.7	2,881.5	47.1	24.0	2,970.3
Depreciation					
At 1 April 2020	0.2	772.7	19.5	9.3	801.7
Charge for the year	0.3	37.1	5.3	2.3	45.0
Disposals and retirements	-	(7.2)	(3.8)	(0.6)	(11.6)
At 31 March 2021	0.5	802.6	21.0	11.0	835.1
Net book value					
At 31 March 2021	**17.2**	**2,078.9**	**26.1**	**13.0**	**2,135.2**
At 31 March 2020	10.5	1,973.1	22.0	12.2	2,017.8

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

	2021 £m	2020 £m
Freehold	**158.2**	148.0
Short leasehold	**0.1**	0.1

Leasehold improvements above relate to a non-network property held on a long term lease.

Included within the Company's fixed assets is land at a cost of £49.2m (2020: £46.4m).

Included within the Company's distribution network and vehicles & mobile plant are assets in the course of construction amounting at 31 March 2021 to £22.0m (2020: £14.3m).

Included in additions are staff costs of £46.1m (2020: £48.9m).

13. Intangible assets

	Computer software £m
Cost	
At 1 April 2020	5.7
Additions	1.8
At 31 March 2021	7.5
Amortisation	
At 1 April 2020	1.4
Charge for the year	0.8
At 31 March 2021	2.2
Carrying amount	
At 31 March 2021	**5.3**
At 31 March 2020	4.3

14. Right-of-use-assets

	Land & buildings £m	Radio sites £m	Total £m
At 1 April 2019	1.4	0.1	1.5
Depreciation	(0.1)	-	(0.1)
At 31 March 2020	1.3	0.1	1.4
At 1 April 2020	**1.3**	**0.1**	**1.4**
Additions	**0.3**	**-**	**0.3**
Depreciation	**(0.1)**	**-**	**(0.1)**
At 31 March 2021	**1.5**	**0.1**	**1.6**

15. Stocks

	2021 £m	2020 £m
Raw materials and consumables	**2.5**	2.2
Work in progress	**0.1**	0.2
	2.6	2.4

Stock includes critical items ordered in bulk in response to the risk of any potential inventory shortage due to Brexit. The cost of stocks recognised as an expense during the year was £1.4m (2020: £1.0m).

The cost of stocks recognised as an expense includes £0.1m (2020: £nil) in respect of write downs of stocks to net realisable value and has been reduced by £nil (2020: £nil) in respect of reversal of such write downs.

16. Trade and other receivables

	2021 £m	2020 £m
Current receivables		
Trade receivables	**43.8**	40.5
Amounts owed by other WPD undertakings	**3.9**	1.8
Other receivables	**0.2**	0.3
Current tax receivable	**-**	1.0
Accrued income	**0.6**	0.8
Prepayments	**2.2**	1.5
Total current receivables	**50.7**	45.9
Non-current receivables		
Prepayments	**0.2**	0.1
Reimbursement asset re unfunded pension liability (note 25)	**3.1**	-
Total trade and other receivables	**3.3**	0.1

Trade receivables includes unbilled DUoS income of £21.8m (2020: £22.0m).

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.

Current tax receivable balance includes group relief payable.

The impact of COVID-19 on ECL has been assessed and is not considered 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, no material slowdown in receipts has been noted.

17. Cash at bank and in hand

	2021 £m	2020 £m
Cash at bank	**0.6**	0.5
Short-term bank deposits	**17.5**	-
Cash at bank and in hand	**18.1**	0.5

Short-term deposits are measured at FVTPL. They are all instant access liquidity funds.

At 31 March 2021, the Company had available £125.0m (2020: £nil) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates.

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

	2021 £m	2020 £m
Cash at bank and in hand (as above)	**18.1**	0.5

18. Creditors

	2021 £m	2020 £m
Amounts falling due within one year:		
Payments received on account	**21.8**	15.7
Trade creditors	**7.0**	3.4
Amounts owed to other WPD undertakings	**0.9**	3.1
UK corporation tax	**0.5**	-
Other taxation and social security	**8.6**	9.6
Other creditors	**0.9**	3.2
Deferred contributions	**7.2**	6.8
Accruals and deferred income	**24.3**	24.5
Unsecured borrowings:		
£150m 9.25% Eurobonds 2020	**-**	149.9
	71.2	216.2
Amounts falling due after more than one year:		
Deferred contributions	**411.3**	391.2
Unsecured borrowings:		
£225m 4.804% bonds 2037	**221.2**	220.9
£200m 5.75% bonds 2040	**197.7**	197.7
£50m 0.010% indexed linked bonds 2029	**57.1**	56.6
£30m 0.010% indexed linked bonds 2036	**32.9**	32.5
£250m 1.625% bonds 2035	**246.1**	-
	1,166.3	898.9

18. Creditors (continued)

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 £6.5m (2020: £5.6m) and discount on issue of £3.8m (2020: £1.3m), and gross of premium of issue of £3.1m (2020: £3.4m). These costs, together with the interest expense, are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount. All interest on bonds is paid annually.

19. Derivative financial instruments

As at 31 March 2021 the Company held the following derivative financial instruments measured at fair value:

	2021			2020		
	Assets	**Liabilities**	**Total**	Assets	Liabilities	Total
	£m	**£m**	**£m**	£m	£m	£m
Forward starting interest rate swap						
Current	-	-	-	0.4	(4.9)	(4.5)

As at 31 March 2021 the Company had no forward starting interest rate swap agreements. The forward starting interest rate swaps entered into in 2020 were cashed out in the year when the Company issued a £250m loan note (see note 18).

20. Lease liabilities

	2021	2020
	£m	£m
Opening	**1.4**	1.5
Additions during the year	**0.3**	-
Payments during the year	**(0.1)**	(0.1)
At 31 March	**1.6**	1.4
of which		
Current	**0.1**	0.1
Non-current	**1.5**	1.3

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

Short term leases and low value leases are excluded from recognition on the balance sheet. The amount of expense charged to rent expense pertaining to short term leases amounts to £1.1m (2020: £0.8m) and pertaining to low value leases amounts to £0.1m (2020: £0.1m).

21. Net debt

	2021	2020
	£m	£m
Long-term borrowings	**755.0**	657.6
Lease liabilities	**1.6**	1.4
Amounts owed to other WPD undertakings	**0.9**	3.1
Less: Cash at bank and in hand	**(18.1)**	(0.5)
Net debt	**739.4**	661.6

Reconciliation of cash flows to net debt

	2021	2020
	£m	£m
Net (increase)/decrease in cash and cash equivalents	**(17.6)**	4.1
Net decrease in amounts owed to other WPD undertakings	**(2.2)**	(0.3)
Payment of lease liabilities	**(0.1)**	(0.1)
Change in debt resulting from cash flows	**(19.9)**	3.7
Net increase in borrowings due to indexation	**1.2**	2.3
Amortisation of premiums, discounts and issue costs	**0.2**	0.2
Leases acquired during the year	**0.3**	1.5
Net increase in long-term borrowings	**96.0**	-
Movement in net debt in the year	**77.8**	7.7
Net debt at beginning of year	**661.6**	653.9
Net debt at end of year	**739.4**	661.6

22. Reconciliation of changes in liabilities arising from financing activities

	2021	2020
	£m	£m
Borrowings	**755.0**	657.6
Lease liabilities	**1.6**	1.4
Gross debt	**756.6**	659.0

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

Change in liabilities arising from financing activities

	2021	2020
	£m	£m
Proceeds from long-term borrowings	**246.0**	-
Repayments of long-term borrowings	**(150.0)**	-
Payment of lease liabilities	**(0.1)**	(0.1)
Change in liabilities arising from financing cash flows	**95.9**	(0.1)
Net increase in borrowings due to indexation	**1.2**	2.3
Amortisation of premiums, discounts and issue costs	**0.2**	0.2
Leases acquired during the year	**0.3**	1.5
Movement in gross debt in the year	**97.6**	3.9
Gross debt at beginning of year	**659.0**	655.1
Gross debt at end of year	**756.6**	659.0

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	Retirement benefit obligation	Other	Total
	£m	£m	£m	£m
At 1 April 2019	103.6	13.4	(4.0)	113.0
Charge to the profit and loss account	15.1	6.0	3.2	24.3
Charge/(credit) to equity	-	18.9	(0.9)	18.0
At 1 April 2020	118.7	38.3	(1.7)	155.3
Charge to the profit and loss account	5.5	5.6	0.4	11.5
Credit to equity	-	(22.7)	(0.6)	(23.3)
At 31 March 2021	**124.2**	**21.2**	**(1.9)**	**143.5**

Accelerated capital allowances represents the tax deferred on profits due to the difference in time when the deductions for expenditure on fixed assets are recognised in the income statement through depreciation and when tax deductions for that expenditure through capital allowances are included in tax returns filed with HMRC. Deferred tax arises on retirement benefit obligations as tax deductions are included in tax returns as contributions are paid to the pension schemes and not when the obligations or surpluses on the schemes are recorded in the financial statements. The other deferred tax balances relate to items such as provisions and accruals that are tax deductible when paid rather than when accrued and debt value adjustments that are taxed/deducted under tax rules at times different to when those adjustments have been recognised in the income statements. The net deferred tax liability will impact the Company's tax payments over a very long period of time mainly due to the long expected useful lives of fixed assets and the Company's pension schemes having no fixed maturity dates.

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:

	2021	2020
	£m	£m
Deferred tax liabilities	**146.8**	157.9
Deferred tax assets	**(3.3)**	(2.6)
Provision for deferred tax at 31 March	**143.5**	155.3

The net deferred tax liability due after more than one year is £143.0m (2020: £155.6m).

24. Provisions for liabilities

	Deferred taxation (Note 23)	Reimbursement agreement re WPUPS	Asset retirement obligations	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2020	155.3	149.4	6.1	3.1	313.9
Arising during the year	(11.8)	(51.0)	1.4	(0.2)	(61.6)
Utilised during the year	-	-	(0.2)	(0.1)	(0.3)
At 31 March 2021	**143.5**	**98.4**	**7.3**	**2.8**	**252.0**

Detail in respect of the reimbursement agreement re WPUPS is included in note 25.

Asset retirement obligations ("AROs") 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 2021 substantially relate to uninsured losses and an expected settlement of liabilities relating to the Electricity Association Technology Limited ("EATL") of £0.5m 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

Introduction

The Company participates in three defined benefit schemes, the WPD Group segment of the Electricity Supply Pension Scheme ("ESPS"), the Infralec 1992 Pension Scheme ("Infralec 92"), and the Western Power Utilities Pension Scheme ("WPUPS").

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

Effective 1 April 2010, the WPD Group segment of the ESPS was closed to new members except in very limited circumstances. Existing members are unaffected. A defined contribution scheme is being offered to new employees.

The Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales. The assets are held in a trustee administered fund. It has no active members.

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the deficit. However, as another WPD Group company (Western Power Distribution Holding Company Limited, formerly PPL WPD Investments Limited, novated from PPL WPD Limited during the year) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet (note 24) and matches the gross asset recorded under IAS 19.

The asset or liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligations at the end of the reporting period less the fair value of the plan assets. The defined benefit obligations are calculated annually by independent actuaries, Aon Hewitt Limited, using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are determined 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 to income.

The schemes are funded, defined benefit, final salary pension plans. The level of benefits provided depends on members' length of service and their salary at their date of leaving the Company. The majority of pensions in payment receive inflationary increases in line with the RPI (Retail Price 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 schemes' investment strategy is decided by the Trustees, in consultation with the employer. The Boards of Trustees must be composed of representatives of the employer and plan participants in accordance with the scheme's legal documentation.

25. Pension commitments (continued)

Introduction (continued)

The net defined benefit cost and net surplus or deficit of the ESPS plan have been allocated to WPD South West and WPD South Wales in accordance with pensionable salaries, currently 37.8% (2020: 37.7%) to WPD South Wales. The figures below show the proportion allocated to WPD South Wales.

The Company also has an unfunded liability in respect of previous executives. The reimbursement agreement in relation to this was amended during the year on transfer to Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) from PPL WPD Limited. Western Power Distribution Holding Company Limited (formerly PPL WPD Investments Limited) has taken full responsibility for this scheme and, therefore, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet and matches the liability recorded under IAS 19 (note 16).

The amounts recognised in the WPD South Wales' balance sheet are determined as follows:

	2021			
	ESPS	**WPUPS**	**Infralec 92**	**Total**
	£m	**£m**	**£m**	**£m**
Present value of obligations	**985.1**	**509.9**	**13.6**	**1,508.6**
Fair value of scheme assets	**(997.1)**	**(608.3)**	**(17.5)**	**(1,622.9)**
Surplus of funded plan and liability	**(12.0)**	**(98.4)**	**(3.9)**	**(114.3)**
Unfunded pension obligation				**3.1**
Total pension asset				**(111.2)**

	2020			
	ESPS	WPUPS	Infralec 92	Total
	£m	£m	£m	£m
Present value of obligations	861.0	476.1	12.7	1,349.8
Fair value of scheme assets	(910.4)	(625.5)	(15.2)	(1,551.1)
Surplus of funded plan and liability	(49.4)	(149.4)	(2.5)	(201.3)

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

25. Pension commitments (continued)

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

	2021			
	ESPS	**WPUPS**	**Infralec 92**	**Total**
	£m	**£m**	**£m**	**£m**
Current service cost	**10.3**	**-**	**-**	**10.3**
Administrative costs	**0.5**	**0.5**	**-**	**1.0**
WPUPS reimbursement agreement	**-**	**(0.5)**	**-**	**(0.5)**
Operating charge relating to defined benefit plans	**10.8**	**-**	**-**	**10.8**
Interest income on plan assets	**(21.0)**	**(14.2)**	**(0.3)**	**(35.5)**
Interest on plan liabilities	**19.6**	**10.7**	**0.3**	**30.6**
WPUPS reimbursement agreement	**-**	**3.5**	**-**	**3.5**
Other finance income	**(1.4)**	**-**	**-**	**(1.4)**

	2020			
	ESPS	WPUPS	Infralec 92	Total
	£m	£m	£m	£m
Current service cost	11.3	-	-	11.3
Administrative costs	0.5	0.6	-	1.1
WPUPS reimbursement agreement	-	(0.6)	-	(0.6)
Operating charge relating to defined benefit plans	11.8	-	-	11.8
Interest income on plan assets	(21.6)	(14.4)	(0.4)	(36.4)
Interest on plan liabilities	21.7	12.1	0.3	34.1
WPUPS reimbursement agreement	-	2.3	-	2.3
Other finance expense/(income)	0.1	-	(0.1)	-

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

25. Pension commitments (continued)

Analysis of the amount recognised in other comprehensive income:

	2021			
	ESPS £m	**WPUPS £m**	**Infralec 92 £m**	**Total £m**
(Gain)/loss on plan assets excluding amounts included in interest income	**(63.7)**	**6.4**	**(2.4)**	**(59.7)**
Loss from change in demographic assumptions	**-**	**0.7**	**-**	**0.7**
Loss from change in financial assumptions	**137.0**	**52.5**	**1.4**	**190.9**
Experience gains	**(6.1)**	**(5.6)**	**(0.2)**	**(11.9)**
Change in percentage allocation rate	**(0.3)**	**-**	**-**	**(0.3)**
WPUPS reimbursement agreement	**-**	**(54.0)**	**-**	**(54.0)**
Remeasurement loss/(gain) recognised in other comprehensive income	**66.9**	**-**	**(1.2)**	**65.7**

	2020			
	ESPS £m	WPUPS £m	Infralec 92 £m	Total £m
Loss/(gain) on plan assets excluding amounts included in interest income	29.3	(13.5)	0.7	16.5
(Gain)/loss from change in financial assumptions	(4.7)	5.4	-	0.7
Gain from change in financial assumptions	(71.6)	(22.6)	(0.6)	(94.8)
Experience losses/(gains)	8.1	(19.1)	0.1	(10.9)
Change in percentage allocation rate	(0.1)	-	-	(0.1)
WPUPS reimbursement agreement	-	49.8	-	49.8
Remeasurement (gain)/loss recognised in other comprehensive income	(39.0)	-	0.2	(38.8)

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

25. Pension commitments (continued)

WPD South Wales segment of ESPS

	Year ended 31 March 2021			Year ended 31 March 2020		
	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	**861.0**	**(910.4)**	**(49.4)**	932.7	(913.2)	19.5
Current service cost	**10.3**	**-**	**10.3**	11.3	-	11.3
Administrative cost	**0.5**	**-**	**0.5**	0.5	-	0.5
Interest expense/(income)	**19.6**	**(21.0)**	**(1.4)**	21.7	(21.6)	0.1
	30.4	**(21.0)**	**9.4**	33.5	(21.6)	11.9
Remeasurements:						
(Gain)/loss on plan assets excluding amounts included in interest income	**-**	**(63.7)**	**(63.7)**	-	29.3	29.3
Gain from change in demographic assumptions	**-**	**-**	**-**	(4.7)	-	(4.7)
Loss/(gain) from change in financial assumptions	**137.0**	**-**	**137.0**	(71.6)	-	(71.6)
Experience (gains)/losses	**(6.1)**	**-**	**(6.1)**	8.1	-	8.1
Change in percentage allocation rate	**2.4**	**(2.7)**	**(0.3)**	0.1	(0.2)	(0.1)
	133.3	**(66.4)**	**66.9**	(68.1)	29.1	(39.0)
Contributions:						
Employer	**-**	**(38.9)**	**(38.9)**	-	(41.8)	(41.8)
Plan participants	**1.5**	**(1.5)**	**-**	1.6	(1.6)	-
	1.5	**(40.4)**	**(38.9)**	1.6	(43.4)	(41.8)
Payments from plan:						
Benefit payments	**(40.6)**	**40.6**	**-**	(38.2)	38.2	-
Administrative costs	**(0.5)**	**0.5**	**-**	(0.5)	0.5	-
	(41.1)	**41.1**	**-**	(38.7)	38.7	-
Liability/(asset) at 31 March	**985.1**	**(997.1)**	**(12.0)**	861.0	(910.4)	(49.4)

25. Pension commitments (continued)

WPUPS

	Year ended 31 March 2021			Year ended 31 March 2020		
	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	**476.1**	**(625.5)**	**(149.4)**	525.4	(623.3)	(97.9)
Administrative cost	**0.5**	**-**	**0.5**	0.6	-	0.6
Interest expense/(income)	**10.7**	**(14.2)**	**(3.5)**	12.1	(14.4)	(2.3)
	11.2	**(14.2)**	**(3.0)**	12.7	(14.4)	(1.7)
Remeasurements:						
Loss/(gain) on plan assets excluding amounts included in interest income	**-**	**6.4**	**6.4**	-	(13.5)	(13.5)
Loss from change in demographic assumptions	**0.7**	**-**	**0.7**	5.4	-	5.4
Loss/(gain) from change in financial assumptions	**52.5**	**-**	**52.5**	(22.6)	-	(22.6)
Experience gains	**(5.6)**	**-**	**(5.6)**	(19.1)	-	(19.1)
	47.6	**6.4**	**54.0**	(36.3)	(13.5)	(49.8)
Contributions:						
Employer	-	-	-	-	-	-
	-	-	-	-	-	-
Payments from plan:						
Benefit payments	**(24.5)**	**24.5**	-	(25.1)	25.1	-
Administrative costs	**(0.5)**	**0.5**	-	(0.6)	0.6	-
	(25.0)	**25.0**	-	(25.7)	25.7	-
Liability/(asset) at 31 March	**509.9**	**(608.3)**	**(98.4)**	476.1	(625.5)	(149.4)

Notes to the financial statements
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25. Pension commitments (continued)

Infralec 92

	Year ended 31 March 2021			Year ended 31 March 2020		
	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	**12.7**	**(15.2)**	**(2.5)**	13.4	(16.0)	(2.6)
Interest expense/(income)	**0.3**	**(0.3)**	**-**	0.3	(0.4)	(0.1)
	0.3	**(0.3)**	**-**	0.3	(0.4)	(0.1)
Remeasurements:						
(Gain)/loss on plan assets excluding amounts included in interest income	**-**	**(2.4)**	**(2.4)**	-	0.7	0.7
Loss/(gain) from change in financial assumptions	**1.4**	**-**	**1.4**	(0.6)	-	(0.6)
Experience (gains)/losses	**(0.2)**	**-**	**(0.2)**	0.1	-	0.1
	1.2	**(2.4)**	**(1.2)**	(0.5)	0.7	0.2
Contributions:						
Employer	**-**	**(0.2)**	**(0.2)**	-	-	-
	-	**(0.2)**	**(0.2)**	-	-	-
Payments from plan:						
Benefit payments	**(0.6)**	**0.6**	**-**	(0.5)	0.5	-
	(0.6)	**0.6**	**-**	(0.5)	0.5	-
Liability/(asset) at 31 March	**13.6**	**(17.5)**	**(3.9)**	12.7	(15.2)	(2.5)

The significant actuarial assumptions made were as follows:

	2021			2020		
	ESPS	**WPUPS**	**Infralec 92**	ESPS	WPUPS	Infralec 92
RPI inflation	**3.20%**	**3.20%**	**3.20%**	2.60%	2.60%	2.60%
CPI inflation	**2.70%**	**2.70%**	**2.70%**	2.00%	2.00%	2.00%
Rate of general long-term salary increase	**3.70%**	**N/a**	**N/a**	3.10%	N/a	N/a
RPI-linked pension increases	**3.15%**	**3.20%**	**3.20%**	2.60%	2.60%	2.60%
CPI-lined pension increases	**N/a**	**2.70%**	**N/a**	N/a	2.00%	N/a
Post-88 GMP pension increases	**2.30%**	**2.30%**	**2.30%**	1.85%	1.85%	1.85%
Discount rate for scheme liabilities	**2.03%**	**2.03%**	**2.03%**	2.31%	2.31%	2.31%

25. Pension commitments (continued)

Assumptions relating to future mortality are set based on actuarial advice in accordance with published statistics and experience. The impact of the COVID-19 outbreak on long term mortality trends is currently unclear and therefore has not been included in the mortality assumptions. These assumptions translate into an average life expectancy in years for a member at age 60:

WPD South Wales segment of ESPS	**31 March 2021**	31 March 2020
Mortality table adopted	Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	**25.9**	25.9
Life expectancy for a female currently aged 60	**28.0**	27.9
Life expectancy at 60 for a male currently aged 40	**26.7**	26.7
Life expectancy at 60 for a female currently aged 40	**28.9**	28.8

WPUPS	**31 March 2021**	31 March 2020
Mortality table adopted	* with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	* with CMI 2018 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	**26.1**	26
Life expectancy for a female currently aged 60	**28.5**	28.4
Life expectancy at 60 for a male currently aged 40	**27.1**	27.0
Life expectancy at 60 for a female currently aged 40	**29.6**	29.6

* Male non-pensioners: 105% of S3PMA base tables, female non-pensioners: 97% of S3PFA_middle base tables, male pensioners: 103% of S3PMA base tables, female pensioners: 96% of S3PFA_middle base tables

INFRALEC 92	**31 March 2021**	31 March 2020
Mortality table adopted	100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	**25.9**	25.9
Life expectancy for a female currently aged 60	**28.0**	27.9
Life expectancy at 60 for a male currently aged 40	**27.1**	27.1
Life expectancy at 60 for a female currently aged 40	**29.3**	29.2

25. Pension commitments (continued)

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

	Change in assumption %	Impact on defined benefit obligation ESPS £m	WPUPS £m	Infralec 92 £m
Discount rate	-/+0.50%	+96.8/-83.4	+37.5/-33.3	+1.0/-0.9
RPI inflation	+/-0.50%	+90.9/-79.5	+31.1/-28.2	+0.7/-0.8
Life expectancy	+ 1 year	+47.0	+26.0	+0.7

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.

WPD South Wales Segment of ESPS scheme assets are comprised as follows:

	31 March 2021		31 March 2020	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an market £m
Equities	**317.3**	**-**	183.2	-
Credit	**78.7**	**-**	-	-
Property (i)	**60.1**	**60.1**	60.6	60.6
Macro-orientated	**48.0**	**-**	41.2	-
Multi-strategy	**144.4**	**-**	226.6	-
LDI Strategy	**339.2**	**-**	397.0	-
Other	**9.4**	**-**	1.8	-
Total	**997.1**	**60.1**	910.4	60.6

WPUPS scheme assets are comprised as follows:

	31 March 2021		31 March 2020	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an market £m
Equities	**123.9**	**-**	72.4	-
Government bonds	**484.2**	**-**	552.2	-
Other	**0.2**	**-**	0.9	-
Total	**608.3**	**-**	625.5	-

25. Pension commitments (continued)

Infralec 92 scheme assets are comprised as follows:

	31 March 2021		31 March 2020	
	Total	**Of which not quoted in an active market**	Total	Of which not quoted in an market
	£m	**£m**	£m	£m
Equities	**7.5**	-	5.4	-
Government bonds	**5.6**	-	5.7	-
Corporate bonds	**4.0**	-	3.8	-
Other	**0.4**	-	0.3	-
Total	**17.5**	-	15.2	-

(i) Due to the COVID-19 outbreak, there is some uncertainty in respect of property valuations. 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 changes in the valuation of property assets is as follows:

	Change in assumption %	Impact on fair value of planned assets £m
Fair value of property assets	- 10 %	(6.0)
Fair value of property assets	- 15 %	(9.0)

There is no self-investment in the schemes.

Through its defined benefit pension plans, 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 schemes' long-term objectives.
Change in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). 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 schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The schemes use government bonds, corporate bonds and cash as matching assets. The remainder of assets are used as growth assets.

25. Pension commitments (continued)

The employer has agreed that it will aim to eliminate the schemes' deficits (as assessed on the ongoing funding basis) by 30 November 2024 for the WPD segment of the ESPS and by 30 September 2024 for Infralec 92.

The current agreed employer contributions are 31.2% per annum of pensionable salaries for the WPD segment of the ESPS from 1 April 2020 to 31 March 2023 and 42.4% per annum of pensionable salaries thereafter in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits, plus an additional £0.5m per annum from 1 April 2020 in respect of expenses. Company deficit contributions are £30.2m per annum payable from 1 April 2020 to 31 March 2021 and £6.8m per annum payable from 1 April 2021 to 30 November 2024.

The results of the 31 March 2019 funding valuation showed that WPUPS was in surplus on the ongoing funding basis. As a result, no deficit contributions are required, and the expected employer contributions to the scheme for the year ending 31 March 2022 are nil.

On 31 March each year, from 31 March 2021 to 31 March 2024 (inclusive) the Company will pay £0.2m per annum into Infralec 92.

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 employer contributions to the schemes for the year ending 31 March 2022 are £15.2m for the WPD South Wales segment of the ESPS.

The results of 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 18 years for the WPD segment of the ESPS and around 14 years for both WPUPS and Infralec 92.

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 2021 there were 194 members with deferred benefits in the scheme (2020: 198) and 5 pensioners (2020: 4). Market value of the assets was £2.3m (2020: £1.9m).

(b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2021 there were 4,295 members (2020: 4,058). The market value of the assets of the open section of the scheme was £139.4m (2020: £97.0m). Employer contributions to the scheme across WPD amounted to £10.6m in the year (2020: £9.7m).

26. Share capital

	2021	2020
	£m	£m
Issued and fully paid:		
583,442,224 ordinary shares of 50p each	**291.7**	291.7

27. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2019	23.2	5.1	4.8	423.1
Profit for the financial year	-	-	-	84.6
Net movement on cash flow hedges (net of tax)	-	-	(4.3)	-
Dividends paid	-	-	-	(9.3)
Actuarial gains on defined benefit pension plans (net of tax)	-	-	-	19.9
At 1 April 2020	23.2	5.1	0.5	518.3
Profit for the financial year	-	-	-	83.6
Net movement on cash flow hedges (net of tax)	-	-	(2.5)	-
Dividends paid	-	-	-	(40.0)
Actuarial losses on defined benefit pension plans (net of tax)	-	-	-	(43.0)
At 31 March 2021	**23.2**	**5.1**	**(2.0)**	**518.9**

The share premium account arose on the issue of shares under share option schemes and the capital redemption reserve is in respect of the purchase of its own shares by the Company, both prior to 1996.

The hedging reserve relates to value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt. The interest rate derivatives were settled in prior years and the gain continues to be amortised through the profit and loss account over the term of the debt.

28. Contingent liabilities

Legal proceedings
WPD South Wales is party to various legal claims, actions and complaints. Although WPD South Wales 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 South Wales' 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:

	2021 £m	2020 £m
Tangible fixed assets	**6.5**	9.9

30. Events after the reporting period

Subsequent to the year end, on 15 April 2021, dividends of £20.0m (3.4 pence per share) were paid by the Company to WPD Distribution Network Holdings Limited.

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

31. Ultimate parent undertaking

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

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

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 entity. 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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