THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended (the "FSMA") if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your existing Ordinary Shares in National Grid plc (the "**Company**", and together with its subsidiary undertakings, "**National Grid**"), please send this document, together with the accompanying form of proxy (the "**Form of Proxy**") as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. However, these documents should not be forwarded, distributed or transmitted in, into or from any jurisdiction where to do so would violate the laws of that jurisdiction. If you have sold or otherwise transferred only part of your holdings of Ordinary Shares you should retain these documents and contact the bank, stockbroker or other agent through whom the sale or transfer was effected.

This document is a circular relating to the WPD Acquisition which has been prepared in accordance with the Listing Rules and approved by the Financial Conduct Authority (the "**FCA**").

The Company and the Directors, whose names appear at paragraph 2 of Part VI (*Additional Information*), accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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nationalgrid

National Grid plc

(*Incorporated and registered in England and Wales with registered number 04031152*)

Proposed Acquisition of PPL WPD Investments Limited the holding company of the Western Power Distribution group

and

Notice of General Meeting

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 9 to 15 of Part I (*Letter from the Chairman of National Grid plc*) of this document and which contains a unanimous recommendation from the Board that you vote in favour of the resolutions to be proposed at the General Meeting referred to below. Your attention is also drawn to the risk factors set out on pages 16 to 22 of Part II (*Risk Factors*) of this document, which includes a discussion of certain risk factors which should be taken into account when considering the WPD Acquisition.

Notice of the General Meeting of the Company to be held at 12 pm on Thursday 22 April 2021 at 1-3 Strand, London, WC2N 5EH (the "**General Meeting**") is set out at the end of this document (the "**Notice of General Meeting**"). In light of the COVID-19 pandemic and the current UK Government restrictions which prohibit, among other things, public gatherings, the General Meeting will take place as a closed meeting.

Shareholders should vote by way of proxy in advance of the General Meeting. A Form of Proxy for use at the General Meeting is enclosed. It is important that you complete, sign and return a Form of Proxy in accordance with the instructions printed on it. To ensure your vote is counted, you should appoint the 'Chairman of the meeting' as your proxy. To be valid, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed thereon and the Notice of General Meeting so as to be received by Equiniti (the "**Registrar**"), at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom, as soon as possible but in any event it must arrive no later than 12 pm on Tuesday 20 April 2021. Alternatively, Shareholders can complete the Form of Proxy online at www.sharevote.co.uk or www.shareview.co.uk by the same deadline. Members of CREST may be able to use the CREST electronic proxy appointment service as set out in the Notice of General Meeting.

If you have any questions about this document, the General Meeting or the completion and return of the Form of Proxy, please contact the Registrar between 8.30 am and 5.30 pm (UK time) Monday to Friday (excluding public holidays) on 0800 169 7775 (from the United Kingdom), or +44 800 169 7775 (from outside the United Kingdom international rates apply). Please note that calls may be monitored or recorded and the Registrar cannot provide financial, legal or tax advice on the merits of the WPD Acquisition.

Barclays Bank PLC, acting through its Investment Bank ("**Barclays**"), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for the Company and no one else in connection with the WPD Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Barclays nor for providing advice in relation to the WPD Acquisition or any other matter referred to in this document.

Goldman Sachs International ("**Goldman Sachs**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser exclusively for the Company and no one else in connection with the WPD Acquisition and will not regard any other person as its client in relation to the WPD Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Goldman Sachs or its affiliates, nor for providing advice in connection with the WPD Acquisition or any other matter or arrangement referred to in this document.

Robey Warshaw LLP ("**Robey Warshaw**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser exclusively for the Company and no one else in connection with the WPD Acquisition and will not regard any other person as its client in relation to the WPD Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Robey Warshaw, nor for providing advice in connection with the WPD Acquisition or any other matter or arrangement referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on Barclays, Goldman Sachs or Robey Warshaw by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of Barclays, Goldman Sachs or Robey Warshaw, or any of their respective subsidiaries, branches or affiliates accepts any responsibility or liability whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this document, including its accuracy, completeness or for any other statement made or purported to be made by any of them, or on their behalf, in connection with National Grid or the WPD Acquisition. Each of Barclays, Goldman Sachs and Robey Warshaw and their respective subsidiaries, branches and affiliates accordingly disclaim to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) in respect of this document or any such statement or otherwise.

Persons into whose possession this document comes should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this document and the transactions referred to herein. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. The contents of this document should not be construed as legal, business or tax advice.

Notice to all Shareholders

Any reproduction or distribution of this Circular, in whole or in part, and any disclosure of its contents or use of any information contained in this Circular for any purpose other than considering the resolutions is prohibited.

No person has been authorised to give any information or make any representations other than those contained in this Circular and, if given or made, such information or representations must not be relied upon as having been authorised by the Company. The Company does not take any responsibility for, and can provide no assurance as to the reliability of, other information that you may be given. The delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of National Grid since the date of this Circular or that the information in this Circular is correct as at any time after its date.

The contents of this Circular should not be construed as legal, business or tax advice. Each Shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice, respectively.

Notice to overseas Shareholders

The release, publication or distribution of this document in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and should observe, any applicable requirements. Any failure to comply with these requirements may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the WPD Acquisition disclaim any responsibility or liability for the violation of such requirements by any person.

This Circular is dated 31 March 2021.

CONTENTS

PRESENTATION OF INFORMATION

1. Forward-looking statements

Certain statements contained in this document, which include, but are not limited to, statements in respect of the transactions, the expected timetable for completing the transactions, the benefits of the transactions, and certain plans, targets and expectations relating to the future financial condition, performance, strategic initiatives, objectives and results of National Grid and/or the WPD Group and/or the Enlarged Group, constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", "seek", "may", "could", "outlook" and similar statements of a future or forward-looking nature. Forward-looking statements may be affected by a number of variables which are or may be beyond the control of National Grid and/or the WPD Group and which could cause actual results of trends to differ materially, including, but not limited to, domestic and global economic business conditions; market-related risks such as fluctuations in interest rates and electricity prices; the policies and actions of governmental and regulatory authorities; the effect of competition, inflation and deflation; the effect of legislative, fiscal, tax and regulatory developments in the jurisdictions in which National Grid and the WPD Group and their respective affiliates operate; the effect of volatility in the equity, capital and credit markets on profitability; a decline in credit ratings of National Grid and/or the WPD Group; the effect of operational risks; an unexpected decline in revenue; and the loss of key personnel. Each forward-looking statement contained in this document speaks only as at the date of this document. Except as required by applicable law, including the Listing Rules, the Prospectus Rules, the EU Market Abuse Regulation, the UK Market Abuse Regulation and the Disclosure Guidance and Transparency Rules, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any changes in the Company's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

By their nature, all forward-looking statements involve known and unknown risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. As a result, undue reliance should not be placed on forward-looking statements. As a result, the actual results of operation, financial condition, prospects, growth, strategies and dividend policy of National Grid, the WPD Group and the Enlarged Group, and the development of the industry in which they operate, may differ materially from the plans, goals and expectations set forth in any forward-looking statements. In addition, even if the results of operation, financial condition, prospects, growth, strategies and dividend policy of National Grid, the WPD Group and the Enlarged Group, and the development of the industry in which they operate, are consistent with the forward-looking statements in this document, those results or developments may not be indicative of results or developments in subsequent periods. These forward-looking statements are qualified by the risk factors described in Part II (*Risk Factors*) of this document.

Any forward-looking statement contained in this document based on past or current trends and/or activities of National Grid and/or the WPD Group and should not be taken as a representation that such trends or activities will continue in the future.

The statements above relating to forward-looking statements should not be construed as a qualification of the statement as to the sufficiency of working capital set out in paragraph 8 of Part VI (*Additional Information*) of this document.

2. Sources and presentation of financial information

2.1 *Market and industry data*

Certain information in this document has been sourced from third parties. Where information in this document has been sourced from third parties, the source of such information has been clearly stated adjacent to the reproduced information.

All information contained in this document which has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

All references to market data, industry statistics and forecasts and other information in this document consist of estimates based on data and reports compiled by industry professionals, organisations, analysts, publicly available information or the Company's own knowledge of its sales and markets.

Market data and statistics are inherently speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products/services and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that: the markets may be defined differently; the underlying information may be gathered by different methods; and different assumptions may be applied in compiling the data. Accordingly, the market statistics included in this document should be viewed with caution and no representation or warranty is given by any person as to their accuracy.

2.2 ***Sources and presentation of financial information relating to National Grid***

Unless specified otherwise, financial information relating to National Grid as at and for the years ended 31 March 2018, 31 March 2019 and 31 March 2020 has been extracted without adjustment from the consolidated, audited financial information relating to National Grid as at and for the years ended 31 March 2018, 31 March 2019 and 31 March 2020.

2.3 ***Sources and presentation of financial information relating to WPD***

Pursuant to the WPD Acquisition, PPL WPD will divest its 100% ownership in PPL WPD Investments Limited, the holding company of the Western Power Distribution group of companies. Unless specified otherwise, financial information relating to the WPD Group as at and for the years ended 31 March 2018, 31 March 2019 and 31 March 2020 has been extracted without adjustment from the audited consolidated financial statements of Western Power Distribution plc and its subsidiary undertakings and the audited financial statements of PPL WPD Investments Limited as at and for the years ended 31 March 2018, 31 March 2019 and 31 March 2020 and the notes thereto (together, the "**WPD Financial Information**") is included in Section A of Part IV (*Financial Information of PPL WPD Investments Limited and Subsidiaries*) of this document.

The WPD Financial Information has been prepared in accordance with the basis of preparation set out in note 1 to the WPD Financial Information. The accountant's report from Deloitte LLP on the WPD Financial Information is set out in Section B of Part IV (*Financial Information of PPL WPD Investments Limited and Subsidiaries*).

The WPD Financial Information has been prepared in a manner consistent with the accounting policies adopted by National Grid in preparing its audited consolidated financial information for the year ended 31 March 2020.

2.4 ***Enlarged Group financial information***

Following Completion, PPL WPD Investments will be a subsidiary of the Company and the accounting policies applied to the WPD Group will be the same as those applied to National Grid.

3. Pro forma financial information

In this document, any reference to "pro forma" financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in Part V (*Unaudited Pro Forma Financial Information of the Enlarged Group*) of this document.

The Unaudited Pro Forma Financial Information is for illustrative purposes only. Because of its nature, the Unaudited Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of National Grid, the WPD Group or the Enlarged Group.

Future results of operations may differ materially from those presented in the Unaudited Pro Forma Financial Information due to various factors.

4. Presentation of certain key performance indicators

This document contains certain key performance indicators for National Grid and the WPD Group that are supplementary measures that are not required by, or presented in accordance with, International

Financial Reporting Standards as adopted by the European Union ("**IFRS**") or other generally accepted accounting principles.

The key performance indicators contained in this document are supplementary measures and should not be considered in isolation from, or as a substitute for, measures presented in accordance with IFRS or other generally accepted accounting principles. In addition, the relevant key performance indicators presented by National Grid or the WPD Group may not be comparable to similarly titled measures presented by other businesses, as such businesses may define and calculate such measures differently. Accordingly, undue reliance should not be placed on the key performance indicators contained in this document.

4.1 ***Non-IFRS financial measures used by National Grid***

The following non-IFRS financial measures are used by National Grid and referred to in this document:

- **Asset growth:** 'Asset growth' is the annual percentage increase in the Company's RAV (UK) and rate base (US) and other business balances (including the assets of National Grid Ventures and National Grid Partners) calculated at constant currency.
- **Capital investment:** 'Capital investment' or 'investment' refer to additions to property, plant and equipment and intangible assets, and contributions to joint ventures and associates, other than to the St William Homes LLP joint venture. Capital investment also includes the Company's investments by its subsidiary National Grid Partners, which are classified for IFRS purposes as non-current financial assets in the National Grid consolidated statement of financial position. Investments made to the St William Homes LLP arrangement are excluded based on the nature of this joint venture arrangement where property assets are contributed in exchange for cash. Accordingly, National Grid does not consider these transactions to be in the nature of capital investment.
- **Regulated Asset Base:** A regulatory construct based on predetermined principles not based on IFRS. Regulated asset base effectively represents the invested capital on which National Grid is authorised to earn a cash return. By investing efficiently in its networks, National Grid adds to its regulated asset base over the long term, and this in turn contributes to delivering shareholder value. National Grid's regulated asset base is comprised of National Grid's RAV in the UK, plus its rate base in the US.
- **Underlying results, including underlying operating profit and earnings per share:** 'Underlying results' exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. Underlying results also take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). Underlying results further exclude major storms, when the total of which exceeds National Grid's US$100 million storm costs timing threshold. National Grid expects to recover major storm costs incurred through regulatory mechanisms in the US.

4.2 ***Non-IFRS financial measures used by the WPD Group***

The following non-IFRS financial measures are used by the WPD Group and referred to in this document:

- **Gearing:** Calculated as the ratio of net debt to RAV.
- **Regulatory Asset Value or "RAV":** A regulatory construct, representing assets with a long-term life, equivalent to the net book value of the fixed assets of the business, only calculated in regulatory terms, using methodology provided by Ofgem.
- **EBITDA:** Earnings before interest, tax, depreciation and amortisation.
- **Regulatory IOUs:** Regulatory IOUs reflect recoveries from or refunds due to customers in future periods that do not qualify for recognition as assets or liabilities under IFRS.

5. No profit forecast or estimates

No statement in this document is intended as a profit forecast or estimate for any period and no statement in this document should be interpreted to mean that earnings or earnings per share ("**EPS**") for the Company (both before and after completion of the WPD Acquisition) for the current or future financial years, would necessarily match or exceed the historical published earnings or EPS for the Company.

6. Rounding

Certain data in this document, including financial, statistical and operational information, has been rounded. As a result of such rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data and percentages in tables may not add up to 100 per cent. In addition, certain percentages presented in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not confirm exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

7. Currency

The financial statements for National Grid and the WPD Group have been prepared in pounds sterling. All references to, "GBP", "pounds", "pounds sterling", "Sterling", "£", "pence" and "p" are to the lawful currency of the United Kingdom. All references to "USD", "$" and "US$" are to the lawful currency of the United States of America.

Throughout this document, unless otherwise stated, the USD to GBP exchange rate used is $1.39 to £1.00.

8. Incorporation by reference

Certain information in relation to National Grid is incorporated by reference in this document, as set out in paragraph 13 of Part VI (*Additional Information*).

The contents of National Grid's and the WPD Group's websites or any hyperlinks accessible from those websites do not form part of this document and investors should not rely on them.

9. Definitions

Certain terms used in this document, including capitalised terms and certain technical terms, are defined and explained in Part VII (*Definitions*) of this document.

Reference to any statute or statutory provision includes a reference to that statute or statutory provision as from time to time amended, extended or re-enacted.

EXPECTED TIMETABLE OF EVENTS

Timetable

All references to time in this document and in the expected timetable are to the time in London, United Kingdom, unless otherwise stated. Each of the times and dates in the table below are indicative only and may be subject to change. If any of the times or dates below change, the Company will give notice of the change by issuing an announcement through a Regulatory Information Service.

Event	Time and/or Date
Announcement of the WPD Acquisition and NECO Sale	Thursday 18 March 2021
Publication and posting of this Circular, the Notice of General Meeting and the Form of Proxy	31 March 2021
Pre-recorded webcast for Shareholders' questions and answers	14 April 2021
Latest time and date for receipt of Forms of Proxy	12 pm on Tuesday 20 April 2021
Voting record time and date for the General Meeting	6.30 pm on Tuesday 20 April 2021
General Meeting	**12 pm on Thursday 22 April 2021**
Expected timing of completion of the WPD Acquisition	By end of July 2021
Expected timing of completion of the NECO Sale	By end of first quarter of 2022

Notes

Total number of issued Ordinary Shares as at 29 March 2021:	3,814,951,606
Total number of voting rights as at 29 March 2021:	3,549,191,849

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors of the Company	Sir Peter Gershon (Chairman) Paula Rosput Reynolds (Non-Executive Director and Chair Designate) John Pettigrew (Chief Executive Officer) Andrew Agg (Chief Financial Officer) Nicola Shaw (Executive Director) Mark Williamson (Non-Executive Director, Senior Independent Director) Jonathan Dawson (Non-Executive Director) Therese Esperdy (Non-Executive Director) Dr Paul Golby (Non-Executive Director) Elizabeth Hewitt (Non-Executive Director) Amanda Mesler (Non-Executive Director) Earl Shipp (Non-Executive Director) Jonathan Silver (Non-Executive Director)
Group General Counsel and Company Secretary	Justine Campbell
Registered office of the Company	1-3 Strand London WC2N 5EH
Financial adviser and Sponsor to the Company	Barclays Bank PLC, acting through its Investment Bank 5 The North Colonnade London E14 4BB
Financial adviser to the Company	Goldman Sachs International Plumtree Court 25 Shoe Lane London EC4A 4AU
Financial adviser to the Company	Robey Warshaw LLP 9 Grosvenor Square London W1K 5AE
Legal adviser to the Company as to English law	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG
Legal advisers to the Company as to U.S. law	Cravath, Swaine & Moore LLP 825 Eighth Avenue New York, NY 10019
	Morgan, Lewis & Bockius LLP 101 Park Avenue New York, NY 10178-0060
	Eversheds Sutherland (US) LLP Grace Building, 1114 6th Avenue 40th floor New York, NY 10036
Legal adviser to the Sponsor as to English Law	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ
Reporting Accountants	Deloitte LLP 1 New Street Square London EC4A 3HQ
Registrar	Equiniti Aspect House, Spencer Road Lancing, West Sussex BN99 6DA

PART I

LETTER FROM THE CHAIRMAN OF NATIONAL GRID PLC

(Incorporated and registered in England and Wales with company number 04031152)

31 March 2021

Proposed Acquisition of PPL WPD Investments Limited
the holding company of the Western Power Distribution group

Dear Shareholder,

1. Introduction

On 18 March 2021, the Company announced that it had agreed to: (i) acquire PPL WPD Investments Limited, the holding company of Western Power Distribution, the UK's largest electricity distribution business, from PPL WPD Limited, a subsidiary of PPL Corporation, for an equity value of £7.8 billion; and (ii) sell The Narragansett Electric Company to PPL Energy Holdings LLC, also a subsidiary of PPL Corporation, for an equity value of US$3.8 billion (£2.7 billion).

The Company also announced that it will commence a process later this year for the sale of a majority stake in National Grid Gas plc, the owner of the national gas transmission system.

Together these transactions will:

- strategically pivot National Grid's UK portfolio towards electricity. The proportion of National Grid's assets in electricity will increase from c.60% to c.70%;
- strengthen National Grid's long-term growth outlook by ensuring a significant scale position in electricity distribution through the acquisition of the WPD Group, the UK's largest electricity distribution business. Electricity distribution is expected to see a high level of asset growth as a result of the ongoing energy transition;
- significantly enhance National Grid's central role in the delivery of the UK's net zero targets, given the complementary nature of transmission and distribution, providing benefits for customers;
- deliver shareholder value as the WPD Acquisition and NECO Sale are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term;
- underpin National Grid's 5 to 7% asset growth target for longer, further supporting National Grid's updated dividend policy to deliver annual dividend per share growth in line with UK CPIH inflation, while expecting to maintain its current overall strong investment grade credit rating;
- maintain National Grid's geographic and regulatory diversity, with c.40% of Group assets in the US after the sales of NECO and a majority stake in NGG;
- generate attractive shareholder value through the sales of NECO and a majority stake in NGG; and
- ensure management continuity and focus: the CEO and CFO of the WPD Group will lead the UK distribution business as part of the Enlarged Group. The Company, recognising the importance of Western Power Distribution to the communities it serves, intends to maintain the WPD Group headquarters in Bristol and offices in other key locations.

The purpose of this letter is to explain the background to, and reasons for, the transactions, and to explain why the Board considers the WPD Acquisition to be in the best interests of the Company and Shareholders as a whole.

2. Background to the transactions

National Grid has consistently managed its portfolio to ensure that it is well positioned to drive growth and create shareholder value.

More recently, this active portfolio approach resulted in the disposal of its UK gas distribution networks, crystallising value for Shareholders and resulting in a £4 billion return of capital in 2017. National Grid has also established National Grid Ventures which is investing in renewables and interconnectors and is expected to deliver significant incremental cash flows for the Group.

The Board believes that the acquisition of the WPD Group will accelerate the transformation of National Grid's strategic position in the UK, increasing the proportion of National Grid's energy assets made up of electricity assets at a time when National Grid, and the UK Government, are looking to accelerate the energy transition.

Following the WPD Acquisition, National Grid's overall portfolio mix is expected to continue to deliver strong asset growth as well as superior long term Regulated Asset Base growth which, alongside attractive returns, are expected to continue to deliver a strong cash generation profile and further underpin National Grid's sustained progressive dividend policy. This strategy is viewed by the Board as offering the best source of long-term shareholder value.

National Grid remains committed to retaining an efficient balance sheet and a strong overall investment grade credit rating.

The WPD Acquisition and the NECO Sale are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term.

3. Reasons for the WPD Acquisition

The Board considers the WPD Acquisition to be a compelling opportunity for the following key reasons:

3.1 *The WPD Acquisition allows National Grid to bring together two complementary businesses*

The WPD Acquisition allows National Grid to bring together two complementary businesses which have a shared vision of being at the heart of driving the delivery of clean, fair and affordable energy for the future. The WPD Group offers low cost and local delivery strengths which, in combination with National Grid leveraging its engineering excellence and significant experience of owning and modernising electricity distribution networks in the US, is viewed by the Board as offering a compelling combination. It will also allow a greater focus on the customer, with Western Power Distribution delivering industry leading performance, and as a result benefitting from regulatory incentives, that can drive improvement across National Grid's existing UK and US businesses.

3.2 *The WPD Acquisition represents a one-off opportunity to establish a significant scale position in UK electricity distribution, enhancing National Grid's key role in the delivery of net zero carbon emissions*

The WPD Acquisition represents a compelling one-off opportunity for National Grid to reposition its UK portfolio towards a critical element of delivering decarbonisation to the UK. As part of the UK's energy transition to net zero carbon emissions by 2050, electricity distribution will play a key role in the shift to an active, decentralised and multi-directional network operator model in which more energy is generated on a distributed, renewable and/or intermittent basis. This will allow National Grid to participate more fully in what the Board believes will be a major opportunity to invest in the energy transition.

3.3 *The WPD Group and electricity distribution will add significant growth potential to National Grid*

Evolution in energy use by end consumers is likely to result in increased demand for electricity which will in turn require significant investment in electricity networks. This will be driven by social and political trends including measures to enable the UK to reach its target of net zero carbon emissions by 2050. For example, the electrification of transport and the transition to low carbon residential heating systems, are expected to drive a significant increase in electricity demand. Adding the WPD Group to National Grid's portfolio will secure access to this potential pool of growth in electricity distribution, with its high quality assets well positioned to take advantage of these sectoral trends.

3.4 ***The WPD Group has a track record of excellent performance***

The WPD Group has a high quality asset base and was the only DNO group to be 'fast-tracked' by Ofgem in the last regulatory price control process (RIIO-ED1). All four DNOs exceeded their reliability and availability targets in 2019 and demonstrated strong outperformance against connections and customer service objectives. This has resulted in financial rewards consistently higher than the peer DNO group median. In addition, the WPD Group is consistently a top-performing DNO group for overall customer satisfaction.

The WPD Group is well positioned to continue to deliver attractive returns through outperformance. The current regulatory regime (RIIO-ED1) continues until 2023, which provides two years of regulatory visibility. This framework incentivises financial outperformance, ensuring that DNOs that deliver outputs earn an attractive rate of return. Given that incentives are linked to performance against quantifiable metrics, including meeting energy challenges at a lower cost, the WPD Group is well placed to capture these incentive rewards as the best-in-class DNO group in the UK.

The next regulatory price control framework (RIIO-ED2) will aim to adapt to the challenges of the energy transition and is currently under review, with a price control period of five years from April 2023 to March 2028. The WPD Group's strong commitment to innovation makes it well positioned to lead the energy transition to a smart, flexible and efficient local electricity system. The Board believes that the ongoing changes in the energy sector should generate significant investment opportunities for the WPD Group and are expected to be a catalyst for continued outperformance during RIIO-ED2. This will complement National Grid's current ESG strategy and support the Group during the energy transition.

3.5 ***The WPD Group has a highly experienced management team and excellent stakeholder engagement***

The WPD Group has a highly experienced management team supported by over 6,500 employees.

The WPD Group has also demonstrated excellent stakeholder engagement, with the business rated first in the industry by Ofgem for eight consecutive years, for its approach to social obligations and stakeholder engagement. The Board believes that this track record of strong operational management, coupled with active stakeholder engagement, is consistent with National Grid's existing business and aligned with National Grid's existing strategy and values.

3.6 ***The NECO Sale was a key differentiator in the WPD Acquisition sale process, and retains flexibility for National Grid to pursue its targeted growth agenda***

PPL has consistently indicated a strategic desire to reinvest the proceeds from the sale of the WPD Group in strategic assets to expand its operations in the US. Accordingly, separate to the cash offer for the WPD Group submitted as part of the auction process, the Company proposed the sale of NECO to PPL. PPL's acquisition of NECO is conditional on National Grid's successful completion of the WPD Acquisition. Against this background, the Board believes the NECO Sale to be attractive for the following reasons:

- National Grid will retain flexibility to fund additional growth opportunities at competitive rates, which underpins its asset and dividend growth, whilst enabling the Group to maintain an efficient capital structure; and
- the NECO Sale does not materially change National Grid's US strategy or growth prospects as it represents only 5% of National Grid's assets. Following the NECO Sale and NGG Sale, National Grid USA remains of critical scale (accounting for approximately 40% of National Grid's assets) with continued strong growth dynamics in the core US business.

4. Information on the WPD Group

The WPD Group is the UK's largest electricity distribution business, with its four DNOs delivering electricity to approximately 7.9 million customers and employing over 6,500 staff. The WPD Group's network comprises approximately 90,000 kilometres of overhead lines, 135,000 kilometres of underground cable and 188,000 transformers.

The WPD Group had gross assets of £16.0 billion as at 31 March 2020 and reported a profit before tax of £750 million for the financial year to 31 March 2020. Net debt of the WPD Group at 28 February 2021 was £6,413 million. At 31 March 2022, the total RAV of the WPD Group is projected to be approximately £8.8 billion, having grown by approximately 5% per annum through the first regulatory price control process, RIIO-ED1.

The operations of each of the four DNOs are regulated under a distribution licence which, in conjunction with the agreed RIIO-ED1 regulatory framework, sets the requirements that the WPD Group needs to deliver for its customers and the associated revenues it is allowed to earn for the eight-year period from 1 April 2015 to 31 March 2023. In addition to the base level of revenue which the DNOs are allowed to earn, there are incentives to innovate, and incentives relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions. The achievement or not of these targets can result in revenue rewards or penalties relating to these activities.

In addition to the DNOs, the WPD Group also consists of other, smaller subsidiaries including WPD Smart Metering Limited, WPD Telecoms Limited and South Western Helicopters Limited. The primary purpose of these businesses is to support the DNOs and network related activities of the WPD Group, and they also provide certain services to third parties. The WPD Group also owns property companies, to facilitate the management of non-network and investment properties of the WPD Group. These smaller subsidiaries, other than the property companies, generated an EBITDA of £11 million in the year to 31 March 2020. The property companies own properties with an asset value of £94 million.

5. Information on NECO

NECO is the largest electricity transmission and distribution service provider to, as well as a natural gas distribution company in, Rhode Island, USA, with over 700 employees and serving approximately 780,000 customers. NECO's service area covers substantially all of Rhode Island, equivalent to approximately 1,045 square miles and with a population in excess of one million. NECO's energy delivery business consists of electricity distribution facilities and a natural gas distribution system that provides utility energy delivery services to residential, commercial and industrial customers within its service area. NECO also owns transmission facilities that are operated by an affiliate, the New England Power Company, which is the designated FERC transmission operator in its service area.

At 31 March 2020, the rate base of NECO was approximately US$2.6 billion, comprising approximately US$1.8 billion distribution and US$0.8 billion transmission.

NECO had gross assets of US$5.2 billion at 31 March 2020 and reported an operating profit of US$206 million and net profit of US$122 million for the financial year to 31 March 2020 under U.S. GAAP. Net debt of NECO at 31 December 2020 was US$1,396 million.

6. Sale of a majority stake in NGG

On 18 March 2021, the Company announced that it will commence a process later this year for the sale of a majority stake in NGG.

NGG owns, manages and operates the national gas transmission network in Great Britain. At 31 March 2020, NGG had approximately 7,630 kilometres of pipeline and a workforce of nearly 2,200 employees.

At 31 March 2020, the RAV of NGG was approximately £6.3 billion, and NGG had gross assets of £10.6 billion. NGG reported a profit before tax of £356 million for the financial year to 31 March 2020.

As well as the national gas transmission network, NGG owns National Grid Metering, which generated an operating profit of £158 million in the year to 31 March 2020.

National Grid expects to launch a sale process for a majority stake in NGG in the second half of 2021 and complete the sale in the second half of 2022. The Board anticipates significant buyer interest given NGG's high-quality operations, proven delivery, the strategic nature of the business, its regulatory certainty following the RIIO-T2 final determination and the key role that the network will have to play in the energy transition.

The Board believes the proposed sale to be the right decision for Shareholders as, whilst NGG is a strongly cash generative, profitable and mature business, the sale will enable National Grid to focus on higher growth assets, whilst maintaining a strong balance sheet.

7. Intentions for the WPD Group

National Grid admires and greatly values the skills, knowledge and expertise of the WPD Group's existing management and employees and therefore its current intention is to preserve the current WPD Group organisation, including the existing management team and culture, to ensure continuity of its strong track record. National Grid expects existing WPD Group personnel to continue to contribute to the WPD Group's success and is therefore committed to attracting and retaining WPD Group talent. National Grid intends to maintain headquarters in Bristol and offices in other key locations within the Enlarged Group and for the WPD Group to be an important pillar of National Grid's UK business going forward.

8. Summary of the principal terms of the WPD Acquisition

National Grid Holdings, the Company and PPL WPD entered into a share purchase agreement (the "**WPD SPA**") pursuant to which PPL WPD has agreed to sell, and National Grid Holdings has agreed to purchase, the entire issued share capital of PPL WPD Investments for £7.8 billion to be settled in cash at Completion subject to a daily fee of £548,000 from 1 January 2021 until Completion, reflecting the dividends that would otherwise be payable by PPL WPD Investments during such period. PPL WPD will also receive a dividend of £140 million from PPL WPD Investments, relating to dividends in respect of 2020 not already paid.

Completion of the WPD Acquisition is subject to the satisfaction of certain conditions including Shareholders passing the resolutions at the General Meeting and receipt of certain regulatory approvals in the UK. National Grid Holdings has agreed to pay a termination fee of US$150 million to PPL WPD if the WPD Acquisition does not complete in circumstances where the Board changes its recommendation in respect of the resolutions at the General Meeting (an "**Adverse Recommendation Change**"). Alternatively, National Grid Holdings has agreed to reimburse the expenses of PPL WPD up to a maximum of US$50 million in the event that the resolutions are not passed at the General Meeting where an Adverse Recommendation Change has not occurred.

Further details of the terms of the WPD SPA are set out in paragraph 1 of Part III (*Summary of the Principal Terms of the WPD Acquisition*).

9. Financial effects of the WPD Acquisition

9.1 *Pro forma statement of net assets*

Your attention is drawn to Part V (*Unaudited Pro Forma Financial Information of the Enlarged Group*) of this document which contains an unaudited pro forma statement of the net assets of the Enlarged Group as at 30 September 2020 to illustrate how the WPD Acquisition might have affected the financial position of National Grid had the transaction been undertaken on that date.

On a pro-forma basis and assuming completion of the WPD Acquisition on 30 September 2020, the Enlarged Group would have had (based on the net assets, borrowings and cash and cash equivalents of National Grid as at 30 September 2020 and the WPD Group as at 31 March 2020):

(i) net assets of approximately £18.2 billion;

(ii) borrowings of £46.5 billion; and

(iii) cash and cash equivalents of £0.4 billion.

9.2 *Impact on earnings*

On a pro forma basis, the WPD Acquisition is expected to be earnings enhancing for the Enlarged Group.

10. Dividend policy

On 2 March 2021, the Board announced that it had reviewed the Group's dividend policy in light of the RIIO-T2 final determination and that from FY2021/22 onwards, the Group's dividend policy will aim to deliver annual dividend per share growth in line with UK CPIH inflation. The Board confirms that this aim is unaffected by the transactions, which in the Board's view further support this dividend policy.

11. Financing of the WPD Acquisition and working capital

The WPD Acquisition will initially be funded by the Acquisition Facility bridge financing facilities, in the amount of £8.25 billion to finance the acquisition of the WPD Group and a further £1.105 billion to refinance WPD Group debt. This will then be repaid over time from the proceeds from the NECO Sale and the NGG Sale, subject to such transactions completing, and the issue of new senior debt and hybrid capital securities, as appropriate. The key terms of the Acquisition Facility are set out in paragraph 7.1.4 of Part VI (*Additional Information*) of this Circular.

National Grid has decided not to incur additional commitment fees on financing arrangements unnecessarily at this time (which is consistent with the approach that National Grid adopted in its acquisition of KeySpan in 2006) and accordingly this Circular contains a 'qualified' working capital statement. Further details of the Group's financing plans in respect of its working capital are set out in paragraph 8 of Part VI (*Additional Information*) of this Circular.

12. General Meeting and the resolutions

12.1 *General Meeting arrangements*

Due to its size, the WPD Acquisition is classified under the Listing Rules as a Class 1 transaction and is therefore conditional on, amongst other things, the approval by Shareholders by way of ordinary resolution, requiring a simple majority of votes cast in favour. Accordingly, a General Meeting has been convened for 12 pm on Thursday 22 April 2021 at 1-3 Strand, London, WC2N 5EH. The Notice of General Meeting is set out at the end of this document and a detailed explanation of how the General Meeting will be held and the resolutions to be proposed are set out in the explanatory notes to the Notice of General Meeting.

The health and safety of our Shareholders and colleagues is vitally important to us; therefore in light of the COVID-19 pandemic and current UK Government restrictions which prohibit, among other things, public gatherings, the General Meeting will be held as a closed meeting. This means that the meeting will be held only with the minimum number of persons in attendance as is legally required to form a quorate meeting. Two directors of the Company, each of whom is either a Shareholder, or a proxy or corporate representative appointed by a Shareholder, will attend the meeting.

Please do not travel to the General Meeting, as anyone who seeks to attend in person will be refused entry. All Shareholders are strongly urged to register their votes in advance by appointing the chairman of the General Meeting as their proxy and giving him/her voting instructions. Further details on how to appoint your proxy are provided in section 13 below and in the notes to the Notice of General Meeting.

12.2 *Shareholder engagement*

The Board will continue to closely monitor the latest Government guidance in respect of the COVID-19 pandemic and how this may affect the arrangements for the General Meeting. If it becomes necessary or appropriate to revise the current arrangements for the General Meeting, further information will be made available on our website at https://www.nationalgrid.com/investors/shareholder-information/agm.

In any event, the Board recognises the ongoing importance of communication with Shareholders at this time and allowing Shareholders the opportunity to engage with the Board. Shareholders will have the opportunity to submit questions in advance of the proxy voting deadline. Answers to the questions will be made available in advance of the proxy voting deadline on our website at https://www.nationalgrid.com/investors/shareholder-information/agm and through a pre-recorded webcast presented by members of the Company's senior management on the same website. Information about how to submit your questions is set out in the Notice of General Meeting.

12.3 *Resolutions*

The full text of the resolutions is included in the Notice of General Meeting with a summary in the explanatory notes to the Notice of General Meeting. In addition to the resolution to approve the WPD Acquisition, the Company is proposing to amend the borrowing limit in the Articles of Association from £45 billion to £55 billion. As a result of the WPD Acquisition, National Grid will take on additional borrowing comprising both the Acquisition Facility and existing borrowings of the WPD Group. The Company is therefore proposing the increase in borrowing limit to ensure that it does not breach its borrowing limit as a result of, and has sufficient headroom to enable it to continue to be able to fund growth over the medium-term in an efficient manner following, completion of the WPD Acquisition.

13. Action to be taken

Your support is important to us. A Form of Proxy for use at the General Meeting is enclosed with this Circular which you are requested to complete and return:

- by post;
- online at www.sharevote.co.uk or www.shareview.co.uk; or
- via CREST.

Please refer to the explanatory notes to the Notice of General Meeting on pages 126 to 129 for guidance notes on the completion and return of the Form of Proxy and other applicable voting documentation.

14. Further information

Your attention is drawn to the additional information set out in Parts II to Part VI (inclusive) of this document, and in particular the risk factors set out in Part II (*Risk Factors*). You are advised to read the whole of this document and not merely rely on the key or summarised information in this letter.

The results of the votes cast at the General Meeting will be announced as soon as possible once known through a Regulatory Information Service and on the National Grid website (www.nationalgrid.com) shortly after the conclusion of the General Meeting.

15. Financial advice

The Board has received financial advice from Barclays, Goldman Sachs and Robey Warshaw in relation to the WPD Acquisition. In providing their respective financial advice to the Board, each of Barclays, Goldman Sachs and Robey Warshaw has relied upon the Board's commercial assessment of the WPD Acquisition.

16. Recommendation

The WPD Acquisition is, in the Board's opinion, in the best interests of Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial holdings.

As at the Latest Practicable Date, the Directors and their immediate families held, in aggregate, beneficial holdings amounting to 1,444,021 Ordinary Shares (including certain interests held as ADSs) which represent approximately 0.03785 per cent. of the existing ordinary share capital of the Company in issue.

Yours faithfully,

Sir Peter Gershon

Chairman

PART II

RISK FACTORS

A number of factors affect the business, results of operations, financial condition and prospects of National Grid and, if the WPD Acquisition completes, will affect the Enlarged Group. This section describes the risk factors considered by the Directors to be material risk factors in relation to the WPD Acquisition (paragraph 1 below), or which will be material new risk factors to National Grid as a result of the WPD Acquisition (paragraph 2 below), or which are existing material risk factors to National Grid which will be impacted by the WPD Acquisition (also paragraph 2 below). If any of the following risks actually materialise, the Enlarged Group's business, financial condition, results of operations or prospects could be materially adversely affected and the value of the Ordinary Shares could decline. The risks described below are not the only risks faced and should be used as guidance only. Additional risks not presently known to the Directors or that the Directors currently deem immaterial may also, whether individually or cumulatively, have a material adverse effect on National Grid's business, financial condition, results of operations or prospects, or following the WPD Acquisition, that of the Enlarged Group, which could negatively affect the price of the Ordinary Shares and the ADSs. Shareholders could lose all or part of their investment.

The information included herein is based on information available as at the date of this Circular and, except as requested by the FCA or required by the Listing Rules, EU MAR, UK MAR, the Disclosure Guidance and Transparency Rules or any other applicable law, will not be updated. Any forward-looking statements are made subject to the reservations specified under the heading "Forward-looking statements" of the section of this Circular entitled "Presentation of Information".

Shareholders should consider carefully the risks and uncertainties described below, together with all other information contained in this Circular (including any information incorporated into this Circular by reference) before deciding whether or how to vote in respect of the resolutions at the General Meeting.

1. Risks relating to the WPD Acquisition

1.1 ***Completion of the WPD Acquisition is subject to the satisfaction of conditions which, if not satisfied, may result in the WPD Acquisition not proceeding and in which case National Grid might be liable to pay a termination fee to or reimburse expenses of PPL***

Completion of the WPD Acquisition is subject to the satisfaction or waiver (if applicable) of a number of conditions, including:

- the approval by Shareholders of the resolutions at a general meeting;
- the FCA having approved or being treated as having approved a change of control of Western Power Distribution (South West) plc;
- the Guernsey Financial Services Commission having approved or given notice of no objection to the WPD Acquisition, or being deemed to do so, in respect of a change of control of Aztec; and
- in the event that, prior to Completion, the mandatory notification regime proposed in the National Security and Investment Bill becomes law such that approval would be required prior to completion of the WPD Acquisition, approval under that legislation from the Secretary of State being granted or being deemed to have been granted.

There can be no assurance that these conditions will be satisfied or, if applicable, waived or that, where relevant, the parties to the WPD SPA will not exercise any termination rights they may have. If the WPD Acquisition does not complete, the anticipated benefits of the WPD Acquisition will not be achieved and National Grid would nonetheless have incurred costs in connection with the WPD Acquisition. In the limited circumstances where the WPD SPA is able to be terminated, National Grid Holdings may be liable to pay a termination fee of US$150 million or in certain circumstances reimburse PPL WPD's expenses up to US$50 million.

1.2 *An event may occur which has an adverse effect on the value of the WPD Group but does not entitle National Grid Holdings to terminate the WPD Acquisition*

Pursuant to the WPD SPA, National Grid Holdings will only be entitled to terminate the WPD Acquisition in certain limited circumstances. Accordingly, in the event that there is an adverse event affecting the value of the WPD Group during the period prior to Completion, National Grid Holdings may not be able to terminate the WPD Acquisition and as a result would be required to proceed to Completion notwithstanding the adverse event affecting the value of the WPD Group, which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects. In the limited circumstances where the WPD SPA is able to be terminated, National Grid Holdings may be liable to pay a termination fee of US$150 million or in certain circumstances reimburse PPL WPD's expenses up to US$50 million.

1.3 *The Enlarged Group may fail to realise, or it may take longer than expected to realise, the expected benefits of the WPD Acquisition*

The Enlarged Group may not realise the anticipated benefits that the Directors expect will arise as a result of the WPD Acquisition, or may encounter difficulties, higher costs or delays in achieving those anticipated benefits. For example, due diligence investigations prior to the WPD Acquisition may not have identified material liabilities or risks within the WPD Group. Additionally, the assumptions upon which National Grid determined the consideration payable for the WPD Acquisition may prove to be incorrect.

Any failure to realise the anticipated benefits that National Grid expects to arise as a result of the WPD Acquisition, or any delay in achieving such anticipated benefits, could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

1.4 *The Enlarged Group may not be able to refinance the Acquisition Facility on favourable terms and the Company does not have sufficient working capital for its present requirements*

It is intended that the Acquisition Facility will be repaid through the issue of new senior debt and hybrid capital securities and, subject to completion of the NECO Sale and the NGG Sale, respectively, the proceeds from each of these sales. There can be no certainty about the terms on which any new senior debt and hybrid capital securities may be issued by the Group. If new senior debt and hybrid capital securities are only able to be issued on terms which are materially worse than anticipated, this could have an increased cost to the Group.

In addition, the NECO Sale is subject to conditions. There can be no assurance that these conditions will be satisfied or, if applicable, waived or that, where relevant, the parties to the NECO SPA will not exercise any termination rights they may have. If the NECO Sale does not complete, National Grid would have to repay the Acquisition Facility using alternative means such as the issue of additional new senior debt and hybrid capital securities, which could have an increased cost to the Group.

Whilst the Board anticipates significant interest from potential purchasers in acquiring a majority stake in NGG given the strategic nature of the business, its high quality operations and proven track record, regulatory certainty following the RIIO-T2 final determination and the key role that the network will have to play in the transition to the hydrogen economy, there is no certainty that the NGG Sale will be completed or regarding the terms on which it may be completed. If the Group is unable to complete the NGG Sale in the time anticipated or the proceeds from the NGG Sale are less than anticipated, the Group would have to repay the Acquisition Facility using alternative means such as the issue of additional new senior debt and hybrid capital securities, which could have an increased cost to the Group. In any event, pursuant to the WPD Acquisition, the Group will take on more debt and as a result, following Completion of the WPD Acquisition, the Group will have a greater amount of debt to service and accordingly will incur higher costs to service its aggregate debt.

In addition, the Group has decided not to put in place, at the present time, additional financing to cover its working capital requirements because of its desire not to incur commitment fees on financing arrangements unnecessarily. However, if the Group's financing plans do not proceed as the Group expects there is a risk that the terms on which the Group is able to access new financing are less favourable than anticipated which could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows or prospects.

1.5 *The outcome of the RIIO-ED2 process is unknown and could have a material adverse effect on the WPD Group's business, financial condition, results of operations and prospects*

The operations of the DNOs are regulated under distribution licences which set the requirements that the WPD Group needs to deliver for its customers and the associated revenues it is allowed to earn for the eight-year period from 1 April 2015 to 31 March 2023. In addition to the base level of revenue which the DNOs are allowed to earn, there are expected to be incentives to innovate, and incentives relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions (as for RIIO-ED1), and it is also expected that there will be additional incentives relating to new areas such as net zero performance. The achievement or not of these targets can result in revenue rewards or penalties relating to these activities.

Whilst the key elements of the RIIO-ED2 methodology have been set out by Ofgem, the process for setting price controls for the five year period from 1 April 2023 (RIIO-ED2) is currently ongoing. If the RIIO-ED2 price controls are materially lower than currently expected by the market, the revenues of the WPD Group and the Enlarged Group could be materially reduced, which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

1.6 *Transaction-related costs may exceed National Grid's expectations*

National Grid will incur costs in relation to the WPD Acquisition, including integration and post-Completion costs in order to implement the WPD Acquisition successfully. The actual costs may exceed those estimated and there may be additional and unforeseen expenses incurred in connection with the WPD Acquisition. In addition, National Grid has incurred and will incur legal, accounting and transaction fees and other costs relating to the WPD Acquisition, a material part of which are payable whether or not the WPD Acquisition completes. Such costs could adversely affect the Enlarged Group's financial condition.

1.7 *The CMA may impose an interim enforcement order ("IEO") on the Enlarged Group during, and there can be no assurance that the CMA will not impose conditions on the Enlarged Group as a result of, its merger review of the WPD Acquisition*

Whilst completion of the WPD Acquisition is not conditional on the approval of the CMA, under the Enterprise Act 2002, the CMA has the power to investigate the transaction. National Grid intends to submit a voluntary merger notification to the CMA in respect of the WPD Acquisition. The CMA may impose an IEO in respect of National Grid and the WPD Group until it concludes its review and is likely to do so in the event that the WPD Acquisition completes prior to the conclusion of such review. An IEO would: (i) require the WPD Group to be 'held separate' from National Grid, with the result that (among other things) National Grid is not able to exercise control over the WPD Group (and so the integration process may be delayed); and (ii) otherwise restrict the Enlarged Group's business and certain corporate actions for which National Grid may need to seek the CMA's consent. Once made, an IEO is likely to remain in place until the conclusion of the CMA's review. Any such IEO may cause a delay in achieving the anticipated benefits of the WPD Acquisition and/or otherwise restrict the Enlarged Group's business.

It is not yet known what would be the outcome of the CMA's merger review, which is not within the control of National Grid, the WPD Group or PPL. If the CMA grants clearance for the WPD Acquisition it may nevertheless require remedies or undertakings or otherwise impose restrictions or additional requirements on the Enlarged Group. In addition, National Grid may give undertakings in lieu of any reference to a Phase 2 review of the WPD Acquisition, which may include divestments or the exclusion of certain assets from the scope of the WPD Acquisition. Ultimately, if the CMA did not grant clearance for the WPD Acquisition, National Grid would be required to dispose of the WPD Group. Any such remedies, undertakings, restrictions, additional requirements, divestments or exclusions could impose significant additional costs on the Enlarged Group and/or may reduce the anticipated benefits of the WPD Acquisition.

Accordingly, the imposition of an IEO and/or the outcome of the CMA's merger review could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

1.8 ***The Secretary of State has the power to review the WPD Acquisition on public interest grounds under the Enterprise Act 2002 and, once the National Security and Investment Bill is in force, may call in the transaction.***

On 11 November 2020, the National Security and Investment Bill was introduced to the UK Parliament. Completion of the WPD Acquisition is conditional, if the bill becomes law before Completion and National Grid makes a mandatory notification, on the approval of the Secretary of State. In such circumstances the Secretary of State for Business, Energy and Industrial Strategy may impose conditions to Completion. If the bill becomes law after Completion, as currently drafted, the Secretary of State has the power to "call in" the WPD Acquisition and: (i) impose an interim order requiring the WPD Group to be 'held separate' until it concludes its review and as a result may cause a delay in achieving the anticipated benefits of the WPD Acquisition and/or otherwise restrict the Enlarged Group's business; and/or (ii) require remedies or undertakings (which may include divestments) or otherwise impose restrictions or additional requirements on the Enlarged Group.

It is not yet known whether the Secretary of State will "call in" the WPD Acquisition for assessment under the new legislation or intervene under existing legislation pursuant to the Enterprise Act 2002 on the grounds of national security or if he/she does, what would be the outcome of such assessment which is not within the control of National Grid, the WPD Group or PPL. Any such remedies, undertakings, divestments, restrictions or additional requirements, could jeopardise or delay Completion, impose significant additional costs on the Enlarged Group and/or may reduce the anticipated benefits of the WPD Acquisition. However, as the acquisition of the WPD Group by National Grid does not give rise to substantive national security concerns, it is unlikely that such actions would be taken by the Secretary of State.

2. Risks relating to National Grid which result from or that will be impacted by the WPD Acquisition

2.1 ***The Enlarged Group may become exposed to increased regulatory risk***

The Enlarged Group will operate in a highly regulated market subject to detailed legislation and regulation. Following Completion, the size of the Enlarged Group's business will increase. The increased size of the Enlarged Group, and particularly its presence in both the electricity transmission and distribution markets in the UK, may lead to increased risk of regulatory scrutiny or risk arising from regulatory change, as regulators seek to ensure that the DNOs and the Transmission System Operator operate with sufficient independence. Increased regulatory scrutiny may lead to an increased cost of compliance and may result in actions against the Enlarged Group for non-compliance with the regulatory framework. This could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects. Shifts in societal and political expectations may also impact the regulatory framework in which the Enlarged Group operates, and the Enlarged Group will need to have sufficient processes and resources in place to allow the Enlarged Group to respond to such shifts in societal and political expectations.

In addition, the WPD Acquisition will increase the breadth of regulatory oversight of the Enlarged Group compared with that faced by the Group currently. In particular, the Group will become subject to UK regulation in the distribution market that is not currently part of the business of the Group in the UK. Whilst operational staff are transferring as part of the WPD Acquisition, any failure of the Enlarged Group to adapt to the increased regulatory burden may result in non-compliance and may have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.2 ***Following Completion, the indebtedness and financial leverage of the Enlarged Group will increase and any future downgrade in National Grid's credit ratings may adversely affect the Enlarged Group***

The ability of the Group (and, following Completion, the Enlarged Group) to operate its business depends in part on being able to raise funds. While the Group currently seeks to fund itself efficiently across a range of sources and markets, there can be no assurance that the Enlarged Group will be able to find lenders (including in the debt capital markets) who are willing to lend on terms that are reasonable when compared with the terms of its existing financing arrangements or that existing financing arrangements (including the Acquisition Facility) will be able to be refinanced on such terms upon or prior to maturity.

A material increase in the cost of finance and capital could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects in the medium to long term.

Any future downgrade in National Grid's credit ratings which may occur may adversely affect National Grid's ability to access the capital markets, which could increase National Grid's interest costs or adversely affect its liquidity and cash flow. Whilst any reduction in short-term liquidity is not expected to impact the ability of the Enlarged Group to meet its immediate and short-term obligations the Group is reliant on being able to access the capital markets and so a prolonged inability to do so could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.3 ***The Enlarged Group will be subject to an increased scope of health and safety and environmental obligations, and a failure of the Enlarged Group to adapt to those obligations may materially impact the financial condition of the Enlarged Group***

Whilst National Grid and the WPD Group have historically maintained high standards of health and safety and environmental compliance in respect of their existing businesses, the Enlarged Group will be subject to an increased regulatory burden in these areas as a result of acquiring the WPD Group. A failure by the Enlarged Group to adapt to, and comply with, this increased regulatory burden or adequately to remedy any legacy issues with the WPD Group's business may result in reputational damage as well as fines or criminal sanctions which, if levied, could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.4 ***The Enlarged Group will face risks related to health epidemics and pandemics***

As seen in the context of the COVID-19 pandemic, health epidemics and pandemics and their associated counter-measures may affect countries, communities, supply chains and markets including the UK and other countries where the Group operates. The spread of such pandemics could have a material adverse effect on the Enlarged Group's workforce, which could affect the Enlarged Group's ability to maintain its networks and provide service. In addition, disruption of supply chains could adversely affect the Enlarged Group's systems or networks.

Health epidemics and pandemics such as COVID-19 can also result in extraordinary economic circumstances in the Group's and the Enlarged Group's markets which could negatively affect the charges payable to the system operators for transmission services in the UK and to DNOs for distribution services in the UK. Such changes could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.5 ***The Enlarged Group may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology, or a lack of supply***

The Enlarged Group's operational performance could be materially adversely affected by: a failure to maintain the health of its assets or networks; inadequate forecasting of demand; inadequate record keeping or control of data or failure of information systems and supporting technology. This could cause the Enlarged Group to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. There is also the risk that the WPD Group's information technology systems may not meet the requirements of the Enlarged Group, leading to disruption for the Enlarged Group. Such failures or breaches could damage the Enlarged Group's reputation and have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.6 ***The Enlarged Group may suffer a catastrophic cyber incident***

The Enlarged Group's operational performance could be materially adversely affected by a catastrophic cyber incident affecting the Enlarged Group's digital systems. The Enlarged Group's digital systems could be vulnerable to damage or interruption from manual intervention, natural disasters, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial or service attacks and other events. The Enlarged Group's systems may also be vulnerable to security breaches or other intrusions, sabotage and acts of vandalism by employees and subcontractors as well as other third parties. Such a cyber-security incident could lead to loss of confidentiality, decreased availability and integrity of systems and business interruption. Any damage, malfunction, interruption or failure of systems, networks or technologies could damage the Enlarged Group's reputation and have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.7 ***The Enlarged Group may be required to make significant contributions to fund pension and other post-retirement benefits associated with the WPD Group***

The WPD Group and the Group each participate in a number of pension schemes. The WPD Group UK pension arrangements include four funded defined benefit schemes (all of which are closed to new joiners), a small unfunded defined benefit pension scheme for certain former employees, and a defined contribution pension arrangement. The Group will continue to sponsor its various defined benefit and defined contribution pension arrangements in the UK and the US. The sponsoring employers of these defined benefit schemes, within the WPD Group and the Group, have obligations to fund current and future pension liabilities associated with the defined benefit pension schemes. These obligations will continue to apply following Completion.

The scheme assets of the WPD Group's and the Group's funded defined benefit pension schemes are each held independently. This will continue to be the case following Completion. Estimates of the amount and timing of future funding for the Enlarged Group's defined benefit pension schemes in the UK and US are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; life expectancies; and relevant legal requirements. Actual performance of scheme assets may be affected by various factors such as volatility in debt and equity markets (including as a result of the COVID-19 pandemic). Changes in these assumptions or other factors, including actions of the pension regulators or the trustees or fiduciary of the Enlarged Group's pension schemes or revisions to the existing pension legislation, including under the Pension Schemes Act 2021 (which applies to UK pension arrangements) may require the Enlarged Group to make additional contributions to these pensions schemes (including the WPD Group's pension schemes). Regulatory practice has historically allowed for the cost of increased pension contributions to be included in price controls. To the extent that additional contributions are not recoverable under the Enlarged Group's price controls, they could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.8 ***The Enlarged Group may experience difficulties in integrating National Grid and the WPD Group***

The future prospects of the Enlarged Group will, in part, be dependent upon the Enlarged Group's ability to integrate the WPD Group with the existing National Grid business. Some of the potential challenges relating to integration may not become known until after Completion.

The Enlarged Group's management and resources may be diverted away from core business activities due to personnel being required to assist in the integration process. The integration process could potentially lead to the interruption of operations of National Grid or the WPD Group. Such challenges could also lead to reputational damage for the Enlarged Group. In addition, any delays or difficulties encountered in connection with the integration process could adversely affect the implementation of the Enlarged Group's plans. The occurrence of any such delays or difficulties in the integration process could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.9 ***It may be difficult for the Enlarged Group to retain or attract appropriately qualified personnel to fulfil the requirements of the Enlarged Group***

The ability of the Enlarged Group to implement its strategy will depend on the capabilities and performance of employees and leadership at all levels of the business and may be negatively affected by the loss of key personnel (including personnel on sick leave or otherwise unable to work on an extended basis because of the COVID-19 pandemic) or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with the Enlarged Group's employees. Whilst operational staff are transferring as part of the WPD Acquisition, there can be no certainty that such staff will continue to work for the Enlarged Group in the longer term, and it may prove difficult to find adequately skilled replacements. An inability to retain or attract appropriately qualified personnel to fulfil the requirements of the Enlarged Group could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

2.10 ***The Enlarged Group will face risks relating to climate change***

The Enlarged Group will face risks related to the impact of the Enlarged Group on climate change and of climate change on the Enlarged Group. Climate change risks include weather-related events, including increased variability in temperature and greater wear and tear on assets under more extreme weather conditions such as flooding and higher temperatures, and transition risks associated with the decarbonisation of heat and electricity and the future of gas. Failure of the Enlarged Group to identify and deliver actions necessary to ensure that the Enlarged Group's business model, strategy, asset management and operations respond to the physical impacts of climate change could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

PART III

SUMMARY OF THE PRINCIPAL TERMS OF THE WPD ACQUISITION

1. Principal terms of the WPD SPA

1.1 *Parties*

On 17 March 2021, National Grid Holdings, the Company and PPL WPD, a subsidiary of PPL, entered into the WPD SPA. Pursuant to the terms of the WPD SPA, and subject to the conditions contained therein, PPL WPD has agreed to sell, and National Grid Holdings has agreed to acquire, the entire issued share capital of PPL WPD Investments.

1.2 *Timing and conditions*

Completion of the WPD Acquisition is expected to occur by the end of July 2021 and is conditional upon the following conditions being satisfied or waived on or before the date which is three months from the date of entry into the WPD SPA (or such later date as the Parties may agree) (the "**Longstop Date**"):

(A) approval by Shareholders of the resolutions at the General Meeting;

(B) the FCA having approved or being treated as having approved a change of control of Western Power Distribution (South West) plc;

(C) the Guernsey Financial Services Commission having given notice of no objection to the WPD Acquisition, or being deemed to do so, in respect of a change of control of Aztec; and

(D) in the event that, prior to Completion, the mandatory notification regime proposed in the National Security and Investment Bill becomes law such that approval would be required prior to completion of the WPD Acquisition, approval under that legislation from the Secretary of State being granted or being deemed to have been granted.

The Longstop Date is subject to two automatic two-month extensions under certain circumstances including where certain regulatory approvals have not been received or where approval under the National Security and Investments Bill is required but has not been obtained prior to the Long Stop Date and all other conditions have been satisfied. Completion is not conditional on approval from the CMA although National Grid will be making a voluntary filing.

1.3 *Consideration*

The consideration for the WPD Acquisition is £7.8 billion in cash to be settled at Completion. The consideration is subject to a locked box mechanism and accordingly there is a daily ticking fee payable by National Grid Holdings of £548,000 per day from 1 January 2021 until Completion, reflecting the dividends that would otherwise be payable by PPL WPD Investments during such period. PPL WPD will also receive a dividend of £140 million from PPL WPD Investments, relating to dividends in respect of 2020 not already paid.

1.4 *Termination fee*

National Grid Holdings has agreed to pay a termination fee of US$150 million to PPL WPD if the WPD Acquisition does not complete in circumstances where the Board changes its recommendation in respect of the resolutions at the General Meeting (an "**Adverse Recommendation Change**"). Alternatively, National Grid Holdings has agreed to reimburse the expenses of PPL WPD up to a maximum of US$50 million in the event that the resolutions are not passed at the General Meeting where an Adverse Recommendation Change has not occurred.

1.5 *Termination*

The WPD SPA may be terminated in the following circumstances:

(A) by either party if an Adverse Recommendation Change has occurred;

(B) automatically if the conditions are not satisfied by the Long Stop Date; and

(C) by the non-defaulting party if the other party defaults on their obligations at Completion.

1.6 ***Warranties and indemnities***

PPL WPD has given fundamental title and capacity warranties and certain business and tax warranties in favour of National Grid Holdings under the WPD SPA. In addition a customary tax deed indemnifying National Grid Holdings against certain tax claims has been entered into by PPL WPD.

1.7 ***Limitations on liability / Warranty and indemnity insurance***

1.7.1 *Time limits*

Claims for breach of fundamental title and capacity warranties must be notified within six years of Completion. Tax claims must be notified within seven years and business claims within three years.

1.7.2 *Monetary limits*

PPL WPD's liability in the event of a breach of fundamental title and capacity warranties is capped at the consideration paid under the WPD SPA. PPL WPD's liability in the event of a breach of the business and tax warranties is capped at £1. Accordingly National Grid Holdings has obtained warranty and indemnity insurance which, following Completion, will be the sole recourse for any claim in respect of a breach of the business and tax warranties given by PPL WPD in the WPD SPA subject to limited exceptions. The limit on such business and tax claims is £700 million.

1.8 ***Covenants until Completion***

The WPD SPA contains customary restrictions and covenants on the nature and conduct of the WPD Group's activities which further limit the extent to which members of the WPD Group can make or incur unusual or exceptional payments or obligations prior to Completion.

1.9 ***Governing law and jurisdiction***

The WPD SPA and any dispute or claim arising out of or in connection with it (including non-contractual disputes or claims) is governed by English law and subject to the exclusive jurisdiction of the courts of England.

PART IV

FINANCIAL INFORMATION OF PPL WPD INVESTMENTS LIMITED AND SUBSIDIARIES

Section A: Historical financial information of PPL WPD Investments

The tables below set out the consolidated financial information for PPL WPD Investments as at and for the years ending 31 March 2020, 31 March 2019 and 31 March 2018.

Consolidated income statement

For the year ended 31 March

2020	Notes	Before exceptional items and remeasurements	Exceptional items and remeasurements	Total
		£m	£m	£m
Revenue	4	1,723.5	—	1,723.5
Other operating costs	5,6	(686.3)	—	(686.3)
Operating profit	3	1,037.2	—	1,037.2
Finance income	7	11.5	—	11.5
Finance costs	7	(299.0)	—	(299.0)
Profit before tax		749.7	—	749.7
Tax	8,11	(132.7)	(68.4)	(201.1)
Profit after tax attributable to equity holders of the parent		617.0	(68.4)	548.6

Consolidated income statement

For the year ended 31 March

2019	Notes	Before exceptional items and remeasurements	Exceptional items and remeasurements	Total
		£m	£m	£m
Revenue	4	1,685.6	—	1,685.6
Other operating costs	5,6	(675.7)	—	(675.7)
Operating profit	3	1,009.9	—	1,009.9
Finance income	7	10.2	—	10.2
Finance costs	7	(286.9)	—	(286.9)
Profit before tax		733.2	—	733.2
Tax	11	(128.7)	—	(128.7)
Profit after tax attributable to equity holders of the parent		604.5	—	604.5

Consolidated income statement

For the year ended 31 March

2018	Notes	Before exceptional items and remeasurements	Exceptional items and remeasurements	Total
		£m	£m	£m
Revenue	4	1,620.9	—	1,620.9
Other operating costs	5,6	(630.2)	—	(630.2)
Operating profit	3	990.7	—	990.7
Finance income	7	9.6	—	9.6
Finance costs	7	(295.0)	—	(295.0)
Profit before tax		705.3	—	705.3
Tax	11	(119.3)	—	(119.3)
Profit after tax attributable to equity holders of the parent		586.0	—	586.0

All operations are continuing.

The accompanying notes on pages 30 to 98 are an integral part of this historical financial information.

Consolidated statement of comprehensive income

For the years ended 31 March

	Notes	2020 £m	2019 £m	2018 £m
Profit after tax		548.6	604.5	586.0
Other comprehensive income:				
Items that will never be reclassified to profit or loss:				
Remeasurement gains/(losses) on pension assets and post-retirement benefit obligations	28	284.9	117.4	(25.1)
Tax on items that will never be reclassified to profit or loss	11	(66.7)	(25.4)	5.5
Total gains/(losses) that will never be reclassified to profit or loss		218.2	92.0	(19.6)
Items from continuing operations that may be reclassified subsequently to profit or loss:				
Net gains/(losses) in respect of cash flow hedges		40.4	59.4	(69.1)
Reclassification adjustments for (losses)/gains on cash flow hedges included in profit or loss (finance costs)		(32.6)	(44.2)	61.2
Tax on items that may be reclassified subsequently to profit or loss	11	(1.4)	(2.5)	1.3
Total gains/(losses) that may be reclassified subsequently to profit or loss		6.4	12.7	(6.6)
Other comprehensive income/(loss) for the year, net of tax		224.6	104.7	(26.2)
Total comprehensive income for the year, net of tax attributable to equity holders of the parent		773.2	709.2	559.8

Consolidated statement of changes in equity

For the years ended 31 March

	Notes	Share capital	Merger reserve	Hedging reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m
At 1 April 2017		1,657.6	(963.1)	(11.3)	3,153.9	3,837.1
Issue of share capital of PPL WPD Investments Limited		2,716.1	—	—	—	2,716.1
Elimination of Western Power Distribution plc share capital		(1,657.6)	—	—	—	(1,657.6)
Business combinations adjustment		—	(1,058.5)	—	—	(1,058.5)
As at acquisition 2 October 2017		2,716.1	(2,021.6)	(11.3)	3,153.9	3,837.1
Profit for the year		—	—	—	586.0	586.0
Other comprehensive loss for the year		—	—	(6.6)	(19.6)	(26.2)
Total comprehensive (loss)/income for the year		—	—	(6.6)	566.4	559.8
Equity dividends	12	—	—		(92.7)	(92.7)
At 31 March 2018		2,716.1	(2,021.6)	(17.9)	3,627.6	4,304.2
Impact of transition to IFRS 9		—	—		(0.5)	(0.5)
At 1 April 2018 (restated)		2,716.1	(2,021.6)	(17.9)	3,627.1	4,303.7
Profit for the year		—	—	—	604.5	604.5
Other comprehensive income for the year		—	—	12.7	92.0	104.7
Total comprehensive income for the year		—	—	12.7	696.5	709.2
Equity dividends	12	—	—		(300.2)	(300.2)
At 31 March 2019		2,716.1	(2,021.6)	(5.2)	4,023.4	4,712.7
Profit for the year		—	—		548.6	548.6
Other comprehensive income for the year		—	—	6.4	218.2	224.6
Total comprehensive income for the year		—	—	6.4	766.8	773.2
Equity dividends	12	—	—		(200.1)	(200.1)
At 31 March 2020		2,716.1	(2,021.6)	1.2	4,590.1	5,285.8

Consolidated statement of financial position

For the year ended 31 March

	Notes	2020	2019	2018
		£m	£m	£m
Non-current assets				
Property, plant and equipment	13	13,224.6	12,587.7	11,974.3
Right-of-use asset	14	10.0	—	—
Investment property	15	30.1	32.5	35.0
Goodwill	16	1,254.1	1,254.1	1,254.1
Other intangible assets	16	44.2	38.8	27.7
Investments	17	161.9	154.9	144.7
Trade and other receivables	19	2.0	6.0	2.4
Derivative financial instruments	26	156.0	97.4	46.3
Pension assets	28	599.5	161.8	76.4
Total non-current assets		15,482.4	14,333.20	13,560.90
Current assets				
Inventories	18	38.5	24.2	24.7
Trade and other receivables	19	307.8	292.8	324.4
Derivative financial instruments	26	7.5	5.5	3.3
Cash and cash equivalents	20	201.0	142.7	177.3
Total current assets		554.8	465.2	529.7
Total assets	3	16,037.2	14,798.4	14,090.6
Current liabilities				
Borrowings	23	475.9	263.5	447.0
Trade and other payables	21	601.7	580.3	564.7
Lease liabilities	22	1.5	—	—
Current tax liabilities		0.6	28.2	39.0
Derivative financial instruments	26	4.9	2.8	—
Provisions	29	10.4	11.0	9.7
Total current liabilities		1095.0	885.8	1,060.4
Non-current liabilities				
Borrowings	23	6061.3	5,919.5	5,488.1
Deferred tax liabilities	27	785.5	592.2	498.8
Trade and other payables	21	2,588.7	2,481.6	2,369.7
Pension and other retirement benefit obligations	28	4.3	56.3	247.0
Lease liabilities	22	8.6	—	—
Provisions	29	208.0	150.3	122.4
Total non-current liabilities		9656.4	9,199.9	8,726.0
Total liabilities	3	10,751.4	10,085.7	9,786.4
Net assets		5,285.8	4,712.7	4,304.2
Equity				
Share capital	30	2,716.1	2,716.1	2,716.1
Retained earnings	31	4,590.1	4,023.4	3,627.6
Other equity reserves	31	(2,020.4)	(2,026.8)	(2,039.5)
Total equity		5,285.8	4,712.7	4,304.2

Consolidated cash flow statement

For the year ended 31 March

	Notes	2020	2019	2018
		£m	£m	£m
Cash flows from operating activities				
Total operating profit		1,037.2	1,009.9	990.7
Adjustments for:				
Depreciation and amortisation	3	202.1	187.8	179.6
Gain on disposal of property, plant and equipment		(0.3)	(4.8)	(1.6)
Changes in investment properties		1.2	(0.8)	(1.0)
Changes in pensions and other post-retirement benefit obligations		(150.5)	(139.4)	67.1
Change in provisions		5.6	5.6	(3.7)
Change in working capital		(24.4)	50.5	(39.0)
Interest paid		(299.5)	(252.1)	(247.5)
Interest received		12.0	10.7	10.8
Customers' contributions received		158.1	150.1	167.3
Income taxes paid		(104.3)	(74.0)	(37.5)
Net cash flow from operating activities		837.2	943.5	1,085.2
Cash flows from investing activities				
Purchase of property, plant and equipment		(864.6)	(851.5)	(952.2)
Disposals of property, plant and equipment		0.9	6.2	2.1
Disposals of investment properties		0.4	3.3	2.8
Purchase of intangible assets		(12.0)	(16.5)	(13.7)
Net cash flow used in investing activities		(875.3)	(858.5)	(961.0)
Cash flows from financing activities				
Net movement in short-term borrowings		58.7	(189.1)	(154.4)
Payment of lease liabilities		(1.5)	—	—
Proceeds received from loans		247.0	377.9	279.6
Issue costs of long-term borrowings		(1.7)	(2.5)	(1.7)
Repayment of long-term borrowings (net of cross-currency swap settlements)		—	—	(75.1)
Dividends paid		(200.1)	(300.2)	(92.7)
Net cash flow from/(used in) financing activities		102.4	(113.9)	(44.3)
Net increase/(decrease) in cash and cash equivalents		64.3	(28.9)	79.9
Cash and cash equivalents at beginning of year	20	123.2	152.1	72.2
Cash and cash equivalents at end of year	20	187.5	123.2	152.1

1. Significant accounting policies

1.1 *General information*

PPL WPD Investments Limited is a wholly owned subsidiary of PPL WPD Limited which is owned by PPL Corporation, an electricity utility company based in Pennsylvania, United States. The principal activity of the WPD Group is the distribution of electricity in the South West and Midlands regions in England and South Wales.

On 18 March 2020, PPL announced that the boards of PPL and National Grid had reached an agreement regarding the WPD Acquisition.

This consolidated historical financial information is in respect of the WPD Group. It has been prepared to reflect the historical financial performance of the WPD Group applying accounting policies (as disclosed below) which are consistent with those applied by the Company in its annual financial statements for the year ended 31 March 2020.

1.2 *Basis of preparation*

The historical financial information presents the financial results for the WPD Group as at and for the three years ended 31 March 2018, 31 March 2019 and 31 March 2020.

PPL WPD Investments was incorporated in October 2017 when it acquired 100% of the share capital of Western Power Distribution plc.

The consolidated historical financial information has been prepared in accordance with the Listing Rules, together with International Financial Reporting Standards ("**IFRS**") using policies consistent with the audited consolidated financial statements of the Company. The principal accounting policies applied in the preparation of the historical financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The historical financial information has been presented in millions of Sterling ("**£m**"). It has been prepared under the historical cost convention of accounting policies disclosed below.

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

1.3 *Going concern*

The historical financial information of the WPD Group has been prepared on a going concern basis in the context of its proposed acquisition by National Grid Holdings One Plc, a subsidiary of the Company.

1.4 *Basis of consolidation*

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

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

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

The WPD Group has applied the following standards and amendments in the three years ended 31 March 2020 which have been set out below.

1.5.1 ***Effective for an annual period that begins on or after 1 January 2018, for the first time for their annual reporting period commencing 1 April 2018:***

- IFRS 9 "Financial Instruments"; and
- IFRS 15 "Revenue from Contracts with Customers".

1.5.2 ***Effective for an annual period that begins on or after 1 January 2019, for the first time for their annual reporting period commencing 1 April 2019:***

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

Except as defined below in relation to IFRS 9, IFRS 15 and IFRS 16, the WPD Group has concluded that these standards do not have any material impact on the WPD Group's historical financial information.

1.5.3 ***IFRS 9***

IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement". The adoption of IFRS 9 Financial Instruments from 1 April 2018 resulted in changes in accounting policies and adjustments to amounts recognised in the historical financial information. In accordance with the transition provisions in IFRS, the WPD Group has elected not to restate comparative figures on initial adoption of IFRS 9.

(A) **Classification and measurement**

On 1 April 2018, the WPD Group's management assessed its financial instruments on the business model and cash flow characteristic test and classed its financial instruments into appropriate IFRS 9 categories. The main reclassifications are as below:

	Loans and receivables	Held-to-maturity investment	Amortised cost	Fair value through P&L	Derivatives designated in hedge accounting relationships	Total
	£m	£m	£m	£m	£m	£m
Closing Balance 31 March 2018—IAS 39	462.5	144.7	(6,284.2)	—	49.6	(5,627.4)
Reclass Cash at Bank to Amortised Cost*	(65.0)	—	65.0	—	—	—
Reclass short term deposits to FVTPL	(112.3)	—	—	112.3	—	—
Reclass Held-to-maturity investments to Amortised Cost*	—	(144.7)	144.7	—	—	—
Reclass Trade and other receivables to Amortised Cost*	(285.2)	—	302.9	—	—	17.7
Opening Balance 1 April 2018—IFRS 9	—	—	(5,771.6)	112.3	49.6	(5,609.7)

* These reclassifications have no impact on the measurement categories.

** This impacts the measurement of short-term deposits. Short term deposits comprise low-volatility net asset value money market funds which are now being recorded at fair value instead of cost. The impact on retained earnings is immaterial.

(B) **Impairment of Financial instruments**

(1) **Trade and other receivables**

The WPD Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables including accrued income. This resulted in an increase of the loss allowance on 1 April 2018 by £0.4m.

(2) **Investments at amortised cost**

Investments at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit loss. This resulted in an increase of the loss allowance on 1 April 2018 by £0.1m.

(3) **Hedge Accounting**

When initially applying IFRS 9, entities have an accounting policy choice to continue to apply the hedge accounting requirements under IAS 39 as opposed to IFRS 9. PPL WPD Investments has chosen to continue to apply the hedge requirements of IAS 39.

(4) **Total IFRS 9 impact**

The total impact on the WPD Group's retained earnings as at 1 April 2018 is as follows:

	2018
	£m
Closing retained earnings 31 March 2018—IAS 39	3,627.6
Increase in provision for trade and other receivables impairment	(0.4)
Impairment provision on investments at amortised cost	(0.1)
Adjustments to retained earnings from adoption of IFRS 9 on 1 April 2018	(0.5)
Opening retained earnings 1 April 2018—IFRS 9	3,627.1

1.5.4 ***IFRS 15***

IFRS 15 "Revenue from Contracts with Customers" effective for accounting periods beginning on or after 1 January 2018 supersedes the current revenue recognition guidance including IAS 18 "Revenue" and the related interpretations. IFRS 15 establishes a single comprehensive five-step model to account for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

PPL WPD Investments has assessed the impact of this standard and concluded that there will be no material change to the WPD Group's financial statements.

1.5.5 ***IFRS 16***

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

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

(A) **Impact of the new definition of lease**

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

(B) **Measurement of lease liabilities**

On adoption of IFRS 16, the WPD Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the WPD Group's incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.22%.

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

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

	2020
	£m
Operating lease commitments as disclosed as at 31 March 2019	18.3
Operating lease commitments as disclosed as at 31 March 2019 disclosed using incremental borrowing rate	10.8
Lease liability recognised as at 1 April 2019	10.8

(C) **Measurement of right-of-use asset**

Right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. The right-of-use assets recognised as at 1 April 2019 amount to £10.8m.

(D) **Retained earnings impact**

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

(E) **Lessor accounting**

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

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

	2020
	£m
Right-of-use-assets	10.0
Lease liabilities—current	(1.5)
Lease liabilities—non-current	(8.6)

(G) **Impact of adoption of IFRS 16 on the income statement for the year ended 31 March 2020**

	2020
	£m
Depreciation of right-of-use assets·	(1.3)
Interest payable on lease liabilities	(0.3)
Operating rent expense	1.5
Net impact on profit before tax	(0.1)

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

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

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

- Cash payments for the principal portion of the lease liabilities are recognised as part of financing activities.

Consequently, the net cash generated by operating activities has increased by £1.5m, being the lease payments; and net cash used in financing activities has increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows. The EU has adopted IFRS 16 with effect from 1 January 2019.

1.5.6 ***Not yet adopted***

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

- Amendments to IFRS 3 "Definition of a Business" effective for annual periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8 "Definition of material" effective for annual periods beginning on or after 1 January 2020.
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reforms effective for annual periods beginning on or after 1January 2020.
- IFRS 17 "Insurance contracts" effective for annual periods beginning on or after 1 January 2021.
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"—effective date yet to be decided.

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

1.6 ***Business combinations and goodwill***

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

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

At the acquisition date, any goodwill acquired is allocated to each of the CGUs, or groups of CGUs, expected to benefit from the combination's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

1.7 ***Foreign currencies***

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

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

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

1.8 *Revenue recognition*

1.8.1 *DUoS Revenue*

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

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

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

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

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

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

1.8.2 *Finance income*

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

1.8.3 *Rental income*

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

1.8.4 *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.

1.8.5 *Customer contributions*

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

1.9 ***Other operating income and expense***

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

1.10 ***Finance costs***

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

1.11 ***Leases***

1.11.1 ***WPD Group as a lessee***

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

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

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

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

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

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

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

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

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

1.11.2 ***WPD Group as a lessor***

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

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

1.12 ***Property, plant and equipment***

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

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

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

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

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

	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
Buildings—long leasehold	Up to 60
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

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

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

1.13 *Investment property*

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

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

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

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

1.14 *Intangible assets*

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

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

Intangible assets include computer software developed for internal use. Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the WPD Group is satisfied that future economic benefits will flow to the WPD Group and the cost can be separately identified and reliably measured.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful life. The expected useful life of 8 years is reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

1.14.1 *Contracts*

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

1.14.2 *Computer software*

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

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

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

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

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

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

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

The WPD Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the recoverable amount of CGUs, specifically in relation to cash flows, discount rate and estimated fair value less cost to dispose. At 31 March 2020, the carrying value of goodwill amounted to £1,254.1m (2019: £1,254.1m, 2018: £1,254.1m).

Fair value less cost to dispose is determined based on an implied premium applied to the RAV. RAV is a generally accepted and widely used industry method for measuring asset value and as such is considered an adequate proxy of the fair value less cost to dispose. Implied premium· is estimated in accordance with latest available market information, industry prospects, PPL WPD Investments' current performance and future plans.

1.16 *Inventories*

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

1.17 *Taxation*

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

Current tax is measured at the amount expected to be payable (or recoverable) in respect of the taxable profit (or loss) for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. This includes UK corporation tax payable to

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

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

Deferred tax is recognised on all temporary differences except:

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

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

1.18 ***Pension benefits***

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

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

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

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

The retirement benefit obligation or asset recognised in the balance sheet represents the deficit or surplus in the WPD Group's defined benefit pension plan. Surplus or deficit comprises the total of the present value of the deferred 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 deferred contribution schemes are recognised in the income statement or capital expenditure as appropriate in the year in which they become payable.

1.19 ***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.

1.20 ***Provisions***

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

1.21 ***Dividend distribution***

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

1.22 ***Financial assets***

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

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

1.22.1 ***Debt instruments at amortised cost***

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

1.22.2 ***Financial assets at FVTPL***

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

1.22.3 ***Financial assets at FVOCI***

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

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

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

1.23 ***Impairment of financial assets***

PPL WPD Investments recognises impairment on financial assets following the 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 which affects the measurements of ECLs. PPL WPD Investments 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 WPD Group; or

(ii) Borrower is unlikely to pay its credit obligation to the WPD Group in full.

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

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

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

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

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

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

1.23.2 ***Investments at amortised cost***

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

1.23.3 ***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.

1.24 ***Cash and cash equivalents***

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

1.25 ***Financial liabilities***

Financial liabilities are classified as financial liabilities at FVTPL or as appropriate, financial liabilities measured at amortised costs. Financial liabilities include trade and other payables including accruals and borrowings. The WPD Group determines the classification of its financial liabilities at initial recognition.

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

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

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

1.25.2 ***Financial liabilities measured at amortised cost***

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

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

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

1.26 ***Derivative financial instruments and hedging activities***

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

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

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

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the 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:

1.26.1 ***Cash flow hedges***

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

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

1.26.2 ***Fair value hedges***

The WPD Group did not have any fair value hedges during the years presented in this historical financial information.

1.27 ***Fair value measurement***

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

1.28 ***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: (i) the WPD Group currently has a legally enforceable right to set off the recognised amounts; and (ii) the WPD Group intends to either settle on a net basis or realise the asset and settle the liability simultaneously. A right of set off is the WPD Group's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

1.29 ***Borrowing costs***

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

2.1 ***Critical judgements in applying the WPD Group's accounting policies***

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

2.1.1 *Capitalisation of overheads—nature of costs capitalised*

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

2.1.2 *Uncertain tax positions*

The WPD Group's current tax expense and current tax liability reflect management's best estimate and judgement regarding the amount of UK corporation tax payable for the current and previous periods that remains to be agreed with HMRC. The UK tax legislation contains detailed and complex rules which are regularly updated. Management monitors any changes to the UK tax legislation and assesses their impact on the WPD Group's tax position. In particular, the OECD Base Erosion and Profit Shifting 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 WPD Group but apply to finance costs of PPL affiliate companies which may impact the amount of group relief available to the WPD Group. PPL WPD Investments' management has assessed the impact of this legislation on the WPD Group's tax position and has taken necessary actions to ensure that the WPD Group is compliant with the rules.

PPL WPD Investments' 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 historical financial information, but management does not expect that any adjustments would have a material impact on the WPD Group's financial results and positions.

2.1.3 *Goodwill—nature of cash flows*

For purposes of goodwill impairment, cash flows to be included in determining the value in use of a CGU is a key judgement. IAS 36 "Impairment of assets" requires that cash flows for value in use calculations shall only include cash flows for a CGU in its current condition. All cash flows in relation to reinforcement work, or alternatives to reinforcement work such as flexible projects, as per the approved business plan, are considered as cash flows necessary to operate and maintain the networks in their current condition and are therefore included for the purposes of determining the value in use of the CGU.

2.2 *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.

2.2.1 *Capitalisation of overheads—capitalisation rate*

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

In previous years the rate of capitalisation has been based on the analysis of total labour costs, as split between capital and revenue activities. In the current year, following a detailed management review, certain costs are no longer considered directly attributable to capital work and the capitalisation rate for some costs has been based on an analysis of total costs, as split between capital and revenue activities. The net impact of these changes on the overall capitalisation of overheads is immaterial.

The rate is reviewed in detail annually and a reasonableness test is performed in light of total capital spend during the year. The total amount of overheads capitalised at 31 March 2020 is £73.5m (2019: £73.4m, 2018: £72.7m). Information on sensitivity to the rate is as below:

	2020	2019	2018
	Income statement (before tax)	Income statement (before tax)	Income statement (before tax)
	+/–£m	+/–£m	+/–£m
Change in rate +/- 1%	1.1	1.2	1.0
Change in rate +/- 5%	5.5	6.0	5.0

2.2.2 ***Pension obligations***

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

The discount rate used is based on the interest rates of relevant high-quality corporate bonds. The increase in discount rates due to the global COVID-19 outbreak has been accompanied by a fall in inflation expectations, thus resulting in an overall surplus on the WPD Group's defined benefit schemes of £599.5m (2019: £110.1m, 2018: £76.4m).

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

In light of the COVID-19 pandemic, the valuation of certain pension assets has been identified as an additional area of estimation uncertainty that impacts the WPD Group's position as at 31 March 2020. Due to uncertainty in the markets, property valuations by independent valuers have been reported on the basis of material valuation uncertainty in line with current industry practice. The balance of pension assets invested in property/real estate funds amounts to £402.3m, which represents 6% 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.

See Note 28 for further details and information on sensitivities.

2.2.3 ***Goodwill***

The WPD Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. Following the assessment of the recoverable amount of goodwill allocated to the East Midlands, West Midlands and South Wales, to which goodwill of £518.8m, £614.4m and £120.9m has been allocated respectively, the directors consider the recoverable amount of goodwill allocated to these CGUs to be most sensitive to the pre-tax discount rate of 5.00% (2019: 4.84%, 2018: £5.11%), the assumed terminal value multiple of 35% (2019: 25%, 2018: 25%) applied to the RAV on the assumed exit date at 31 March 2028 and key future RIIO-ED2 price control assumptions including the cost of equity allowance and incentive revenues. The discount rate reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Whilst the WPD Group has some certainty over the future cash flows generated by the assets in the current RIIO-EDI price control period there is less certainty over the future RIIO-

ED2 price control period and in particular the cost of equity allowance and incentive revenues; these factors are partly taken into account in the discount rate calculation.

The sensitivity analysis in respect of the recoverable amounts of the CGUs allocated to goodwill are presented in Note 16.

3. Operating segment information

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

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

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

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

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

3.1 *Revenues*

	Total revenue			Inter-segment revenue			External revenue		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Distribution network systems									
South West	381.7	372.2	364.5	(0.4)	(0.8)	(1.0)	381.3	371.4	363.5
South Wales	263.6	259.2	245.9	(0.1)	(0.2)	(0.1)	263.5	259.0	245.8
East Midlands	526.3	506.2	491.0	(0.4)	(0.1)	(0.1)	525.9	506.1	490.9
West Midlands	525.4	524.7	496.7	(0.3)	(0.2)	(0.1)	525.1	524.5	496.6
	1,697.0	1,662.3	1,598.1	(1.2)	(1.3)	(1.3)	1,695.8	1,661.0	1,596.8
Other businesses	59.6	58.1	58.3	(31.9)	(33.5)	(34.2)	27.7	24.6	24.1
	1,756.6	1,720.4	1,656.4	(33.1)	(34.8)	(35.5)	1,723.5	1,685.6	1,620.9

3.2 *Information about major customers*

Revenues from the WPD Group's largest five customers amounted to £275.0 million, £220.9 million, £214.6 million, £209.0 million and £183.5 million (2019: £266.8 million, £231.4 million, £227.2 million, £226.9 million and £219.3 million; 2018: £251.0 million, £250.7 million, £243.2 million, £237.2 million and £227.0 million) arising from sales reported across the South West, South Wales, East Midlands and West Midlands segments.

3.3 ***Segment profit***

	2020	2019	2018
	£m	£m	£m
Distribution network systems			
South West	222.7	217.9	231.2
South Wales	159.1	154.6	150.7
East Midlands	335.8	319.6	307.4
West Midlands	334.8	329.2	311.8
	1,052.4	1,021.3	1,001.1
Other businesses	8.1	10.6	12.0
Corporate and unallocated*	(23.3)	(22.0)	(22.4)
Operating profit	1,037.2	1,009.9	990.7
Finance revenue	11.5	10.2	9.6
Finance costs	(301.0)	(282.6)	(290.6)
Net finance income/(expense) relating to pensions and other post-retirement benefits	2.0	(4.3)	(4.4)
Profit before tax	749.7	733.2	705.3
Taxation			
South West	(44.8)	(29.1)	(29.2)
South Wales	(31.8)	(18.4)	(18.7)
East Midlands	(66.1)	(40.8)	(37.2)
West Midlands	(65.3)	(40.3)	(37.5)
Other businesses	6.9	(0.1)	3.4
	(201.1)	(128.7)	(119.2)
Profit for the year attributable to equity holders of the parent	548.6	604.5	586.0

* Corporate and allocated comprises primarily current service pension costs (net of capitalisation).

3.4 ***Assets, liabilities, and capital expenditure***

	Segment assets(i)			Segment liabilities(ii)			Capital expenditure(iii)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Distribution network systems									
South West									
South West	3,080.0	2,895.8	2,762.0	692.5	655.4	630.4	235.5	219.5	247.7
South Wales	2,175.8	2,076.6	1,967.5	451.8	433.6	413.2	139.2	148.7	153.5
East Midlands	4,934.1	4,712.6	4,517.2	1,161.7	1,112.5	1,062.4	298.9	279.2	310.1
West Midlands	4,600.4	4,426.7	4,260.1	805.2	772.7	748.4	255.3	247.7	290.2
	14,790.3	14,111.7	13,506.8	3,111.2	2,974.2	2,854.4	928.9	895.1	1,001.5
Other businesses	219.0	213.8	197.8	31.1	272.3	268.1	4.2	7.7	7.0
Corporate and unallocated	1,023.6	416.6	309.6	7,604.8	6,782.9	6,587.5	(4.8)	(3.9)	(3.9)
	16,032.9	14,742.1	14,014.2	10,747.1	10,029.4	9,710.0	928.3	898.9	1,004.6

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

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

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

3.5 ***Depreciation and amortisation***

	Depreciation on property, plant and equipment (Note 13)			Amortisation of intangible assets (Note 16)		
	2020	2019	2018	2020	2019	2018
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	61.7	59.5	56.9	3.5	2.4	1.5
South Wales	42.8	40.0	37.7	0.6	0.4	0.2
East Midlands	89.1	83.0	80.9	1.4	1.0	0.6
West Midlands	83.3	74.8	71.7	1.2	0.9	0.5
	276.9	257.3	247.2	6.7	4.7	2.8
Other businesses	1.9	7.5	7.3	0.7	0.7	0.6
	278.8	264.8	254.5	7.4	5.4	3.4
Less: recapitalised to property, plant and equipment	(39.3)	(37.1)	(34.0)	—	—	—
Charged to consolidated income statement	239.5	227.7	220.5	7.4	5.4	3.4

4. Revenues

	2020	2019	2018
	£m	£m	£m
Revenue from customer contracts	1,743.0	1,706.2	1,641.6
Lease income	13.6	14.2	14.8
	1,756.6	1,720.4	1,656.4

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

	2020	2019	2018
	£m	£m	£m
Licensed energy suppliers—DNO	1,614.1	1,598.0	1,542.8
Other customers—DNO	82.9	64.3	55.3
Other businesses customers	46.0	43.9	43.5
	1,743.0	1,706.2	1.641.6

The licensed energy supplier revenue forms the majority of the external revenue of distribution network systems as disclosed in paragraph 3.1 of Note 3.

Network assets with a net book value of £12.9 billion (2019: £12.2 billion, 2018: £11.6 billion) are used to fulfil the contract with customers.

5. Operating costs

WPD Group operating costs can be analysed as follows:

	2020	2019	2018
	£m	£m	£m
Employee benefit expense (Note 9)	152.1	144.6	139.0
Depreciation of property, plant and equipment	240.8	227.7	220.5
Property taxes	98.6	99.5	98.0
Other operating charges	193.3	209.1	175.3
	684.8	680.9	632.8

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

	2020 £m	2019 £m	2018 £m
Employee benefit expense (Note 9)	152.1	144.6	139.0
Depreciation of property, plant and equipment*	240.8	227.7	220.5
Amortisation of intangibles	7.4	5.4	3.4
Rent expense**:			
Plant, machinery and equipment	8.9	7.1	9.6
Land and buildings	0.5	0.6	3.0
Amortisation of customer contributions	(46.1)	(45.3)	(44.3)
Research and development expenditure***	0.1	0.1	0.2

* Depreciation of property, plant and equipment is stated net of depreciation capitalised of £39.3m (2019: £37.1m, 2018: £34.0m) in respect of equipment consumed during the construction of the electricity network. It also includes depreciation of right-of-use assets amounting to £1.3m.

** Rent expense pertains to short term and low value leases (refer to note 22).

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

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

During the year the WPD Group obtained the following services from PPL WPD Investments' auditor and its associates:

	2020 £m	2019 £m	2018 £m
Audit fees			
Annual audit of PPL WPD Investments and consolidated financial statements	0.1	0.1	0.1
Audit of subsidiary companies	0.7	0.5	0.4
Other audit related services	0.2	0.1	0.1
Non-audit fees	1.0	0.7	0.6
Audit related assurance services	0.1	0.3	0.5
	0.1	0.3	0.5
Total fees within operating costs	1.1	1.0	1.1

In addition, fees in respect of audit-related assurance services of £0.3m (2019: £0.3m, 2018: £0.3m) payable to Deloitte LLP were borne by PPL (the ultimate parent company) and so are excluded from this disclosure.

6. Other operating income and expense

	2020 £m	2019 £m	2018 £m
Other operating income			
Net gain on disposal of property, plant and equipment	—	4.4	1.6
Increase in fair value of investment properties	0.2	1.5	1.8
Income from fixed asset investments	0.3	0.3	0.2
	0.5	6.2	3.6
Other operating expense			
Net loss on disposal of property, plant and equipment	(0.5)	—	—
Reduction in fair value of investment properties	(1.5)	(1.0)	(1.0)
Net other operating (expense)/income	(1.5)	5.2	2.6

7. Net finance costs

	2020 £m	2019 £m	2018 £m
Finance income			
Interest on bank deposits	1.4	1.0	0.5
Interest on loans to PPL affiliate (Note 34)	10.1	9.2	9.1
Total finance income	11.5	10.2	9.6
Finance costs			
Net interest on pensions and other post-retirement benefit obligations (Note 28)	2.0	(4.3)	(4.4)
Interest payable on bank loans and overdrafts	(2.8)	(3.6)	(4.6)
Interest payable on other loans	(298.2)	(285.0)	(288.0)
Interest payable on lease liabilities·	(0.3)	—	—
Foreign exchange loss on US$ denominated financial assets and liabilities	(32.7)	(43.8)	59.9
Transfers from the hedging reserve in relation to cash flow hedges	32.6	44.2	(61.2)
Less: interest capitalised	0.4	5.6	3.3
Total finance costs	(299.0)	(286.9)	(295.0)
Net finance costs	(287.5)	(276.7)	(285.4)

Interest in 2020 was capitalised at a rate of 1.7% (2019: 2.8%, 2018: 2.1%), based on the yield on the WPD Group's borrowings.

8. Exceptionals and remeasurements

We have concluded that the additional deferred tax charge reflecting the impact of the remeasurement of the WPD Group's deferred tax liabilities as a result of a change in the substantively enacted UK corporation tax rate met the criteria to be classified as exceptional.

	2020 £m	2019 £m	2018 £m
Deferred tax arising on the reversal of the reduction in the UK corporation tax rate	68.4	—	—
Total exceptionals and remeasurements	68.4	—	—

The Finance Act 2016, which was enacted on 15 September 2016, reduced the main UK corporation tax rate to 17% with effect from 1 April 2020. Deferred tax balances were calculated at this rate for the years ended 31 March 2017 to 2019. On 17 March 2020, the UK Government utilised the Provisional Collection of Taxes Act 1968 to substantively enact a reversal of the reduction in the main UK corporation tax rate to 17% with effect from 1 April 2020, resulting in the rate remaining at 19%. Deferred taxes at the reporting date have been measured using enacted tax rates and reflected in these financial statements, resulting in a £68.4 million deferred tax charge, principally due to the remeasurement of deferred tax liabilities.

9. Employee benefit expense

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

	2020 £m	2019 £m	2018 £m
Wages and salaries	359.5	342.4	331.9
Social security costs	41.0	39.9	38.7
Pension costs	72.2	69.9	70.9
	472.7	452.2	441.5
Less: amounts capitalised as part of property, plant and equipment	(320.6)	(307.6)	(302.5)
Charged to the income statement	152.1	144.6	139.0

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

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

	2020 Number	2019 Number	2018 Number
Electricity distribution	6,421	6,484	6,493
Other activities	153	159	153
	6,574	6,643	6,646

10. Directors' emoluments

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

	Highest paid director			Total		
WPD Group	2020	2019	2018	2020	2019	2018
	£000	£000	£000	£000	£000	£000
The emoluments of the executive directors comprised:						
Base salary (note i)	423	465	607	1,266	1,520	1,629
Performance dependent bonus (note ii)	316	360	580	820	1,271	1,201
Pension compensation allowance (note iii)	217	212	—	374	363	345
Sub-total directors' remuneration	956	1,037	1,187	2,460	3,154	3,175
Long term incentive plan (note iv)	749	481	691	1,435	988	1,250
Fees to the independent non-executive directors (note v)	—	—	—	100	100	100
Other (note vii)	—	—	—	—	9,400	—
	1,705	1,518	1,878	3,995	13,642	4,525

(i) Base salary also includes benefits in kind.

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

(iii) As a result of changes in tax applicable to UK pensions, two of the executive directors have resigned as active members of the ESPS (Note 28). Thus, PPL WPD Investments no longer contributes for ongoing service to the ESPS in respect of these executive directors. Instead and subject to their service contract, PPL WPD Investments pays cash compensation to them individually equivalent to the value of PPL WPD Investments' contribution into the ESPS that would have been made had they remained active members (as determined by external actuaries). The remaining two executive directors are accruing ESPS service and PPL WPD Investments is contributing for ongoing service.

(iv) Under a long-term incentive plan, the executive directors were granted phantom stock options. The option price is set at the quoted share price of PPL WPD Investments' parent in the US, PPL, 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 (2019: two, 2018: none). In addition, the executive directors receive annually a grant of PPL 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 of directors. No emoluments are paid to US based non-executive directors, who are officers of PPL, in respect of their services as directors to the WPD Group.

(vi) During the year, four executive directors (2019: five, 2018: four) were members of the defined benefit ESPS.

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

11. Tax

The major components of income tax expense are:

	2020 £m	2019 £m	2018 £m
Current tax	77.1	65.2	92.8
Current tax expense (see below)			
Adjustments in respect of prior years	(1.1)	(1.8)	(4.4)
Deferred tax (Note 27)			
Origination and reversal of temporary differences	56.7	66.3	31.6
Impact of tax rate change	68.4	(1.6)	0.1
Adjustments in respect of prior years		0.6	(0.8)
	201.1	128.7	119.3

The tax on the WPD Group's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2019: 19%, 2018: 19%) as follows:

	2020 £m	2019 £m	2018 £m
Profit before income tax	749.7	733.2	705.3
Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%, 2018: 19%)	142.4	139.3	134.0
Effects of:			
Expenses not deductible and income not taxable for tax purposes	0.5	1.2	0.2
Group relief received at non-standard rates	(9.1)	(9.0)	(4.3)
Impact of tax rate change ·	68.4	(1.6)	(9.8)
Adjustments to tax charge in respect of prior years	(1.1)	(1.2)	(0.8)
Total taxation (continuing operations)	201.1	128.7	119.3

The total taxation expense as a percentage of profit before income tax gives an effective tax rate of 26.8% (2019: 17.6%, 2018: 16.9%) compared to the standard rate of 19% (2019: 19%, 2018: 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 by PPL affiliates to the WPD Group ("**group relief**") are not paid for and therefore the WPD Group benefits by the tax value of these losses. The impact of the tax rate change in the current year is due to the reversal of the tax rate reduction that was expected to apply to the future years when the majority of deferred tax temporary differences are expected to reverse and in the prior year was due to the lower tax rate being used in the deferred tax calculations (see the change in corporation tax rate note below). Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HMRC and additional group relief received from PPL affiliates for no payment.

Tax relating to items (charged) or credited to other comprehensive income:

	2020 £m	2019 £m	2018 £m
Deferred tax:			
Revaluation of cash flow hedges	(1.4)	(2.5)	1.3
Re-measurement of pension liabilities·	(66.7)	(25.4)	5.5
	(68.1)	(27.9)	6.8

11.1 *Current tax expense*

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

	2020	2019	2018
	£m	£m	£m
Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%, 2018: 19%)	142.4	139.3	134.0
Adjustments:			
Depreciation and amortisation (note i)	(13.2)	(22.8)	(22.7)
Pensions (note ii)	(42.6)	(38.0)	(4.9)
Other timing adjustments (note iii)	(0.6)	(1.6)	(1.2)
Other adjustments (note iv)	0.2	(2.7)	(2.6)
Corporation tax payable on profits before group relief	86.2	74.2	102.6
Group relief (note v):			
Losses received from other group companies for free	(9.1)	(9.0)	(9.8)
Corporation tax payable on profits after group relief	77.1	65.2	92.8
The current tax charge on profits for the year is split as follows:			
Corporation tax payable to HM Revenue & Customs	77.1	65.2	92.8
Group relief payable to other group companies			
	77.1	65.2	92.8

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

(ii) The expense of providing pensions to employees is deductible from taxable profits at the time when contributions are paid into the pension schemes and not when the expense is charged to the income statement. As a proportion of the pension expense is capitalised (see Note 9), the deduction for contributions paid in the year is greater than the expense in the income statement.

(iii) Adjustments are required for the timing of other deductions. These include interest capitalised (see Note 7) and employee benefit expense (see Note 9). A proportion of interest expense is included in tangible fixed asset additions, but the tax legislation provides for this expense to be deducted against profits for the year. Contrary to this, a deduction for employee benefit expense must be deferred until the year of payment if the payment is not made within nine months of the year end.

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

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

11.2 *Change in corporation tax rate*

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

The Spring Budget 2021 announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The deferred tax assets and liabilities within the WPD Group have been calculated at 19% as this rate has been substantively enacted at the Balance Sheet date. The WPD Group is assessing what the increase in the net deferred tax asset would have been had the 25% rate been substantively enacted on or before 31 March 2020.

12. Dividends

	2020	2019	2018
	£m	£m	£m
Equity dividends—12.07 pence (2019: 18.11 pence, 2018: 18.93 pence) per £1 share	200.1	300.2	92.7

13. Property, plant and equipment

	Generation	Distribution network	Non-network land & buildings	Fixtures & equipment	Vehicles & mobile plant	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2017	0.4	13,043.3	138.7	251.6	125.1	13,559.1
Additions	0.1	916.8	16.3	49.7	8.0	990.9
Disposals and retirements	—	(1.8)	(0.1)	(25.5)	(6.0)	(33.4)
At 1 April 2018	0.5	13,958.3	154.9	275.8	127.1	14,516.6
Additions	—	828.4	5.6	37.1	11.3	882.4
Disposals and retirements	—	(l.7)	(3.8)	(23.7)	(5.2)	(34.4)
At 1 April 2019	0.5	14,785.0	156.7	289.2	133.2	15,364.6
Additions	—	863.6	8.4	31.0	13.3	916.3
Transfers	—	—	0.8	(0.8)	—	—
Disposals and retirements	—	(2.0)	—	(40.8)	(5.2)	(48.0)
At 31 March 2020	0.5	15,646.6	165.9	278.6	141.3	16,232.9
Accumulated depreciation						
At 1 April 2017	0.1	2,140.9	13.4	119.5	46.3	2,320.2
Depreciation charge for the year	—	203.0	2.1	36.5	12.9	254.5
Disposals and retirements	—	(1.8)	—	(25.5)	(5.1)	(32.4)
At 1 April 2018	0.1	2,342.1	15.5	130.5	54.1	2,542.3
Depreciation charge for the year	—	210.7	2.3	38.3	13.5	264.8
Disposals and retirements	—	(1.7)	(0.3)	(23.7)	(4.5)	(30.2)
At 1 April 2019	0.1	2,551.1	17.5	145.1	63.1	2,776.9
Depreciation charge for the year	—	223.7	2.4	39.2	13.5	278.8
Disposals and retirements	—	(2.0)	—	(40.8)	(4.6)	(47.4)
At 31 March 2020	0.1	2,772.8	19.9	143.5	72.0	3,008.3
Net book value						
At 31 March 2020	0.4	12,873.8	146.0	135.1	69.3	13,224.6
At 31 March 2019	0.4	12,233.9	139.2	144.1	70.1	12,587.7
At 31 March 2018	0.4	11,616.2	139.4	145.3	73.0	11,974.3

Included in distribution network and vehicles & mobile plant at 31 March 2020 was an amount of £124.5m (2019: £86.5m, 2018: £131.5m) relating to expenditure on assets in the course of construction.

Included in additions are staff costs of £320.6m (2019: £307.6m, 2018: £302.5m), general overheads of £73.5m (2019: £73.4m, 2018: £72.2m) and interest of £0.4m (2019: £5.6m, 2018: £3.3m).

14. Right-of-use asset

	Land & buildings	Fibres	Radio sites	Total
	£m	£m	£m	£m
At 1 April 2019—transition to IFRS 16	7.5	2.9	0.4	10.8
Additions	0.4	0.1	—	0.5
Depreciation	(0.5)	(0.7)	(0.1)	(1.3)
At 31 March 2020	7.4	2.3	0.3	10.0

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

15. Investment property

	Retail	Office	Industrial	Total
	£m	£m	£m	£m
Fair value				
At 1 April 2017	23.5	7.0	6.8	37.3
Valuation gains	0.2	1.1	0.5	1.8
Valuation losses	(0.7)	(0.3)	—	(1.0)
Transfers to property, plant and equipment	—	—	(0.5)	(0.5)
Disposals	(0.5)	(0.7)	(1.4)	(2.6)
At 1 April 2018	22.5	7.1	5.4	35.0
Valuation gains		0.7	0.8	1.5
Valuation losses	(0.4)	(0.3)	(0.3)	(1.0)
Disposals	(0.2)	(2.2)	(0.6)	(3.0)
At 1 April 2019	21.9	5.3	5.3	32.5
Valuation gains	0.1	—	0.1	0.2
Valuation losses	(1.0)	(0.2)	(0.3)	(1.5)
Transfers to property, plant and equipment	—	—	(0.8)	(0.8)
Disposals	(0.3)	—	—	(0.3)
At 31 March 2020	20.7	5.1	4.3	30.1

The fair value of investment property is based mostly on valuations by independent valuers (Alder King, Jones Lang Lasalle, Hartnell Taylor Cook, BNP Paribas), with the remaining valuations carried out by a qualified surveyor who is an employee of the WPD Group. All valuers are either members of the Royal Institution of Chartered Surveyors or Fellows of the Royal Institution of Chartered Surveyors. All properties are valued independently at least once every five years, with more frequent independent valuations carried out for higher value properties. The valuers all have recent experience in the location and category of the investment property being valued. The properties were valued on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The WPD Group's current use of the properties as investment properties is considered to be their highest and best use. The amounts recognised in the income statement for rental income from investment property are £2.6m (2019: £2.6m, 2018: £2.8m).

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during the period of occupation. This service charge amounted to £0.5m (2019: £0.5m, 2018: £0.6m) for which a similar amount is included within operating costs.

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

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

The tables below show details for the larger properties. Within other assets, recorded at £4.6m (2019: £6.0m, 2018: £6.9m), are a further 24 (2019: 44, 2018: 48) investment properties with an average value of £192,000 per property (2019: £136,000, 2018: £143,000), valued by the WPD Group's internal qualified surveyor.

All of the assets are valued on an Income Capitalisation methodology whereby rents receivable are divided by an appropriate yield. The valuations take into account existing tenancies and where necessary make appropriate assumptions regarding vacancies arising at future rent renewal dates.

The outbreak of the COVID-19 pandemic has led to global economic disruption and volatility in all business sectors including real estate. The future impact of COVID-19 on the real estate market is currently unknown but the continued spread of the virus and efforts to contain the virus such as quarantines and extended closures of businesses can adversely impact the fair values of investment properties. Consequently, the WPD Group's valuers have reported fair values on the basis of ''material valuation uncertainty" as per the Royal Institution of Chartered Surveyors ("**RICS**") Red Book Global. Material valuation uncertainty does not imply that the valuation cannot be relied upon but indicates that due to extraordinary circumstances less certainty could be attached to the valuation. Management will continue to closely monitor the implications of COVID-19 on the fair values of investment properties.

All of the valuations fall within Level 3 of the fair value hierarchy (see Note 25). The table below provides details by class of property of the fair value ascribed to each class of asset, an indication of the key inputs used in deriving the valuation, together with other key features which inform the valuation process. In light of the immaterial nature of the other assets below to the historical financial information as a whole, the directors have elected not to provide the equivalent detailed information in respect of these valuations.

The valuations are sensitive to movements in key variables, notably the yields applied to valuations based on income capitalisation which can change due to general market conditions and also an assessment of the quality of the underlying tenant. Broadly, a 0.5% increase/decrease in an assumed yield of 5% will result in a 10% decrease/increase in the value of a property, whilst a 0.5% increase/ decrease in an assumed yield of l0% will result in a 5% decrease/increase in the value of a property.

Class of property	Carrying amount/ Fair value 2020 £m	Valuation technique	Input	Range (weighted average) 2020	Other key information	Range 2020
Retail Level 3	16.5	Income capitalisation	>Length of leases in place (years) >Yield >Passing rent (per sqm p.a.) >Long term vacancy rate	9y 5.2% £201.4 0%	>Age of building >Remaining useful life of building >Square metres	26y 20+ 5,308
Other retail Level 3	2.9	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£93-£230 (£160) 0y–5y (1.9y) 7.3%–8.0% 0%	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	50+ 20+ 2,175 0%
Office Level 3	4.0	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£50–£165 (£86) 0y–9y (6.7y) 1%–7% 0%–97% (84%)	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	22y-37y 20+ 6,619 0%-97%
Industrial Level 3	2.1	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£36–£76 (£63) 2y–22y (15y) 10% 0%	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	64y 20+ 3,106 0%
Total	**25.5**					
Other assets	**4.6**					
Total fair value	**30.1**					

Class of property	Carrying amount/ Fair value 2019 £m	Valuation technique	Input	Range (weighted average) 2019	Other key information	Range 2019
Retail Level 3	16.5	Income capitalisation	>Length of leases in place (years) >Yield >Passing rent (per sqm p.a.) >Long term vacancy rate	10y 5.2% £201.4 0%	>Age of building >Remaining useful life of building >Square metres	25y 20+ 5,308
Other retail Level 3	3.6	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£93–£204 (£155) 2y–6y (3.4y) 7.3%–8.0% 0%	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	50+ 20+ 2,175 0%
Office Level 3	4.3	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£50–£165 (£86) 1y–10y (8y) 1%–7% 0%–97% (84%)	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	21y–36y 20+ 6,619 0%–97%
Industrial Level 3	2.1	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£36–£76 (£63) 3y–23y (16y) 10% 0%	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	63y 25y 3,106 0%
Total	**26.5**					
Other assets	**6.0**					
Total fair value	**32.5**					

Class of property	Carrying amount/ Fair value 2018 £m	Valuation technique	Input	Range (weighted average) 2018	Other key information	Range 2018
Retail Level 3	16.7	Income capitalisation	>Length of leases in place (years) >Yield >Passing rent (per sqm p.a.) >Long term vacancy rate	11y 5.4% £201.4 0%	>Age of building >Remaining useful life of building >Square metres	24y 20+ 5,308
Other retail Level 3	3.9	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£93–£204 (£155) 3y–7y (4.4y) 7.25%–8.0% 0%	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	50+ 18y–20y 2,175 0%
Office Level 3	6.1	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£50–£165 (£107) 0y–5y (0.9y) 7%–14% 0%–97% (50%)	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	20y–35y 20y–46y 8,918 0%–97%
Industrial Level 3	1.4	Income capitalisation	>Net rent (per sqm p.a.) >Length of leases in place (years) >Yield >Long term vacancy rate	£59–£60 (£59.77) 4y–24y (16y) 14% 0%	>Age of building >Remaining useful life of building >Square metres >Actual vacancy rate	62y 16y 3,428 0%
Total	28.1					
Other assets	6.9					
Total fair value	35.0					

16. Intangible assets

	Goodwill	Computer software	Customer contracts	Total
	£m	£m	£m	£m
Cost:				
At 1 April 2017	1,574.5	22.9	6.2	1,603.6
Additions	—	13.7	—	13.7
At 1 April 2018	1,574.5	36.6	6.2	1,617.3
Additions	—	16.5		16.5
At 1 April 2019	1,574.5	53.1	6.2	1,633.8
Additions	—	12.0	—	12.0
Transfers from property, plant and equipment	—	0.8	—	0.8
At 31 March 2020	1,574.5	65.9	6.2	1,646.6
Aggregate amortisation and impairment:				
At 1 April 2017	320.4	8.1	3.6	332.1
Additions	—	2.8	0.6	3.4
At 1 April 2018	320.4	10.9	4.2	335.5
Charge for the year	—	4.8	0.6	5.4
At 1 April 2019	320.4	15.7	4.8	340.9
Charge for the year	—	6.7	0.7	7.4
At 31 March 2020	320.4	22.4	5.5	348.3
Carrying amount:				
At 31 March 2020	1,254.1	43.5	0.7	1,298.3
At 31 March 2019	1,254.1	37.4	1.4	1,292.9
At 31 March 2018	1,254.1	25.7	2.0	1,281.8

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

Carrying amount of goodwill allocated to CGUs	2020	2019	2018
	£m	£m	£m
East Midlands	518.8	518.8	518.8
West Midlands	614.4	614.4	614.4
South Wales	120.9	120.9	120.9
Carrying amount of goodwill	1,2541	1,254.1	1,254.1

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

The WPD Group calculates the recoverable amount as the higher of the value in use using a discounted cash flow model and fair value less cost to dispose. The key assumptions for the value in use calculations are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the forecast period, and the multiple applied to the Regulatory Asset Value ("**RAV**") at the end of the period to determine the terminal value.

CGU cash flows are derived from the corporate business plan approved by management. In determining the value in use, cash flows for a period of eight years have been discounted and aggregated with a terminal value, which is calculated by applying a multiple to the RAV at the end of the period. A period of greater than five years has been used as the period is covered by the corporate business plan and more accurately reflects the timing of cash outflows associated with major capital replacement cycles and their subsequent recovery under electricity distribution regulation. This period covers the remainder of RIIO-ED1 where the business plan has been agreed with Ofgem and a forecast for RIIO-ED2, which is yet to be agreed with Ofgem.

The pre-tax future cash flows are discounted using a pre-tax rate discount rate of 5.00% (2019: 4.84%, 2018: 5.10%). PPL WPD Investments' post-tax WACC is estimated and converted to a pre-tax discount rate using an iterative calculation approach in the value in use methodology. During the year, PPL WPD Investments' post-tax WACC, used to calculate the pre-tax discount rate, has been increased by an alpha premium of 1% to account for the current uncertainty in the cash flows in relation to Ofgem's final determinations for RIIO-ED2.

The key assumptions during the electricity price control period from 1 April 2015 to 31 March 2023 (RIIO-ED1) are based on revenues allowed and cost of capital assumptions agreed at the most recent electricity price control review, together with management's expectation of the related cost and capital expenditure requirements during that period. The view for the remainder of RIIO-ED1 has been updated to reflect PPL WPD Investments' current performance in the price control.

Assumptions beyond this period are based on the approved budget and the PPL WPD Investments' board of directors' expectation of the outcome of future price control review i.e. RIIO-ED2. Key RIIO-ED2 assumptions in relation to cost of equity allowances, incentive revenues and totex have been determined by taking into consideration current information such as RIIO-ED2 framework consultations, existing determinations by Ofgem, as well as PPL WPD Investments' performance in the current price control, the latest published policy intent from Ofgem and the Government and various other industry information. Forecast incentive revenue represents management's best estimate at this point in time as Ofgem has yet to release guidance on the potential incentive package. In the current year PPL WPD Investments' forecast for RIIO-ED2 and relevant assumptions has been updated to incorporate the Government's and Ofgem's latest views on net-zero carbon targets, electric vehicle rollout and the Distribution System Operator ("**DSO**") strategy. Due to the transitioning of DNO to DSO, reinforcement cash flows in the business plan have been updated to reflect the forecasted spend on future network and flexible energy projects. The key assumptions in respect of RIIO-ED2 cash flows will continue to evolve as the price control approaches and Ofgem produces clearer guidance; as such we have modelled some reasonable possible changes to these key assumptions below.

The impact of the global pandemic, COVID-19, has been taken into consideration in estimating the future cash flows of each CGU. Following the announcement of restrictions, the capital programme was disrupted in the short term and the work focused on essential and critical activities whilst continuing to provide a safe, secure and reliable supply of energy to our customers. From July 2020, the WPD Group resumed operations in relation to non-safety critical capital programmes, subject to appropriate safety measures. Revenues have been impacted temporarily due to 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 during March to July 2020. Any impact on revenue is largely a timing issue due to the regulatory regime that provides for recovery of allowed revenue under a price control period. This impact on the timing of net cash flows has been taken into consideration in determining the estimated future cash flows of the CGUs.

Due to timing of the goodwill impairment test, a forecasted RAV for 31 March 2020 is used in the business plan and is £2,526.9m (2019: £2,459.9m, 2018: £2,359.7m), £2,541.1m (2019: £2,464.2m, 2018: £2,365.3m) and £1,190.9m (2019: 1,134.0m, 2018: £1,059.4m) for East Midlands, West Midlands and South Wales, respectively. The terminal value multiple applied to the RAV at the end of the cash flow period, i.e. 31 March 2028, is 35% (2019: 25%, 2018: 25%). The terminal value multiple has been increased in order to align with recent relevant market transactions. Management believes the increase in the multiple during the year is also appropriate in light of the UK Government's increased environmental focus on climate change. During the year the Government legislated the move towards a net-zero carbon economy by 2050 which will drive a need for significant reinforcement of electricity networks to facilitate renewable generation. Decarbonisation of transport and heat are two key areas of focus and are likely to be a significant part of the electrification solution to achieve the Government's strategy. Thus, DNOs have a significant role to play in delivering the Government's targets in the foreseeable future.

The pre-tax cash flows reflect an implied growth of 2.9%-3.8% (2019: 3.1%-4.1%, 2018: 4.5%-5.0%). The implied growth rate from management's discounted cash flow model and multiple applied to the terminal RAV value, slightly exceeds the long term forecasted RPI for the UK. Management support this long-term growth rate as the regulatory regime incentivises PPL WPD Investments to realise real growth above RPI where it reaches target performance measures. The WPD Group has a historic track record of achieving such performance targets and forecasts a consistent level of performance in the future.

At 31 March 2020, the East Midlands, West Midlands, and South Wales recoverable amounts exceeded their carrying amounts by £156.0m, £141.lm, and £89.4m (2019: £43.3m, £80.1m and £46.9m; 2018: £272.2m, £270.0m, £195.2m), respectively. The increase in the headroom during the year is due to the increase in the terminal value multiple from 25% to 35%, which is partially offset by an increase in the discount rate during the year due to an additional alpha premium being incorporated within the WPD Group's WACC calculation.

In assessing the carrying value of goodwill, the cash flows have been sensitised to various reasonable possible changes in assumptions and the analysis reflects sufficient headroom. The key reasonable possible changes and sensitivities to assumptions are presented below:

Reasonable possible changes in key, assumptions:	**East Midlands**	**West Midlands**	**South Wales**	**Total**
	Reduction in recoverable amounts			
	£m	**£m**	**£m**	**£m**
0.85% increase in the pre-tax discount rate from 5.0% to 5.85%	(226.0)	(223.1)	(106.4)	(555.5)
5.0% decrease in terminal value multiple on the RAV from 35% to 30%	(124.7)	(119.2)	(59.6)	(303.5)
1.0% decline in RIIO-ED2 cost of equity allowance	(52.4)	(51.5)	(24.9)	(128.8)
1.0% decline in RIIO-ED2 incentive revenue on return on regulatory equity basis ("**RoRE**")	(30.6)	(30.6)	(15.3)	(76.5)
1.0% decline in RIIO-ED2 cost of equity allowance and l.0% decline in incentive revenue on RoRE basis	(83.0)	(82.1)	(40.2)	(205.3)

A reasonable possible change in discount rate on its own will lead to an impairment. As would a combination of reasonable possible changes to terminal RAV multiple and RIIO-ED2 assumptions.

The discounted pre-tax cash flows of East Midlands, West Midlands and South Wales reflect an implied premium on current RAV of 55.5%, 54.9% and 52.3%, respectively. Sensitivity analysis to the current implied premium to RAV is as follows:

	East Midlands	**West Midlands**	**South Wales**	**Total**
	(Decrease)/increase in recoverable amounts			
	£m	**£m**	**£m**	**£m**
Implied premium to current RAV at 45%	(264.4)	(251.7)	(86.7)	(602.8)
Implied premium to current RAV at 50%	(138.1)	(124.6)	(27.1)	(289.8)
Change in assumption required to eliminate all headroom:				
Increase in the pre-tax discount rate	by 0.58% to 5.58%	by 0.53% to 5.53%	by 0.71% to 5.71%	
Decrease in the terminal value multiple	by 6% to 129%	by 6% to 129%	by 8% to 127%	

A decline of 3.0%, 2.7% and 3.6% in the assumed cost of equity allowance on RIIO-ED2 for the East Midlands, West Midlands and South Wales, respectively, would remove all headroom. The elimination of assumed RIIO-ED2 incentive revenues, would not result in an impairment.

17. Investments

(a) Investment at amortised cost

	2020	**2019**	**2018**
	£m	**£m**	**£m**
Investment in PPL affiliate debt	161.9	154.9	144.7

In February 2011, the WPD Group purchased US$200m nominal at a premium price of US$21m from PMDC Chile of the US$400m 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited. During 2019 the maturity date was extended to 2021.

The expected credit loss on investments at amortised cost as at 31 March is as follows:	2020 £m	2019 £m
At 1 April—IAS 3		
Amount restated through opening retained earnings	—	0.1
Restated at 1 April—IFRS 9	0.1	0.1
Provision for impairment	—	—
At 31 March	0.1	0.1

(b) Details of WPD Group undertakings

Details of the PPL WPD Investments' subsidiary undertakings are as follows:

Subsidiary undertakings	Principal activity	Proportion %
Western Power Distribution plc	Investment company	100
Western Power Distribution (South West) plc	Electricity distribution	100
Western Power Distribution (South Wales) plc	Electricity distribution	100
Western Power Distribution (East Midlands) plc	Electricity distribution	100
Western Power Distribution (West Midlands) plc	Electricity distribution	100
WPD Investment Holdings Limited	Investment company	100
WPD Distribution Network Holdings Limited	Investment company	100
PPL Island Limited	Investment company	100
PPL WEM Limited	Investment company	100
PPL Midlands Limited	Investment company	100
PPL UK Investments Limited	Investment company	100
Western Power Distribution Investments Limited	Investment company	100
WPD Telecoms Limited	Telecommunications	100
Western Power Generation Limited	Power generation	100
WPD Property Investments Limited	Property management	100
Kelston Properties 2 Limited	Property management	100
Aztec Insurance Limited^	Insurance	100
South Western Helicopters Limited	Helicopter operator	100
WPD Smart Metering Limited	Electricity Metering	100
WPD Midlands Properties Limited (in liquidation)	Investment company	100
WPD Limited^	Property management	100
Hyder Profit Sharing Trustees Limited	Dormant company	100
WW Share Scheme Trustees Limited	Dormant company	100
South Wales Electricity Share Scheme Trustees Limited	Dormant company	100
Infralec 1992 Pension Trustee Limited	Dormant company	100
WPD Midlands Networks Contracting Limited	Dormant company	100
Central Networks Trustees Limited	Dormant company	100
WPD Share Scheme Trustees Limited	Dormant company	100
Western Power Pension Trustee Limited	Dormant company	100
WPD Limited	Dormant company	100
Meter Reading Services Limited	Dormant company	100
Meter Operator Services Limited	Dormant company	100

^ Incorporated in Guernsey

All undertakings are registered in England and Wales unless stated.

Except for WPD Investment Holdings Limited and PPL UK Investments Limited, which are owned 100% directly, all shares are held by subsidiary undertakings. All holdings are in ordinary shares.

Except for Aztec Insurance Limited and WPD Limited, the registered office of all subsidiary undertakings is Avonbank, Feeder Road, Bristol BS2 OTB. The registered office for Aztec Insurance Limited is Marsh Management Services Limited, PO Box 34, St Martins House, Le Bordage, St Peters Port, Guernsey, GY1 4AU and for WPD Limited is Elizabeth House, Les Ruettes Brayes, St Peters Port, Guernsey, GY1 1EW.

18. Inventories

	2020 £m	2019 £m	2018 £m
Raw materials	37.5	23.1	23.3
Work in progress	1.0	1.1	1.4
	38.5	24.2	24.7

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

The cost of inventories recognised as an expense during the year was £8.8m (2019: £10.9m, 2018 £10.8m). The cost of inventories recognised as an expense includes £0.5m (2019: £0.9m, 2018 £1.1m) in respect of write downs of inventory to net realisable value and has been reduced by £0.4m (2019: £0.2m, 2018 £0.2m) in respect of reversal of such write downs.

19. Trade and other receivables

	2020 £m	2019 £m	2018 £m
Current receivables			
Trade receivables	275.9	261.2	262.8
Other receivables	4.7	2.8	21.0
Accrued income	6.2	9.9	40.6
Prepayments	21.0	18.9	—
Total current receivables	307.8	292.8	324.4
Non-current receivables			
Other receivables	1.0	5.0	1.4
Prepayments	1.0	1.0	1.0
Total non-current receivables	2.0	6.0	2.4
Total trade and other receivables	309.8	298.8	326.8

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

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

As at 31 March 2020, trade receivables and accrued income at a nominal value of £2.9m (2019: £3.3m, 2018: £1.7m) were impaired and fully provided for. Movements in the provision for impairment were as follows.

	2020 £m	2019 £m	2018 £m
At 1 April—IAS 39	—	1.7	1.5
Amount restated through opening retained earnings—IFRS 9	—	0.4	—
Restated 1 April—IFRS 9	3.3	2.1	1.5
Provision for impairment	1.9	8.1	9.3
Amounts written off as uncollectable	(0.9)	(1.3)	(0.9)
Amounts recovered during the year	(1.3)	(5.6)	(8.2)
At 31 March	3.0	3.3	1.7

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

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

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	60-90 days	90-120 days	>120 days
	£m	£m	£m	£m	£m	£m	£m
2020	275.9	260.6	5.8	1.5	0.6	0.6	6.8
2019	261.2	252.1	3.3	1.9	2.1	1.4	0.4
2018	262.8	258.8	3.0	0.9	0.1	—	—

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

The impact of COVID-19 on ECL has been assessed and is not material. Ofgem regulations allow for full recoverability of credit losses on DUoS debtors, provided certain credit management protocols are performed in accordance with industry standards as governed by the DCUSA, thus minimising any potential credit risk to the WPD Group. Further, since mid-March 2020 no material slowdown in receipts has been noted.

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

Where necessary, suppliers can ensure they are within the 85% indebtedness threshold by providing collateral to increase their 'Credit Limit'. This can be in the form of a letter of credit or equivalent bank guarantee, an escrow account deposit, a cash deposit, or any other form of collateral agreed between PPL WPD Investments and the supplier. At 31 March 2020, the WPD Group held collateral in relation to trade receivables in the form of cash £2.2m (2019: £2.2m, 2018: £2.8m), letters of credit £53.3m (2019: £57.0m, 2018: £74.5m), and parent company guarantees £61.3m (2019: £54.5m, 2018: £48.7m). Letters of credit have a rating of Moody's A2/S&P A or greater. The maximum amounts for parent company guarantees are based on their credit ratings as per the DCUSA regulations.

20. Cash and cash equivalents

	2020	2019	2018
	£m	£m	£m
Cash at bank	64.4	52.8	65.0
Short-term bank deposits	136.6	89.9	112.3
Cash and cash equivalents	201.0	142.7	177.3

The fair value of cash at bank is considered to approximate its carrying amount. Short term deposits are measured at fair value through profit and loss ("**FVTPL**"). Cash at bank earns interest at floating rates based on short-term bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the WPD Group and earn interest at the respective short-term deposit rates.

At 31 March 2020, the WPD Group had available £794.0m (2019: £812.8m, 2018: £764.6) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates. At 31 March 2020, it also had available undrawn uncommitted facilities of £96.5m (2019: £96.5m, 2018: £126.2m).

Included in cash and short-term bank deposits are restricted amounts totalling £13.2m (2019: £14.2m, 2018: £15.3m) which are not readily available for the general purposes of the WPD Group. The restrictions relate largely to minimum cash balances that are required to be maintained for insurance purposes and cash balances that can only be used for low carbon network fund projects.

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

	2020	2019	2018
	£m	£m	£m
Cash at bank and in hand (from above)	201.0	142.7	177.3
Bank overdrafts (Note 21)	(13.5)	(19.5)	(25.2)
Cash and cash equivalents in the cash flow statement	187.5	123.2	152.1

Bank overdrafts comprise principally unpresented cheques at the year end.

21. Trade and other payables

	2020	2019	2018
	£m	£m	£m
Current payables			
Trade payables	44.2	59.0	50.2
Social security and other taxes	65.4	60.0	56.2
Payments received in advance	141.5	134.7	140.3
Other payables	13.1	15.0	12.8
Deferred contributions	46.1	45.3	44.3
Accruals and deferred income	291.4	266.3	260.9
	601.7	580.3	564.7
Non-current payables			
Deferred contributions	2,588.7	2,481.6	2,369.7
	3,190.4	3,061.9	2,934.4

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

22. Lease Liabilities

	£m
At 1 April 2019—transition to IFRS 16	10.8
Additions	0.5
Payments during the year	(1.5)
Interest expense	0.3
At 31 March 2020	10.1
Of which:	
Current	1.5
Non-current	8.6

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

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

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

23. Borrowings

	2020	2019	2018
	£m	£m	£m
Current			
Bank Overdrafts (Note 20)	13.5	19.5	25.2
Syndicated credit facilities(i)	261.1	244.0	291.8
9.250% GB£150m bonds due 2020	151.6	—	130.0
£50m 5 year term loan(i)	49.7	—	—
	475.9	263.5	447.0

(i) The syndicated credit facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortisation and total net debt not in excess of 85% of RAV, calculated in accordance with the credit facility. At 31 March 2020, £100.0m (2019: £90.6m, 2018: £149.1m) of syndicated credit facilities were denominated in Sterling and £161.0m (2019: £153.4m, £142.7m) were denominated in US dollars. The £210m RCF, due January 2023, was subject to a technical default at each of the balance sheet dates presented due to a breach within a security clause. This has resulted in the five year term loan being classified as current in the year ended 31 March 2020.The negative pledge covenant was amended and all historic technical breaches of that covenant were waived by the lenders on 18 March 2021, and therefore the technical default no longer exists. Accordingly, the five year term loan is expected to be reclassified in the year ended 31 March 2021.

	2020	2019	2018
	£m	£m	£m
Non-current			
5.875% GB£250m bonds due 2027(iv)	248.9	248.7	248.6
5.75% G8£200m bonds due 2040(iv)	197.6	197.5	197.4
2.375% G8£250m bonds due 2029	247.0	246.7	246.4
9.250% GB£150m bonds due 2020(iv)	—	154.0	156.5
4.804% GB£225m bonds due 2037(i)(iv)	220.9	220.7	220.5
5.75% G8£200m bonds due 2040(iv)	197.6	197.5	197.4
6.25% GB£250m bonds due 2040(iv)	257.4	257.7	258.1
5.25% G8£700m bonds due 2023(iv)	700.8	701.1	701.4
6.00% GB£250m bonds due 2025(iv)	252.5	253.0	253.4
5.75% G8£800m bonds due 2032(iv)	791.9	791.2	790.5
3.875% GB£400m bonds due 2024(iv)	397.5	396.9	396.4
3.625% G8£500m bonds due 2023	497.6	496.9	496.2
5.375% US$500m bonds due 2021	402.3	383.0	355.9
7.375% US$202m bonds due 2028	156.1	147.6	136.0
3.5% GB£350m bonds due 2026	345.7	345.1	—
1.75% G8£250m bonds due 2031	245.5	—	—
1.541% + RPI GB£105m index linked bonds 2053(ii)(iii)	152.4	148.4	144.7
1.541%+ RPI G8£120m index linked bonds 2056(ii)(iii)	174.1	169.6	165.4
0.010% + RPI GB£50m index linked bonds 2029(iii)	56.6	55.4	54.5
0.010% + RPI GB£30m index linked bonds 2036(iii)	32.5	31.7	31.1
2.671% + RPI GB£140m (2016: £100m) index linked bonds 2Q43(iii)	207.1	203.9	201.1
1.676% + RPI GB£105m index linked bonds 2052(iii)	136.2	133.4	130.9
0.4975% + RPI G8£100m index linked bonds 2026(iii)	111.3	108.4	105.7
1.25% +RPI GB£30m index linked bonds due 2028(iii)	31.8	31.1	—
	6061.3	5,919.5	5,488.1
Total borrowings	6,537.2	6,183.0	5,935.1

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

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

(iii) The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts in 2020 was an increase of approximately £22.3m resulting from inflation.

(iv) May be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.

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

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

	2020	2019	2018
	£m	£m	£m
UK pound	5,817.8	5,499.0	5,300.5
US dollar	719.4	684.0	634.6
	6,537.2	6,183.0	5,935.1

24. Reconciliation of liabilities arising from financing activities

	2020	2019	2018
	£m	£m	£m
Borrowings	6,537.2	6,183.0	5,935.1
Lease liabilities	10.1	—	—
Derivatives in hedging relationship	(163.1)	(102.8)	(49.6)
Gross debt net of related derivatives	6,384.2	6,080.2	5,885.5

Change in liabilities arising from financing activities

	2020	2019	2018
	£m	£m	£m
Cash flow per financing activity section of cash flow statement			
Net increase/(decrease) in short term borrowings	52.7	(194.8)	—
Proceeds from long term borrowings net of issue costs	245.3	375.4	—
Payment of lease liabilities	(1.5)	—	—
Change in liabilities arising from financing activities	296.5	180.6	—
Non-cash adjustments			
Net increase in derivatives	(60.3)	(53.2)	91.3
Foreign exchange loss on borrowings	34.8	48.9	(84.7)
Net increase in borrowings due to indexation	22.3	20.0	28.8
Amortisation of premiums, discounts and issue costs	(0.9)	(1.6)	(1.7)
Leases acquired during the year	11.3	—	—
Interest expense on lease	0.3	—	—
Movement in gross debt net of related derivatives in the year	304.0	194.7	33.7
Gross debt net of related derivatives at beginning of year	6,080.2	5,885.5	5,851.8
Gross debt net of related derivatives at end of year	6,384.2	6,080.2	5,885.5

25. Financial Instruments

25.1 *Financial risk management objectives and policies*

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

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

It is, and has been throughout 2020, 2019 and 2018, the WPD Group's policy that no speculative trading in financial instruments shall be undertaken.

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

25.2 ***Market risk***

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

25.3 ***Interest rate risk***

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

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

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

Interest bearing/earning assets and liabilities:	2020 Carrying amount	2019 Carrying amount	2018 Carrying amount
	£m	£m	£m
Fixed	5,040.1	4,782.6	4,460.4
Floating	73.6	120.8	269.7
Index-linked	902.0	881.9	833.4
	6,015.7	5,785.3	5,563.5

Represented by:	2020 Carrying amount	2019 Carrying amount	2018 Carrying amount
	£m	£m	£m
Cash and cash equivalents	(201.0)	(142.7)	(177.3)
Investment in parent company debt	(161.9)	(154.9)	(144.7)
Derivative financial assets/liabilities	(158.6)	(100.1)	(49.6)
Loans and borrowings	6,537.2	6,183.0	5,935.1
	6,015.7	5,785.3	5,563.5

25.4 ***Interest rate sensitivity***

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

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

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

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

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

	2020		2019		2018	
	Income statement (before tax)	Equity	Income statement (before tax)	Equity	Income statement (before tax)	Equity
	+/–£m	+/–£m	+/–£m	+/–£m	+/–£m	+/–£m
Interest rate +/– 100bp	0.7	—	(1.2)	—	2.7	—

25.5 ***Inflation risk***

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

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

	2020	2019	2018
	£m	£m	£m
Index-linked debt	902.0	881.9	833.4

25.6 ***Inflation sensitivity***

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

	2020		2019		2018	
	Income statement (before tax)	Equity	Income statement (before tax)	Equity	Income statement (before tax)	Equity
	+/–£m	+/–£m	+/–£m	+/–£m	+/–£m	+/–£m
UK Retail Prices Index +/– 100bp	9.0	(7.3)	8.8	(7.1)	8.3	(6.2)

25.7 ***Foreign currency risk***

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

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

The WPD Group holds an investment of $200m 2018 6.42% Eurobonds issued by PPL UK Resources Limited which were acquired at a premium of $21m. During the prior year the maturity date was extended to 2021. It also has borrowings of $200m under a related committed credit facility. At 31 March 2020, the WPD Group was exposed to movements on exchange rates of $1.1m (2019: $1.9m, 2018: £2.7m), being the net of the amortised Eurobond investment and dollar borrowings under the committed credit facility.

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

	2020	2019	2018
	£m	£m	£m
Investment in parent company Eurobonds	201.1	201.9	202.7
Borrowings	(902.0)	(902.0)	(902.0)
Gross exposure	(700.9)	(700.1)	(699.3)
Effect of cross-currency swaps	702.0	702.0	702.0
Net exposure	1.1	1.9	2.7

25.8 ***Foreign currency sensitivity***

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

	2020		2019		2018	
	Income statement (before tax)	Equity	Income statement (before tax)	Equity	Income statement (before tax)	Equity
	+/–£m	+/–£m	+/–£m	+/–£m	+/–£m	+/–£m
10% increase in exchange rates	(0.1)	(9.3)	(0.1)	(7.6)	(0.2)	(7.6)
–10% decrease in exchange rates	0.1	11.4	0.2	9.4	0.2	9.3

25.9 ***Credit risk (see also Note 19)***

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

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

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

	2020	2019	2018
	£m	£m	£m
Cash and short-term deposits	201.0	142.7	177.3
Trade receivables	275.9	261.2	262.8
Other receivables	5.7	7.8	22.4
Accrued income	6.2	9.9	—
Investment at amortised cost	161.9	154.9	144.7
Derivative financial instruments	163.5	102.9	49.6
	814.2	679.4	656.8

The table above does not take into account collateral held in relation to trade receivables in the form of cash £2.2m (2019: £2.2m, 2018: £2.8m), letters of credit £53.3m (2019: £57.0m, 2018: £74.5m), and parent company guarantees £61.3m (2019: £54.5m, 2018: £48.7m).

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

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

2020	12 month ECL	Lifetime ECL	FVTPL	FVOCI	Total
	£m	£m	£m	£m	£m
AAA to A (Low to Fair Risk)	64.4	—	136.6	163.5	364.5
BBB+ to B (Monitoring)	—	—	—	—	—
CCC and below (Substandard)	162.0	—	—	—	162.0
Others monitored on ageing matrix	—	290.8	—	—	290.8
Total gross carrying value	226.4	290.8	136.6	163.5	817.3
Loss allowance	(0.1)	(3.0)	—	—	(3.1)
Net carrying value	226.3	287.8	136.6	163.5	814.2

2020	12 month ECL	Lifetime ECL	FVTPL	FVOCI	Total
	£m	£m	£m	£m	£m
AAA to A (Low to Fair Risk)	52.8	—	89.9	102.9	245.6
BBB+ to B (Monitoring)	—	—	—	—	—
CCC and below (Substandard)	155.0	—	—	—	155.0
Others monitored on ageing matrix	—	282.2	—	—	282.2
Total Gross Carrying Value	207.8	282.2	89.9	102.9	682.8
Loss Allowance	(0.1)	(3.3)	-	-	(3.4)
Net Carrying Value	207.7	278.9	89.9	102.90	679.4

25.10 *Liquidity risk*

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

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

The following credit facilities were in place at 31 March 2020:

	Expiration date	Capacity	Borrowed	Letters of credit issued	Unused capacity
		£m	£m	£m	£m
WPD plc—Syndicated Credit Facility	Jan 2023	210.0	161.0	—	49.0
PPL WPD Investments South West—Syndicated Credit Facility	July 2021	245.0	100.0	—	145.0
WPD East Midlands—Syndicated Credit Facility	July 2021	300.0	—	—	300.0
WPD West Midlands—Syndicated Credit Facility	July 2021	300.0	—	—	300.0
Uncommitted Credit Facilities		100.0	—	3.5	96.5
Total Credit Facilities		1,155.0	261.0	3.5	890.5

The WPD Group's primary source of liquidity is cash generated from its ongoing business operations. The electricity regulator sets a major element of the WPD Group's revenues, providing both a stable and predictable source of funds. In recognition of the long life of the WPD Group's assets and anticipated indebtedness, and to create financial efficiencies, the WPD Group's policy is to arrange that debt maturities are spread over a wide range of dates, thereby ensuring that the WPD Group is not subject to excessive refinancing risk in any one year. The WPD Group has entered into borrowing agreements for periods out to 2056.

The following tables detail the WPD Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the WPD Group can be required to pay. The table includes both interest and principal cash flows.

2020	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Borrowings	753.3	2,917.8	3,724.8	2,935.1	10,331.0
Lease Liabilities	1,553.0	4,764.0	3,973.0	6,703.0	16,993.0
Trade and other payables	348.7	—	—	—	348.7
Total	2,655.0	7,681.8	7,697.8	9,638.1	27,672.7

2019	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Borrowings	535.3	2,713.0	3,961.0	3,476.8	10,686.1
Trade and other payables	340.3	—	—	—	340.3
Total	875.6	2,713.0	3,961.0	3,476.8	11,026.4

2018	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Borrowings	703.9	2,389.0	4,026.6	3,461.8	10,581.3
Trade and other payables	323.9	—	—	—	323.9
Total	1,027.8	2,389.0	4,026.6	3,461.8	10,905.2

The following table details the WPD Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross cash (inflows) and outflows on derivatives that require gross settlement.

2020	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Cross currency derivative payments	26.3	351.4	157.8	—	535.5
Cross currency derivative receipts	(33.6)	(461.4)	(210.6)	—	(705.6)
Total	(7.3)	(110.0)	(52.8)	—	(170.1)

2019	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Cross currency derivative payments	26.3	368.7	166.8	—	561.8
Cross currency derivative receipts	(32.0)	(460.2)	(212.1)	—	(704.3)
Total	(5.7)	(91.5)	(45.3)	—	(142.5)

2018	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Cross currency derivative payments	26.3	395.0	166.8	—	588.1
Cross currency derivative receipts	(29.8)	(457.8)	(197.3)	—	(684.9)
Total	(3.5)	(62.8)	(30.5)	—	(96.8)

25.11 *Fair values of financial assets and financial liabilities*

Set out below is a comparison by category of carrying amounts and fair values of all of the WPD Group's financial instruments that are carried in the historical financial information.

2020	Amortised cost	Fair value through profit &loss	Fair value through OCI	Total book value	Fair value
	£m	£m	£m	£m	£m
Financial assets:					
Cash	64.4	136.6	—	201.0	201.0
Investment at amortised cost	161.9	—	—	161.9	178.5
Derivative financial instruments	—	—	163.5	163.5	163.5
Trade and other receivables	287.8	—	—	287.8	287.8
Financial liabilities:					
Bank overdraft	(13.5)	—	—	(13.5)	(13.5)
Interest-bearing loans and borrowings:					
—Floating rate borrowings	(261.1)	—	—	(261.1)	(261.1)
—Fixed rate borrowings	(5,360.6)	—	—	(5,360.6)	(6,241.6)
—Index linked	(902.0)	—	—	(902.0)	(1,294.0)
Derivative financial instruments	—	—	(4.9)	(4.9)	(4.9)
Lease liabilities	(10.1)	—	—	(10.1)	(10.1)
Trade and other payables	(348.7)	—	—	(348.7)	(348.7)
Total	(6,381.9)	136.6	158.6	(6,086.7)	(7,343.1)

2019	Amortised cost	Fair value through profit & loss	Fair value through OCI	Total book value	Fair value
	£m	£m	£m	£m	£m
Financial assets:					
Cash	52.8	89.9	—	142.7	142.7
Investment at amortised cost	154.9	—	—	154.9	184.5
Derivative financial instruments	—	—	102.9	102.9	103.0
Trade and other receivables	278.9	—	—	278.9	278.9
Financial liabilities:					
Bank overdraft	(19.5)	—	—	(19.5)	(19.5)
Interest-bearing loans and borrowings:					
—Floating rate borrowings	(244.0)	—	—	(244.0)	(244.0)
—Fixed rate borrowings	(5,037.6)	—	—	(5,037.6)	(5,706.3)
—Index linked	(881.9)	—	—	(881.9)	(1,262.3)
Derivative financial instruments	—	—	(2.8)	(2.8)	(2.8)
Trade and other payables	(340.3)	—	—	(340.3)	(340.3)
Total	(6,036.7)	89.9	100.1	(5,846.7)	(6,866.1)

2018	Loans and receivables	Held-to-maturity investments	Derivatives designed in hedge accounting relationships	Amortised cost	Total book value	Fair value
	£m	£m	£m	£m	£m	£m
Financial assets						
Cash	177.3	—	—	—	177.3	177.3
Held-to-maturity investments	—	144.7	—	—	144.7	146.3
Derivative financial instruments	—	—	49.6	—	49.6	49.6
Trade and other receivables	285.2	—	—	—	285.2	285.2
Financial liabilities						
Bank overdraft	—	—	—	(25.2)	(25.2)	(25.2)
Interest-bearing loans and borrowings:						
—Floating rate borrowings		—	—	(447.0)	(447.0)	(447.0)
—Fixed rate borrowings	—	—	—	(4,654.7)	(4,654.7)	(5,667.6)
—Index linked	—	—	—	(833.4)	(833.4)	(1,238.0)
Trade and other payables	—	—	—	(323.9)	(323.9)	(323.9)
Total	462.5	144.7	49.6	(6,284.2)	(5,627.4)	(7,043.3)

The fair value of the WPD Group's outstanding cross currency swaps is the estimated amount, calculated using discounted cash flow models, that the WPD Group would receive or pay in order to terminate such contracts in an arm's length transaction taking into account market rates of interest and foreign exchange at the balance sheet date.

The carrying value of the WPD Group's bank loans and overdrafts approximates their fair value. The fair value of the WPD Group's other borrowings is estimated using quoted prices or, where these are not available, discounted cash flow analyses based on the WPD Group's current incremental borrowing rates for similar types and maturities of borrowing: these are classified as Level 2 in the fair value hierarchy.

The carrying value of short-term receivables and payables are assumed to approximate their fair values where discounting is not material.

25.12 ***Fair value hierarchy***

The WPD Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2020, the WPD Group held the following financial instruments measured at fair value:

2020	**Level 1**	**Level 2**	**Leve1 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets measured at fair value				
Derivatives financial instruments	—	163.5	—	163.5
Short term deposits	136.6	—	—	136.6

2019	**Level 1**	**Level 2**	**Leve1 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets measured at fair value				
Derivatives financial instruments	—	102.9	—	102.9
Short term deposits	89.9	—	—	89.9

2018	**Level 1**	**Level 2**	**Leve1 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets measured at fair value				
Cross currency swaps	—	49.6	—	49.6

To manage interest rate risk, PPL WPD Investments uses interest rate contracts such as forward-starting swaps. To manage foreign currency exchange risk, PPL WPD Investments uses foreign currency contracts such as cross-currency swaps. An income approach is used to measure the fair value of these contracts, utilising readily observable inputs, such as forward interest rates and forward foreign currency exchange rates, as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. The impact of credit risk on the fair value of derivatives is generally small relative to liabilities like debt, because the principal (notional) amount is not at risk and credit enhancements often exist and thus the overall classification of derivatives as Level 2 remains appropriate. PPL WPD Investments generally does not calculate separate liquidity valuation adjustments, based on the traders' view that liquidity risk is included in the market prices. PPL WPD Investments also does not generally calculate modelling reserves, as the interest rate/foreign currency derivatives can be developed using standard practices.

During the reporting period ending 31 March 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

Hedge counterparties are major banks of high-quality credit standing.

In addition to the above financial instruments, the fair value of long-term debt and investment at amortised cost as disclosed under financial liabilities is classified as Level 2.

PPL WPD Investments uses observable market data from Bloomberg to arrive at the fair value of long-term debt and investment at amortised cost.

25.13 ***Capital risk management***

The primary objective of the WPD Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The WPD Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the WPD Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2020 or 31 March 2019.

The WPD Group does not consider the standard gearing ratio of net debt as a percentage of net debt plus net assets shown in the balance sheet as an appropriate capital monitoring measure as it does not reflect the economic value of the assets of the WPD Group's regulated businesses. Instead, the WPD Group monitors capital using a gearing ratio, which is net debt divided by the RAV. The RAV is a regulatory measure of the regulated business' asset base required to carry out the regulated activities. Regulated revenues are designed to cover operating costs (including certain replacement expenditure) and capital depreciation, as well as an allowed return on the RAV. The WPD Group's policy is to maintain a gearing ratio that ensures an investment grade credit rating. The WPD Group includes within net debt, borrowings and associated cross currency swaps less cash and cash equivalents and deposits.

	2020	2019	2018
	£m	£m	£m
Short term borrowings	475.9	263.5	—
Long term borrowings	6,061.3	5,919.5	5,935.1
Lease liabilities	10.1	—	—
Letters of credit	3.5	3.5	—
Cross currency swaps	(163.1)	(102.8)	(49.6)
Cash at bank and in hand (excluding restricted cash)	(187.8)	(128.5)	(177.3)
Net debt	6,199.9	5,955.2	5,708.2
Regulatory Asset Value	7,999.7	7,698.1	7,354.8
Gearing ratio	78%	77%	78%

Reconciliation of cash flows to net debt	2020	2019	2018
	£m	£m	£m
Net (increase)/decrease in cash at hand in bank	(59.3)	33.5	(79.9)
Net increase/(decrease) in short term borrowings	52.7	(195.1)	(229.5)
Net increase in long term borrowings	245.3	375.4	277.9
Payment of lease liabilities	(1.5)	—	—
Change in debt resulting from cash flows	237.2	213.8	(31.5)
Net increase in derivatives	(60.3)	(53.2)	91.3
Foreign exchange loss on borrowings	34.8	48.9	(84.7)
Net increase in borrowings· due to indexation	22.3	20.0	28.8
Amortisation of premiums, discounts and issue costs	(0.9)	(1.6)	(1.7)
Leases acquired during the year	11.3	—	—
Interest expense on lease	0.3	—	—
Movement in net debt in the year	244.7	227.9	2.2
Net debt at beginning of year	5,955.2	5,727.3	5,706.0
Net debt at end of year	6,199.9	5,955.2	5,708.2

26. Derivative financial instruments

26.1 *Cross-currency swaps*

The WPD Group entered into cross-currency interest rate swaps designated as cash flow hedges in order to hedge the currency cash flow risks associated with the future interest and principal payments on the WPD Group's US dollar borrowings arising from fluctuations in currency rates.

The cross-currency swaps have two fixed interest rate legs that match the interest, payment debts, currency, notional amount and maturity date of USD denominated debt and thus no effectiveness is expected. Furthermore, the swaps also provide for a final exchange of currency on maturity of debts, thereby also eliminating any currency risk related to the principal repayment.

The assessment of whether the derivative will be highly effective is determined by comparison of the critical terms of the hedging instrument (i.e. cross-currency interest rate swap) with the critical terms of the hedged item. Because of the fact that the critical terms are the same (timing and amount of US dollar cash flows), the entity can conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. The only possible source of hedge ineffectiveness is the credit risk of the swap counterparty. There has been no adverse development with regard to the counterparty's credit risk.

The hedge ratio is calculated from the quantity of the hedge item being hedged and the quantity of the hedging instrument being used to hedge that quantity of the hedged item. There is no imbalance between the weightings of the hedged item and the hedging instrument.

At 31 March 2020, the WPD Group had outstanding cross-currency swap agreements in cash flow hedges against borrowings with a total principal amount of $702.0m (2019: $702.0m, 2018: $702.0m) and a swapped notional principal of £428.8m (2019: £428.8m, 2018: £428.8m). The hedges were assessed to be highly effective. The cross-currency swaps have a remaining term ranging from one to eight years (2019: two to nine years, 2018: three to ten years) to match the underlying hedged borrowings consisting of semi-annual interest payments and the repayment of principal amounts. Under the swaps the WPD Group receives US dollar interest at an average fixed rate of 6.0% (2019: 6.0%, 2018: 6.0%) and pays pounds sterling interest at an average fixed rate of 6.1% (2019: 6.1%, 2018: 6.1%).

26.2 *Forward-starting interest rate swaps*

PPL WPD Investments wishes to hedge the variability in the semi-annual interest payments related to the forecast debt issuance attributable to changes in the benchmark interest rate (i.e. swap rate) between hedge inception and the issuance's pricing date. This can be achieved through the use of a forward-starting interest rate swap, whereby PPL WPD Investments pays fixed and receives floating, that will be terminated when the debt issuance is priced. Through interest rate swaps PPL WPD Investments wants to benefit from lower gilt rates at a point of time. Locking in the rates at the lowest possible levels assists PPL WPD Investments to outperform the allowed cost of debt under Ofgem's price control mechanism.

The assessment of whether the hedge is effective is determined by using regression techniques to produce a comparison of the hedging instrument (forward starting interest rate swap) with the hedged item (forecast debt insurance).

The possible sources of hedge ineffectiveness are if the hedged transaction does not occur or if the transaction does not occur at the initial agreed terms such as timing, principal and tenor of issuance. Another possible source of hedge ineffectiveness is the credit risk of the swap counterparty.

The hedge ratio is calculated from the quantity of the hedge item being hedged and the quantity of the hedging instrument being used to hedge that quantity of the hedged item. There is no imbalance between the weightings of the hedged item and the hedging instrument.

As at 31 March, the WPD Group held the following derivative financial instruments measured at fair value:

2020	Nominal amount	Carrying amount (assets)	Carrying amount (liabilities)	Line item in balance sheet	Change in fair value relevant to ineffective hedge
	£m	£m	£m	£m	£m
Foreign currency risk					
Cross-currency swaps—cash flow hedges	428.8	163.1	—	Derivative financial instruments	—
—Interest rate risk					
Interest rate swaps—cash flow hedges	125.5	0.4	4.9	Derivative financial instruments	—
	554.3	163.5	4.9		—

2019	Nominal amount	Carrying amount (assets)	Carrying amount (liabilities)	Line item in balance sheet	Change in fair value relevant to ineffective hedge
	£m	£m	£m	£m	£m
Foreign currency risk					
Cross-currency swaps—cash flow hedges	428.8	102.8	—	Derivative financial instruments	—
Interest rate risk					
Interest rate swaps—cash flow hedges	300.0	0.1	2.8	Derivative financial instruments	—
	728.8	102.9	2.8		—

26.3 ***Timing profile for hedge instruments' nominal amounts:***

2020	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Cross-currency swaps—cash flow hedge	—	306.9	121.9	—	428.8
Interest rate swaps—cash flow hedge	125.5	—	—	—	125.5

2019	Less than one year	One to five years	Five to fifteen years	Greater than fifteen years	Total
	£m	£m	£m	£m	£m
Cross-currency swaps—cash flow hedge	—	306.9	121.9	—	428.8
Interest rate swaps—cash flow hedge	300.0	—	—	—	300.0

The average rate of the hedging instruments is as follows:

	2020	2019
Foreign currency risk		
Cross-currency swaps	6.13%	6.13%
Interest rate risk		
Interest rate swaps	0.89%	1.48%

Hedged items:

	2020		2019	
	Value change in hedged item related to hedge ineffectiveness	**Cash flow hedge reserve**	**Value change in hedged item related to hedge ineffectiveness**	**Cash flow hedge reserve**
	£m	**£m**	**£m**	**£m**
Foreign currency risk				
Foreign currency borrowings	—	23.8	—	(7.9)
Interest currency risk				
Borrowings	—	(22.6)	—	2.7

26.4 ***Hedged effectiveness:***

	2020					
	Heading gain/(loss) in OCI	**Ineffective hedge portion recognised in income statement**	**Line item in income statement including ineffective hedge portion**	**Amount reclassified because cash flows no longer expected**	**Amount reclassified because hedged item affected P&L**	**Line item in income statement including reclass adjustment**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Foreign currency risk	59.2	—	—	—	(27.5)	Finance
Interest rate risk	(25.7)	—	—	—	0.4	costs

	2019					
	Heading gain/(loss) in OCI	**Ineffective hedge portion recognised in income statement**	**Line item in income statement including ineffective hedge portion**	**Amount reclassified because cash flows no longer expected**	**Amount reclassified because hedged item affected P&L**	**Line item in income statement including reclass adjustment**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Foreign currency risk	48.4	—	—	—	(35.6)	Finance
Interest rate risk	0.1	—	—	—	(0.2)	costs

26.5 ***Reconciliation of cash flow hedge reserve:***

	2020	**2019**
	£m	**£m**
Opening balance	(5.2)	(17.9)
Hedging gain	33.5	48.5
Amount reclassified to income statement because cash flows no longer expected . .	—	—
Amount reclassified to income statement because hedged item affected profit and loss	(27.1)	(35.8)
Closing balance	1.2	(5.2)

27. Deferred tax

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

	Accelerated capital allowances	Retirement benefit obligation	Other	Total
	£m	£m	£m	£m
At 1 April 2017	520.4	(15.0)	(30.7)	474.7
Charge to the income statement	34.2	(13.3)	10.0	30.9
Charge to equity	—	(5.5)	(1.3)	(6.8)
At 1 April 2018	554.6	(33.8)	(22.0)	498.8
Charge to the income statement	35.2	25.3	5.0	65.5
Charge to equity	—	25.4	2.5	27.9
At 1 April 2019	589.8	16.9	(14.5)	592.2
Charge to the income statement	93.1	29.5	2.6	125.2
Charge to equity	—	66.7	1.4	68.1
At 31 March 2020	682.9	113.1	(10.5)	785.5

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020	2019	2018
	£m	£m	£m
Deferred tax liabilities	861.3	681.6	637.2
Deferred tax assets	(75.8)	(89.4)	(138.4)
Net deferred tax liabilities	785.5	592.2	498.8

The net deferred tax liability due after more than one year is £790.7m (2019: £610.2m, 2018: £553.2m).

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the deferred tax benefit through future taxable profits is probable. The WPD Group did not recognise deferred tax assets of £181.1m (2019: £162.1m, 2018: £162.4m) in respect of capital losses amounting to £953.0m (2019: £953.6m, 2018: £955.4m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

28. Retirement benefit obligations

28.1 *Introduction*

The WPD Group operates four defined benefit pension schemes:

- two segments of the ESPS;
  - the segment covering WPD South West and WPD South Wales ("**ESPS WPD**"); and
  - the segment covering WPD East Midlands and WPD West Midlands ("**ESPS CN**");
- the WPUPS; and
- the Infralec 1992 Pension Scheme ("**Infralec 92**").

The assets of all four schemes are held separately from those of the WPD Group in trustee administered funds.

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity supply industry. The two segments of the ESPS relating to PPL WPD Investments are closed to new members except in very limited circumstances. Existing members are unaffected. A defined contribution scheme is offered to new employees.

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, as PPL WPD Limited, PPL WPD Investments' parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Note 28) and matches the gross asset/liability recorded under IAS 19 below.

Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales.

WPUPS and Infralec 92 are closed to active members.

The WPD Group also has an unfunded obligation which relates to previous executives of WPD East Midlands and WPD West Midlands.

28.2 ***Other scheme***

PPL WPD Investments also operates a defined contribution scheme. The assets of the scheme are held separately from those of PPL WPD Investments in an independent fund administered by the scheme trustee. The scheme has two sections:

- a closed section with no active members. At 31 March 2020 there were 198 members with deferred benefits in the scheme (2019: 199, 2018: 204) and 4 pensioners (2019: 5, 2018: 3). Market value of the assets was £1.9m (2019: £2.1m, 2018: £2.2m).
- a new pension arrangement available to all new employees in PPL WPD Investments with effect from 1 April 2010. At 31 March 2020 there were 4,058 members (2019: 3,767, 2018: 3,544). The market value of the assets of the open section of the scheme was £97.0m (2019: £89.2m, 2018: £73.9m). Employer contributions to the scheme amounted to £9.7m in the year (2019: £8.6m, 2018: £7.6m).

28.3 ***Defined benefit schemes***

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

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

Past-service costs are recognised immediately in income.

The schemes are funded, defined benefit, final salary pension plans. The level of benefits provided depends on members' length of service and their salary at their date of leaving PPL WPD Investments. The majority of pensions in payment receive inflationary increases in line with the RPI inflation. The benefit payments are from trustee-administered funds. The amount of contributions to be paid is decided jointly by the employer and the trustees of the scheme. Assets held in trust are governed by UK regulations and practice. The schemes' investment strategy is decided by the trustees, in consultation with the employer. The boards of trustees must be composed of representatives of the employer and plan participants in accordance with the schemes' legal documentation.

The amounts recognised in the balance sheet are determined as follows:

2020	ESPS WPD	ESPSCN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Present value of obligations	2,283.9	3,263.4	476.1	12.6	4.3	6,040.3
Fair value of scheme assets	(2,414.7)	(3,580.2)	(625.5)	(15.1)		(6,635.5)
(Surplus)/deficit of funded plan and liability/ (asset) recognised in the balance sheet	(130.8)	(316.8)	(149.4)	(2.5)	4.3	(595.2)
Represented by:						
Retirement benefit obligations	—	—	—	—	4.3	4.3
Retirement benefit assets	(130.8)	(316.8)	(149.4)	(2.5)	—	(599.5)
	(130.8)	(316.8)	(149.4)	(2.5)	4.3	(595.2)

2019	ESPS WPD	ESPSCN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Present value of obligations	2,474.2	3,523.3	525.4·	13.3	4.6	6,540.8
Fair value of scheme assets	(2,422.5)	(3,584.6)	(623.3)	(15.9)		(6,646.3)
Deficit/(surplus) of funded plan and liability/ (asset) recognised in the balance sheet	51.7	(61.3)	(97.9)	(2.6)	4.6	(105.5)
Represented by:						
Retirement benefit obligations	—	—	—	—	4.6	4.6
Retirement benefit assets	51.7	(61.3)	(97.9)	(2.6)	—	(110.1)
	51.7	(61.3)	(97.9)	(2.6)	4.6	(105.5)

2018	ESPS WPD	ESPSCN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Present value of obligations	2,416.6	3,463.5	530.3	13.1	4.9	6,428.4
Fair value of scheme assets	(2,253.6)	(3,384.4)	(604.5)	(15.3)	—	(6257.8)
Deficit/(surplus) of funded plan and liability/ (asset) recognised in the balance sheet	163.0	79.1	(74.2)	(2.2)	4.9	170.6
Represented by:						
Retirement benefit obligations	163.0	79.1	—	—	4.9	247.0
Retirement benefit assets	—	—	(74.2)	(2.2)	—	(76.4)
	163.0	79.1	(74.2)	(2.2)	4.9	170.6

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

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

2020	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Current service cost	30.1	32.4	—	—	—	62.5
Administrative costs	1.4	2.2	0.6	—	—	4.2
WPUPS reimbursement agreement	—	—	(0.6)	—	—	(0.6)
Operating charge relating to defined benefit plans	31.5	34.6	—	—	—	66.1
Interest income on plan assets	(57.3)	(84.1)	(14.4)	(0.4)	—	(156.2)
Interest on plan liabilities	57.6	81.8	12.1	0.3	0.1	151.9
WPUPS reimbursement agreement			2.3			2.3
Other finance expense/(income)	0.3	(2.3)	—	(0.1)	0.1	(2.0)

2019	ESPS WPD	ESPSCN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Current service cost	29.6	31.7	—	—	—	61.3
Administrative costs	1.3	1.7	0.4	—	—	3.4
Past service cost and gains and losses on settlement*	2.5	7.0	4.2	—	—	13.7
WPUPS reimbursement agreement	—	—	(4.6)	—	—	(4.6)
Operating charge relating to defined benefit plans	33.4	40.4	—	—	—	73.8
Interest income on plan assets	(58.3)	(86.7)	(15.2)	(0.4)	—	(160.6)
Interest on plan liabilities	61.4	87.9	13.3	0.3	0.1	163.0
WPUPS reimbursement agreement	—	—	1.9	—	—	1.9
Other finance expense/(income)	3.1	1.2	—	(0.1)	0.1	4.3

* Following the High Court ruling in October 2018, a Guaranteed Minimum Pension **("GMP")** equalisation is required and various methods are permissible for the same. £13.7m represents the WPD Group's estimate of likely additional pension liabilities using the default Method C2 for equalising for the effect of GMP.

2018	ESPS WPD	ESPSCN	WPUPS	Infralec 92	Unfunded	Total £m
	£m	£m	£m	£m	£m	£m
Current service cost	30.7	32.6	—	—	—	63.3
Administrative costs	1.7	2.2	0.4	—	—	4.3
WPUPS reimbursement agreement	—	—	(0.4)	—	—	(0.4)
Operating charge relating to defined benefit plans	32.4	34.8	—	—	—	67.2
Interest income on plan assets	(56.9)	(85.0)	(15.2)	(0.4)	—	(157.5)
Interest on plan liabilities	60.1	86.2	13.3	0.3	0.1	160.0
WPUPS reimbursement agreement	—	—	1.9	—	—	1.9
Other finance expense/(income)	3.2	1.2	—	(0.1)	0.1	4.4

The operating charge is allocated to the operating expenses in the income statement or to capital expenditure as appropriate.

Analysis of the amount recognised in other comprehensive income:

2020	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Return on plan assets excluding amounts included in interest income	77.8	43.3	(13.5)	0.7	—	108.3
(Gain)/loss from change in demographic assumptions	(12.5)	—	5.4	—	—	(7.1)
Gain from change in financial assumptions	(189.9)	(243.7)	(22.6)	(0.6)	(0.2)	(457.0)
Experience losses/(gains)	21.4	17.7	(19.1)	0.1	—	20.1
MEPS DC bulk transfer**	—	1.0	—	—	—	1.0
WPUPS reimbursement agreement	—	—	49.8	—	—	49.8
Remeasurement (gains)/losses recognised in other comprehensive income	(103.2)	(181.7)	—	0.2	(0.2)	(284.9)

2019	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Return on plan assets excluding amounts included in interest income	(91.5)	(157.6)	(33.6)	(0.8)	—	(283.5)
Gain from change in demographic assumptions	(94.4)	(131.2)	(18.6)	(0.5)	—	(244.7)
Loss from change in financial assumptions	136.1	193.2	26.6	0.7	—	356.6
Experience losses/(gains)	13.3	15.2	(0.8)	0.1	—	27.8
WPUPS reimbursement agreement	—	—	26.4	—	—	26.4
Remeasurement gains recognised in other comprehensive income	(36.5)	(80.4)	—	(0.5)	—	(117.4)

2018	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Return on plan assets excluding amounts included in interest income	19.0	17.5	1.9	(0.2)	—	38.2
Loss from change in demographic assumptions	—	—	2.7	0.1	—	2.8
Loss from change in financial assumptions	(29.9)	(41.2)	(5.4)	(0.1)	—	(76.6)
Experience losses/(gains)	26.2	33.6	5.0	0.1	—	64.9
WPUPS reimbursement agreement	—	—	(4.2)	—	—	(4.2)
Remeasurement losses /(gains) recognised in other comprehensive income	15.3	9.9	—	(0.1)	—	25.1

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

	Year ended 31 March 2020			Year ended 31 March 2019		
ESPS WPD	**Present value of obligation**	**Fair value of plan assets**	**Total**	**Present value of obligation**	**Fair value of plan assets**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Liability/(asset) at 1 April	2,474.2	(2,422.5)	51.7	2,416.6	(2,253.6)	163.0
Current service cost	30.1	—	30.1	29.6	—	29.6
Administrative costs	1.4	—	1.4	1.3	—	1.3
Interest expense/(income)	57.6	(57.3)	0.3	61.4	(58.3)	3.1
Past service cost and gains and losses on settlements	—	—	—	2.5	—	2.5
	89.1	(57.3)	31.8	94.8	(58.3)	36.5
Remeasurements:						
Return on plan assets excluding amounts included in interest expense/(income)	—	77.8	77.8	—	(91.5)	(91.5)
Gain from change in demographic assumptions	(12.5)	—	(12.5)	(94.4)	—	(94.4)
(Gain)/loss from change in financial assumptions	(189.9)	—	(189.9)	136.1	—	136.I
Experience losses	21.4	—	21.4	13.3	—	13.3
	(181.0)	77.8	(103.2)	55.0	(91.5)	(36.5)
Contribution:						
Employers	—	(111.1)	(111.1)	—	(111.5)	(111.5)
Plan participants	4.2	(4.2)	—	4.2	(4.2)	—
	4.2	(115.3)	(111.1)	4.2	(115.7)	(111.5)
Payments from plan:						
Benefit payments	(101.2)	101.2	—	(105.5)	105.5	—
Administrative costs	(1.4)	1.4	—	(1.3)	1.3	—
Acquired in a business combination*	—	—	—	10.4	(10.2)	0.2
	(102.6)	102.6	—	(96.4)	96.6	0.2
Liability/(asset) at 31 March	2,283.9	(2,414.7)	(130.8)	2,474.2	(2,422.5)	51.7

* Following the insolvency of Carillion Group in January 2018, 39 former South Wales Electricity Board employees (now retired), with certain rights under the Protected Persons Regulations, were transferred to the WPD Group's ESPS on 29 March 2019. Following the transfer, an amount of £10.2m, representing a proportionate share of the Carillion Group's ESPS assets, was transferred to the WPD Group's ESPS bank account.

ESPS WPD	Year ended 31 March 2018 Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m
Liability/(asset) at 1 April	2,426.5	(2,314.4)	112.1
Current service cost	30.7	—	30.7
Administrative costs	1.7	—	1.7
Interest expense/(income)	60.1	(56.9)	3.2
	92.5	(56.9)	35.6
Remeasurements:			
Return on plan assets excluding amounts included in interest expense/(income)	—	19.0	19.0
Gain from change in demographic assumptions	(29.9)	—	(29.9)
Loss from change in financial assumptions	26.2	—	26.2
	(3.7)	19.0	15.3
Contributions:			
Employers	—	—	—
Plan participants	4.3	(4.3)	—
	4.3	(4.3)	—
Payments from plan:			
Benefit payments	(101.3)	101.3	—
Administrative costs	(1.7)	1.7	—
	(103.0)	103.0	—
Liability/(asset) at 31 March	2,416.6	(2,253.6)	163.0

ESPSCN	Year ended 31 March 2020			Year ended 31 March 2019		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m	£m	£m	£m
Liability/(asset) at 1 April	3,523.3	(3,584.6)	(61.3)	3,463.5	(3,384.4)	79.1
Current service cost	32.4	—	32.4	31.7	—	31.7
Administrative costs	2.2	—	2.2	1.7	—	1.7
Interest expense/(income)	81.8	(84.1)	(2.3)	87.9	(86.7)	1.2
Past service cost and gains and losses on settlement	—	—	—	7.0	—	7.0
	116.4	(84.1)	32.3	128.3	(86.7)	41.6
Remeasurements:						
Return on plan assets excluding amounts included in interest (income)/ expense	—	43.3	43.3	—	(157.6)	(157.6)
Gain from change in demographic assumptions	—	—	—	(131.2)	—	(131.2)
(Gain)/loss from change in financial assumptions	(243.7)	—	(243.7)	193.2	—	193.2
Experience losses	17.7	—	17.7	15.2	—	15.2
	(226.0)	43.3	(182.7)	77.2	(157.6)	(80.4)
Contribution:						
Employers	—	(106.1)	(106.1)	—	(101.6)	(101.6)
Plan participants	5.5	(5.5)	—	5.5	(5.5)	
	5.5	(111.6)	(106.1)	5.5	(107.1)	(101.6)
Payments from plan:						
Benefit payments	(150.6)	150.6	—	(149.5)	149.5	—
Administrative costs	(2.2)	2.2	—	(1.7)	1.7	—
MEPS DC bulk transfer**	(3.0)	4.0	1.0	—	—	—
	(155.8)	156.8	1.0	(151.2)	151.2	—
Liability/(asset) at 31 March	3,263.4	(3,580.2)	(316.8)	3,523.3	(3,584.6)	(61.3)

** During 2020 the MEPhS DC section of the scheme has been transferred into PPL WPD Investments' defined contribution scheme.

ESPSCN	Year ended 31 March 2018		
	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m
Liability/(asset) at 1 April	3,488.5	(3,455.3)	33.2
Current service cost	32.6	—	32.6
Administrative costs	2.2	—	2.2
Interest expense/(income)	86.2	(85.0)	1.2
	121.0	(85.0)	36.0
Remeasurements:			
Return on plan assets excluding amounts included in interest (income)/expense	—	17.5	17.5
Gain from change in financial assumptions	(41.2)	—	(41.2)
Experience losses/(gains)	33.6	—	33.6
	(7.6)	17.5	9.9
Contributions:			
Employers	—	—	—
Plan participants	5.4	(5.4)	—
	5.4	(5.4)	—
Payments from plan:			
Benefit payments	(141.6)	141.6	—
Administrative costs	(2.2)	2.2	—
	(143.8)	143.8	—
Liability/(asset) at 31 March	3,463.5	(3,384.4)	79.1

WPUPS	Year ended 31 March 2020			Year ended 31 March 2019		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m	£m	£m	£m
Liability/(asset) at I April	525.4	(623.3)	(97.9)	530.3	(604.5)	(74.2)
Administrative costs	0.6	—	0.6	0.4	—	0.4
Interest expense/(income)	12.1	(14.4)	(2.3)	13.3	(15.2)	(1.9)
Past service cost and gains and losses on settlement	—	—	—	4.2	—	4.2
	12.7	(14.4)	(1.7)	**17.9**	**(15.2)**	**2.7**
Remeasurements·:						
Return on plan assets excluding amounts included in interest income	—	(13.5)	(13.5)	—	(33.6)	(33.6)
Loss/(gain) from change in demographic assumptions	5.4	—	5.4	(18.6)	—	(18.6)
(Gain)/loss from change in financial assumptions	(22.6)	—	(22.6)	26.6	—	26.6
Experience gains	(19.1)	—	(19.1)	(0.8)	—	(0.8)
	(36.3)	(13.5)	(49.8)	7.2	(33.6)	(26.4)
Contributions:						
Employers	—	—	—	—	—	—
	—	—	—	—	—	—
Payments from plan:						
Benefit payments	(25.1)	25.1	—	(29.6)	29.6	—
Administrative costs	(0.6)	0.6	—	(0.4)	0.4	—
	(25.7)	25.7	—	(30.0)	30.0	—
Liability/(asset)	476.1	(625.5)	(149.4)	(525.4)	(623.3)	(97.9)

WPUPS	Year ended 31 March 2018		
	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m
Liability/(asset) at 1 April	540.9	(617.8)	(76.9)
Administrative costs	0.4	—	0.4
Interest expense/(income)	13.3	(15.2)	(1.9)
	13.7	(15.2)	(1.5)
Remeasurements·:			
Return on plan assets excluding amounts included in interest income	—	1.9	1.9
Loss from change in demographic assumptions	2.7	—	2.7
Gain from change in financial assumptions	(5.4)	—	(5.4)
Experience losses	5.0	—	5.0
	2.3	1.9	4.2
Contributions:			
Employers	—	—	—
	—	—	—
Payments from plan:			
Benefit payments	(26.2)	26.2	—
Administrative costs	(0.4)	0.4	—
	(26.6)	26.6	—
Liability/(asset) at 31 March	530.3	(604.5)	(74.2)

Infralec 92	Year ended 31 March 2020			Year ended 31 March 2019		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m	£m	£m	£m
Liability/(asset) at 1 April	13.3	(15.9)	(2.6)	13.1	(15.3)	(2.2)
Interest expense/(income)	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Past service cost and gains and losses on settlement	—	—	—	0.2	—	0.2
	0.3	(0.4)	(0.1)	0.5	(0.4)	0.1
Remeasurements:						
Return on plan assets excluding amounts included in interest income	—	0.7	0.7	—	(0.8)	(0.8)
Gain from change in demographic assumptions	—	—	—	(0.5)	—	(0.5)
(Gain)/loss from change in financial assumptions	(0.6)	—	(0.6)	0.7	—	0.7
Experience losses	0.1	—	0.1	0.1	—	0.1
	(0.5)	0.7	0.2	0.3	(0.8)	(0.5)
Contributions:	—	—	—	—	—	—
Employers	—	—	—	—	—	—
	—	—	—	—	—	—
Payments from plans						
Benefit payments	(0.5)	0.5	—	(0.6)	0.6	—
	(0.5)	0.5	—	(0.6)	0.6	—
Liability/(asset) at 31 March	12.6	(15.1)	(2.5)	13.3	(15.9)	(2.6)

Infralec 92	Year ended 31 March 2018 Present value of obligation	Fair value of plan assets	Total
	£m	£m	£m
Liability/(asset) at 1 April	13.3	(15.3)	(2.0)
Interest expense/(income)	0.3	(0.4)	(0.1)
	0.3	(0.4)	(0.1)
Remeasurements·:			
Return on plan assets excluding amounts included in interest income	—	(0.2)	(0.2)
Gain from change in demographic assumptions	0.1	—	0.1
Loss/(gain) from change in financial assumptions	(0.1)	—	(0.1)
Experience losses/(gains)	0.1	—	0.1
	0.1	(0.2)	(0.1)
Contributions:			
Employers	—	—	—
	—	—	—
Payments from plan:			
Benefit payments	(0.6)	0.6	—
	(0.6)	0.6	—
Liability/(asset) at 31 March	13.1	(15.3)	(2.2)

The significant actuarial assumptions made were as follows:

2020	ESPS WPD	ESPS CN	WPUPS	Infralec 92
	%	%	%	%
RPI Inflation	2.60	2.60	2.60	2.60
CPI Inflation	2.00	2.00	2.00	2.00
Rate of general long-term salary increases	3.10	3.10	N/a	N/a
RPI-linked pension increases	2.60	2.60	2.60	2.60
CPI-linked pension increases	N/a	N/a	2.00	N/a
Post-88 GMP pension increases	1.85	1.85	1.85	1.85
Discount rate for scheme liabilities	2.31	2.31	2.31	2.31

2019	ESPS WPD %	ESPSCN %	WPUPS %	Infralec 92 %
RPI Inflation	3.15	3.15	3.15	3.15
CPI Inflation	2.05	2.05	2.05	2.05
Rate of general long-term salary increases	3.65	3.65	N/A	N/a
RPI-linked pension increases	3.10	3.10	3.15	3.15
CPI-linked pension increases	N/a	N/a	2.05	N/a
Post-88 GMP pension increases	1.90	1.90	1.90	1.90
Discount rate for scheme liabilities	2.36	2.36	2.36	2.36

2018	ESPS WPD %	ESPSCN %	WPUPS %	Infralec 92 %
RPI Inflation	3.00	3.00	3.00	3.00
CPI Inflation	1.90	1.90	1.90	1.90
Rate of general long-term salary increases	3.75	3.75	N/A	N/A
RPI-linked pension increases	2.95	2.95	3.00	3.00
CPI-linked pension increases	N/A	N/A	1.95	N/A
Post-88 GMP pension increases	1.80	1.80	1.80	1.80
Discount rate for scheme liabilities	2.58	2.58	2.58	2.58

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

ESPS WPD

Mortality table adopted	31 March 2020 Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	31 March 2019 Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	31 March 2018 Based on S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.9	25.8	26.7
Life expectancy for a female currently aged 60	27.9	27.9	28.8
Life expectancy at 60 for a male currently aged 40	26.7	27.0	28.1
Life expectancy at 60 for a female currently aged 40	28.8	29.1	30.4

ESPS CN

Mortality table adopted	31 March 2020 Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	31 March 2019 Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	2018 Based on S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.9	25.8	26.7
Life expectancy for a female currently aged 60	27.9	27.9	28.8
Life expectancy at 60 for a male currently aged 40	26.7	26.6	27.7
Life expectancy at 60 for a female currently aged 40	28.8	28.8	30

WPUPS

Mortality table adopted	31 March 2020 *with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	31 March 2019 Pensions <£25,500 pa at 31/03/16: 111% (else 78%) of S2NXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	2018 Pensions <£24,000 pa at 31/03/13: 111% (else 78%) of S2NXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.0	25.3	26.1
Life expectancy for a female currently aged 60	28.4	27.9	28.4
Life expectancy at 60 for a male currently aged 40	27.0	26.4	27.5
Life expectancy at 60 for a female currently aged 40	29.6	28.7	29.9

* 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

Mortality table adopted	31 March 2020 100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	31 March 2019 100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	2018 100% of S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.9	25.8	26.7
Life expectancy for a female currently aged 60	27.9	27.9	28.8
Life expectancy at 60 for a male currently aged 40	27.I	27.0	28.1
Life expectancy at 60 for a female currently aged 40	29.2	29.I	30.4

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

	Change in assumption	Impact on defined benefit obligation			
		ESPS WPD	ESPS CN	WPUPS	Infralec 92
	%	£m	£m	£m	£m
Discount rate	–/+0.50%	+206.6/–184.6	+276.8/–249.3	+32.6/–29.9	+0.9/–0.8
RPI Inflation	+/–0.50%	+196.3/–165.7	+259.1/–220.0	+27.9/–23.7	+0.7/–0.7
Life expectancy	+ 1 year	103.2	145.1	20.7	0.6

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

ESPS WPD scheme assets are comprised as follows:

	31 March 2020		31 March 2019		31 March 2018	
	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market
	£m	£m	£m	£m	£m	£m
Equities	486.0	—	532.3	—	450.7	—
Absolute return	—	—	—	—	787.2	—
Government bonds	—	—	—	—	791.1	—
Property(i)	160.9	160.9	166.9	166.9	164.7	164.7
Macro-orientated	109.2	—	288.3	—	—	
Multi strategy	601.1	—	496.5	—	—	—
LOI strategy	1,053.0	—	935.1	—	—	
Other including cash and net current assets	4.5	—	3.4	—	59.8	—
Total	2,414.7	160.9	2,422.5	166.9	2,253.5	164.7

ESPS CN scheme assets are comprised as follows:

	31 March 2020		31 March 2019		31 March 2018	
	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market
	£m	£m	£m	£m	£m	£m
Equities	590.5	—	662.6	—	608.5	—
Credit	89.2	—	101.7	—	100.7	—
Property[(i)]	119.3	119.3	125.8	125.8	205.0	205.0
Macro-orientated	217.7	217.7	383.6	383.6	356.3	356.3
Multi strategy	794.6	—	679.8	—	749.3	—
LDI strategy	1,646.8	—	1,526.8	—	1,374.8	—
Other including cash and net current assets	122.1	—	104.3	—	(10.1)	—
Total	3,580.2	337.0	3,584.6	509.4	3,384.5	561.3

(i) Due to the COVID-19 outbreak, there is some uncertainty in respect of property valuations and fair values by independent valuers and so in line with current market practice, have been reported on the basis of "material valuation uncertainty" (refer to note 14 for details). 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 a change in the valuation of property assets is as follows:

WPUPS scheme assets are comprised as follows:

	31 March 2020		31 March 2019		31 March 2018	
	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market
	£m	£m	£m	£m	£m	£m
Equities	72.4	—	226.5	—	351.1	—
Government bonds	552.2	—	395.6	—	252.4	—
Other	0.9	—	1.2	—	1.0	—
Total	625.5	—	623.3	—	604.5	—

Infralec 92 scheme assets are comprised as follows:

	31 March 2020		31 March 2019		31 March 2018	
	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market
	£m	£m	£m	£m	£m	£m
Equities	5.4	—	6.4	—	9.6	—
Government bonds	5.7	—	5.6	—	3.1	—
Corporate bonds	3.8	—	3.7	—	2.0	—
Other	0.2	—	0.1	—	0.6	—
Total	15.1	—	15.8	—	15.3	—

	Change in assumption	Impact on defined benefit obligation			
		ESPS WPD	ESPSCN	WPUPS	Infralec 92
	%	£m	£m	£m	£m
Fair value of property assets	–10%	(16. 1)	(24.1)	—	—
Fair value of property assets	–15%	(24.1)	(36.2)	—	—

There is no self-investment in any of the schemes.

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

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (e.g. equities) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning than an increase in inflation will increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

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

The employer has agreed that it will aim to eliminate the actuarial deficits (as assessed on the ongoing funding basis) by 30 November 2024 for the PPL WPD Investments segment of the ESPS, by 31 July 2024 for the CN segment of the ESPS, and by 30 September 2024 for Infralec 92.

The current agreed employer contributions for the PPL WPD Investments segment of the ESPS are 31.2% per annum of pensionable salaries from 1 April 2020 to 31 March 2023 and 42.4% per annum of pensionable salaries thereafter in respect of future benefit accruals, expenses (including PPF levies) and death in service benefits plus an additional £1.8m per annum in respect of expenses. PPL WPD Investments deficit contributions are £80.0m per annum payable from I April 2020 to 31 March 2021 and £18.0m per annum payable from 1 April 2021 to 30 November 2024.

The current agreed employer contributions for the CN segment of the ESPS are 27.9% per annum of pensionable salaries from 1 April 2020 to 31 March 2023 and 37.0% per annum of pensionable salaries thereafter in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits plus an additional £1.8m per annum in respect of expenses. PPL WPD Investments deficit contributions are £80.0m per annum payable from 1 April 2020 to 31 March 2021 and £36.0m per annum payable from 1 April 2021 to 31 July 2024.

The results of the 31 March 2019 funding valuation showed that WPUPS was in surplus on the ongoing funding basis. As a result, no deficit contributions are required, and the expected employer contributions to the scheme for the year ending 31 March 2021 are nil.

The current agreed employer contribution to Infralec 92 is that on 31 March each year, from 31 March 2021 to 31 March 2024 (inclusive) PPL WPD Investments will pay £0.235m per annum.

Funding levels are monitored on a regular basis and the next triennial valuation is due to be completed as at 31 March 2022.

Current expected total employer contributions for the year ending 31 March 2021 are £103.7m for the PPL WPD Investments segment of the ESPS and £104.9m for the CN segment of the ESPS.

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

The weighted average duration of the defined benefit obligation is around 17 years for the PPL WPD Investments segment of the ESPS, 16 years for the CN segment of the ESPS, and around 13 years for WPUPS and Infralec 92.

29. Provisions

	WPUPS Reimbursement Agreement[i]	Asset Retirement Obligations[ii]	Insurance[iii]	Pensions[iv]	Other[v]	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2017	76.9	39.0	14.2	3.9	4.4	138.4
Charged to income statement:						
Additional provisions	(1.6)	(1.4)	0.5	1.6	(1.3)	(2.2)
WPUPS reimbursement remeasurements	(1.5)	—	—	—	—	(1.5)
Utilised during year	0.5	(1.2)	—	(0.6)	(1.3)	(2.6)
31 March 2018	74.3	36.4	14.7	4.9	1.8	132.1

	WPUPS Reimbursement Agreement[i]	Asset Retirement Obligations[ii]	Insurance[iii]	Pensions[iv]	Other[v]	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2018	74.3	36.4	14.7	4.9	1.8	132.1
Charged to income statement:						
Additional provisions	(2.7)	2.4	3.6	—	1.7	5.0
WPUPS reimbursement remeasurements	26.4	—	—	—	—	26.4
Utilised during year	(0.1)	(1.2)	—	(0.7)	(0.2)	(2.2)
At 31 March 2019	97.9	37.6	18.3	4.2	3.3	161.3

	WPUPS Reimbursement Agreement[i]	Asset Retirement Obligations[ii]	Insurance[iii]	Pensions[iv]	Other[v]	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2019	97.9	37.6	18.3	4.2	3.3	161.3
Charged to income statement:						
Additional provisions	1.7	8.4	(0.8)	0.1	0.3	9.7
WPUPS reimbursement remeasurements	49.8					49.8
Utilised during year		(1.4)		(0.7)	(0.3)	(2.4)
At 31 March 2020	149.4	44.6	17.5	3.6	3.3	218.4

Provisions have been analysed between current and non-current as follows:

	WPUPS Reimbursement Agreement[(i)]	Asset Retirement Obligations[(ii)]	Insurance[(iii)]	Pensions[(iv)]	Other[(v)]	Total
	£m	£m	£m	£m	£m	£m
Current	—	1.4	5.8	0.7	2.5	10.4
Non-current	149.4	43.2	11.7.	2.9	0.8	208.0
At 31 March 2020	149.4	44.6	17.5	3.6	3.3	218.4
Current		1.2	6.7	0.6	2.5	11.0
Non-current	97.9	36.4	11.6	3.6	0.8	150.3
At 31 March 2019	97.9	37.6	18.3	4.2	3.3	161.3
Current	—	1.2	6.9	0.7	0.9	9.7
Non-current	74.3	35.2	7.8	4.2	0.9	122.4
At 31 March 2018	74.3	36.4	14.7	4.9	1.8	132.1

(i) WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, as PPL WPD Limited, PPL WPD Investments' parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet as a provision above, and matches the gross asset recorded under IAS 19 (Note 27).

(ii) Asset retirement obligations relate to an estimate of the costs of dismantling and removing wood poles and fluid filled cables at the end of their useful lives and are expected to be settled over the next seventy years. Wood poles and fluid filled cables are included in distribution network within property, plant and equipment.

(iii) Insurance provisions relate to claims covered by the WPD Group's wholly-owned captive insurance company, Aztec Insurance Limited ("**Aztec**"), based in Guernsey, and claims covered by external insurers. This includes third party motor claims, employers' liability, public and product liability, and professional indemnity and includes claims that are reported but not yet paid and anticipated cost of claims incurred but not yet reported. The directors expect the provision to be settled in the next five years based upon the balance sheet date of 31 March 2020.

(iv) Pension provisions relate to expected settlements of liabilities relating to the pension liability relating to the Electricity Association Technology Limited and are expected to be settled over a period of approximately nine years from the balance sheet date of 31 March 2020.

(v) Other provisions relate principally to onerous property contracts, uninsured losses, and miscellaneous claims arising in the ordinary course of business; the directors expect other provisions to be settled within the next two years from the balance sheet date of 31 March 2020.

30. Called-up share capital

	2020	2019	2018
	£m	£m	£m
Allotted, called-up and fully paid			
2,716,100,001 (2019: 2,716,100,001, 2018: 2,716,100,001) ordinary shares of £1 each	2,716.1	2,716.1	2,716.1

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable.

31. Capital and reserves

	2020	2019	2018
	£m	£m	£m
Share capital	2,716.1	2,716.1	2,716.1
Merger reserve	(2,021.6)	(2,021.6)	(2,021.6)
Hedging reserve	1.2	(5.2)	(17.9)
Retained earnings	4,590.1	4,023.4	3,627.6
	5,285.8	4,712.7	4,304.2

The share capital represents the nominal value of the ordinary shares in PPL WPD Investments in issue which carry a right to participate in the distribution of dividends or capital of PPL WPD Investments.

The merger reserve arose on the restructuring of WPD Group entities under common control in October 2017, October 2014 and September 2001.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

32. Contingent liabilities

32.1 *Legal proceedings*

The WPD Group's businesses are parties to various legal claims, actions and complaints. Although the WPD Group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on the WPD Group's historical financial information.

33. Commitments

33.1 *Capital commitments*

The WPD Group's capital expenditure contracted for at the balance sheet date but not recognised in the historical financial information is as follows:

	2020	2019	2018
	£m	£m	£m
Property, plant and equipment	51.9	35.1	55.5

33.2 *Operating lease commitments—WPD Group as lessor*

The WPD Group has entered into commercial property leases on its investment property portfolio, consisting of the WPD Group's surplus offices, shops remaining from a discontinued business, and surplus land, and also on its fibres. The leases have lease terms between 1 and 125 years, and have various terms, escalation clauses and renewable rights. Leases include a clause to enable upward revision of rental charge on a review cycle set on lease inception according to prevailing market conditions. Future minimum rentals receivable under non-cancellable operating leases at 31 March are as follows:

	2020	2019	2018
	£m	£m	£m
Year 1	4.5	3.3	8.5
Year 2	3.6	3.1	7.7
Year 3 ·	3.2	2.5	6.9
Year 4	2.9	2.3.	6.0
Year 5	2.4	2.0	2.1
Year 6 and onwards	9.4	9.1	27.3
	26.0	22.3	58.5

33.3 *Guarantees and indemnities*

The WPD Group has provided guarantees in respect of the funding required by the WPD Group's pension schemes.

34. Related party transactions

The immediate parent undertaking of the WPD Group is PPL WPD Limited, which is registered in England and Wales.

The smallest and largest group in which the results of PPL WPD Investments are consolidated is that headed by PPL Corporation incorporated in Pennsylvania, the United States of America, which is the ultimate parent undertaking and controlling party. Copies of its accounts may be obtained from its registered address at Two North Ninth Street, Allentown, Pennsylvania, PAI 8101-1179, US.

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the WPD Group. Details of directors' compensation are set out in Note 10.

Loan to PPL affiliate

In February 2011, the WPD Group purchased US$200m nominal at a premium of US$21m from a PPL affiliate, PMDC Chile, of the $400M 2018 6.42% US$ denominated Eurobond issued by PPL UK Resources Limited. This was funded through the repayment of a loan from an affiliate and the issue of share capital. In May 2017, the maturity date was extended to 2021.

The investment has the following terms and conditions:

Name of PPL affiliate	Amount of investment	Term	Interest rate
PPL UK Resources Ltd	$200m	Repayable on 31 July 2021	6.42%

The WPD Group recorded interest receivable of £10.1m (2019: £9.2m, 2018: £9.1m) on the investment.

34.1 *WPUPS reimbursement agreement*

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, PPL WPD Limited, PPL WPD Investments' parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Note 29) and matches the gross asset/liability recorded under IAS 19 (Note 28).

35. Events after the reporting period

WPD Group performed a review of events subsequent to the balance sheet date through to the date of the historical financial information and determined that there were no such events requiring recognition or disclosure in the historical financial information.

Section B: Accountant's report on the consolidated historical financial information of WPD

Deloitte.

Deloitte LLP
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EC4A 3HQ

The Board of Directors
on behalf of National Grid plc
1-3 Strand
London
WC2N 5EH

Barclays Bank PLC
5 The North Colonnade
London
E14 4BB

31 March 2021

Dear Sirs/Mesdames

PPL WPD Investments Limited (the "Target" and, together with its subsidiaries, the "Target Group")

We report on the financial information of the Target Group for the three years ended 31 March 2018, 31 March 2019 and 31 March 2020 set out in Part IV of the Class 1 Circular dated 31 March 2021 relating to the acquisition of the Target by National Grid Holdings One plc, a subsidiary of National Grid plc (the "**Company**") (the "**Circular**"). This report is required by Annex 1 item 18.3.1 of Commission delegated regulation (EU) No 2019/980 (the "**Prospectus Delegated Regulation**") as applied by Listing Rule 13.5.21R and is given for the purpose of complying with that requirement and for no other purpose.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the Circular, a true and fair view of the state of affairs of the Target Group as at the years ended 31 March 2018, 31 March 2019 and 31 March 2020 and of its profits, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

Responsibilities

The directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

Basis of preparation

This financial information has been prepared for inclusion in the Circular on the basis of the accounting policies set out in paragraph 1.2 of note 1 to the financial information.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Financial Reporting Council ("**FRC**") in the United Kingdom. We are independent of the Company and the Target Group in accordance with the FRC's Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Conclusions relating to going concern

In performing this engagement on the financial information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial information is appropriate.

Our evaluation of the directors' assessment of the Target Group's ability to continue to adopt the going concern basis of accounting included:

- assessing the latest cash flow forecasts of the Target Group and assessing the reasonability of the assumptions which have been used in their cash forecasts;
- assessing copies of any existing and new facilities and assessing the Target Group's cash forecasts against available facilities and the required repayment profiles of debt and interest;
- assessing the facilities and their availability and compliance with covenants; and
- evaluating each of the sensitivities adopted by management and assessing downside scenarios of cash headroom over the forecast period by performing our own sensitivity analyses to gain adequate assurance regarding the solvency of the Target Group over the going concern review period.

Based on the work we have performed, we have not identified any material uncertainties related to events or conditions that, individually or collectively, may cast significant doubt on the Target Group's ability to continue as a going concern for a period of at least twelve months from 31 March 2021.

In relation to the Target Group's reporting on how it has applied the UK Corporate Governance Code, we have nothing to add or draw attention to in respect of the directors' statement in the financial information about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Yours faithfully

Deloitte LLP

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PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma statement of net assets of the Enlarged Group has been prepared based on the consolidated balance sheet of the Group as at 30 September 2020 and the consolidated balance sheet of the WPD Group as at 31 March 2020 to illustrate the effect on the balance sheet of National Grid as if the WPD Acquisition had taken place on 30 September 2020.

The unaudited pro forma financial information set out in this Part V has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and, therefore, does not represent the Group's or the Enlarged Group's actual results or financial position.

The unaudited pro forma financial information has been prepared on a consistent basis with the accounting policies and presentation adopted by the Group in relation to the consolidated financial statements for the year ended 31 March 2020, on the basis of the notes set out below and in accordance with Annex 20 sections 1 and 2 of the Commission Delegated Regulation (EU) 2019/980 as applied by Listing Rule 13.3.3R.

The adjustments in the unaudited pro forma financial information are expected to have a continuing impact on the Enlarged Group, unless stated otherwise.

Furthermore, the unaudited pro forma financial information set out in this Part V does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

Section A: Unaudited pro forma statement of net assets relating to the Enlarged Group as at 30 September 2020

(£) million

	National Grid Group's net assets as at 30 September 2020 (note i)	WPD Group's net assets as at 31 March 2020 (note ii)	Adjustments: Acquisition accounting adjustments (note iii)	Adjustments: Other (note iv)	Pro forma net assets of the Enlarged Group
Non-current assets					
Goodwill	6,002	1,254	2,505	—	9,761
Other intangible assets	1,425	44	—	—	1,469
Property, plant & equipment	49,153	13,265	—	—	62,418
Other non-current assets	322	2	—	—	324
Pension assets	1,228	599	—	—	1,827
Financial and other investments	625	162	—	—	787
Investments in joint ventures and associates	1,012	—	—	—	1,012
Derivative financial assets	1,163	156	—	—	1,319
Total non-current assets	**60,930**	**15,482**	**2,505**	**—**	**78,917**
Current assets					
Inventories and current intangible assets	501	38	—	—	539
Trade and other receivables	2,702	308	—	—	3,010
Current tax assets	109	—	—	—	109
Financial and other investments	1,315	—	—	—	1,315
Derivative financial assets	54	8	—	—	62
Cash and cash equivalents	164	201	—	—	365
Total current assets	**4,845**	**555**	**—**	**—**	**5,400**
Total assets	**65,775**	**16,037**	**2,505**	**—**	**84,317**
Current liabilities					
Borrowings	(2,141)	(472)	—	—	(2,618)
Derivative financial liabilities	(178)	(5)	—	—	(183)
Trade and other payables	(3,322)	(602)	—	—	(3,924)
Contract liabilities	(68)	—	—	—	(68)
Current tax liabilities	(55)	(1)	—	—	(56)
Provisions	(367)	(10)	—	—	(377)
Total current liabilities	**(6,131)**	**(1,095)**	**—**	**—**	**(7,226)**
Non-current liabilities					
Borrowings	(29,881)	(6,070)	—	(7,948)	(43,899)
Derivative financial liabilities	(663)	—	—	—	(663)
Other non-current liabilities	(855)	(2,589)	—	—	(3,444)
Contract liabilities	(1,155)	—	—	—	(1,155)
Deferred tax liabilities	(4,106)	(784)	—	—	(4,891)
Pensions and other post-retirement benefit obligations	(2,498)	(4)	—	—	(2,502)
Provisions	(2,143)	(208)	—	—	(2,351)
Total non-current liabilities	**(41,301)**	**(9,656)**	**—**	**(7,948)**	**(58,905)**
Total liabilities	**(47,432)**	**(10,751)**	**—**	**(7,948)**	**(66,131)**
Total net assets	**18,343**	**5,286**	**2,505**	**(7,948)**	**18,186**

(i) The Group's net assets have been extracted without material adjustment from the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2020, which are incorporated by reference into this Circular.

(ii) The WPD Group's net assets have been extracted without material adjustment from the historical financial information of the WPD Group for the three years ended 31 March 2020, which is set out at Part IV (*Financial Information of PPL WPD Investments Limited and Subsidiaries*) of this Circular.

(iii) The pro forma statement of net assets has been prepared on the basis that the acquisition of the WPD Group will be accounted for using the acquisition method of accounting. The excess of consideration over the book value of assets acquired has been reflected as goodwill. No account has been taken of any fair value adjustments which may arise on the acquisition.

The preliminary goodwill arising has been calculated as follows:

	£m
Total consideration paid	7,791
Less: the WPD Group's net assets as at 31 March 2020	(5,286)
Goodwill	2,505

(iv) The pro forma net assets reflect the drawdown of £7.9 billion to fund the consideration paid for the WPD Acquisition and associated transaction costs amounting to £157 million from the £9.4 billion Acquisition Facility. No adjustment has been made to reflect the sale of NECO.

(v) No adjustment has been made to reflect the financial results of either the WPD Group since 31 March 2020 or the Group since 30 September 2020.

Section B: Accountant's report on unaudited pro forma financial information relating to the Enlarged Group

Deloitte.

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

The Board of Directors
on behalf of National Grid plc
1-3 Strand
London
WC2N 5EH

Barclays Bank PLC
5 The North Colonnade
London
E14 4BB

31 March 2021

Dear Sirs/Mesdames,

National Grid plc (the "Company")

We report on the pro forma financial information (the "**Pro forma financial information**") set out in Part V of the Class 1 circular of the Company dated 31 March 2021 (the "**Circular**"). This report is required by Annex 20 sections 1 and 2 of the Prospectus Delegated Regulation as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that regulation and for no other purpose.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Pro forma financial information in accordance with Annex 20 sections 1 and 2 of the Prospectus Delegated Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex 20 section 3 of the Prospectus Delegated Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

Basis of preparation

The pro forma financial information has been prepared on the basis described in the notes thereto, for illustrative purposes only, to provide information about how the acquisition of PPL WPD Investments Limited (the "**Target**") by the Company might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 March 2021.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. We are independent of the Company and the Target in accordance with the Financial Reporting Council's Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Yours faithfully

Deloitte LLP

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PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names appear at paragraph 2 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors and registered office

Directors

Sir Peter Gershon	Chairman
Paula Rosput Reynolds	Non-Executive Director and Chair Designate
John Pettigrew	Chief Executive Officer
Andrew Agg	Chief Financial Officer
Nicola Shaw	Executive Director
Mark Williamson	Senior Independent Director
Jonathan Dawson	Non-Executive Director
Therese Esperdy	Non-Executive Director
Dr Paul Golby	Non-Executive Director
Elizabeth Hewitt	Non-Executive Director
Amanda Mesler	Non-Executive Director
Earl Shipp	Non-Executive Director
Jonathan Silver	Non-Executive Director

The Company is domiciled in the United Kingdom with its registered office and principal place of business at 1-3 Strand, London, WC2N 5EH. The telephone number of the Company's registered office is +44 (0)20 7004 3000.

The Company was incorporated and registered in England and Wales on 11 July 2000 as a private limited company limited by shares with the name Intercede 1610 Limited and the registered number 04031152. By a special resolution, the Company changed its name to New National Grid Limited on 30 August 2000, and by a further special resolution converted to a public limited company limited by shares on 28 November 2000. By further special resolutions, the Company changed its name to National Grid Group plc on 31 January 2002, National Grid Transco plc on 21 October 2002 and its current name, National Grid plc, on 26 July 2005.

The principal legislation under which the Company operates is the Companies Act 2006 and the regulations made thereunder.

3. Directors' interests

Save as disclosed in this paragraph 3, none of the Directors, nor their immediate families or connected persons, have any interests (beneficial or non-beneficial) in the share capital of National Grid plc or its subsidiaries.

Save as disclosed in this paragraph 3 and paragraph 5 of this Part VI (*Additional Information*), no other person involved in the WPD Acquisition has an interest which is material to the WPD Acquisition.

3.1 *Share interests*

The Directors have the following interests in Ordinary Shares and ADSs (including beneficial interests or interests of a person connected with a Director) as at the Latest Practicable Date:

	Interests as at the Latest Practicable Date[(1)]	
Director	**No.**	**% of total issued share capital[(3)]**
Sir Peter Gershon	113,148	0.00297
Paula Rosput Reynolds	10,000	0.00026
John Pettigrew	856,053	0.02244
Andrew Agg	153,047	0.00401
Nicola Shaw	201,737	0.00529
Mark Williamson	47,460	0.00124
Jonathan Dawson	43,350	0.00114
Therese Esperdy[(2)]	7,935	0.00021
Dr Paul Golby	2,291	0.00006
Elizabeth Hewitt	2,500	0.00007
Amanda Mesler	1,500	0.00004
Earl Shipp[(2)]	5,000	0.00013
Jonathan Silver	0	0.00000

(1) The Directors' interests in Ordinary Shares set out above include the beneficial interests of the Directors and their immediate families.

(2) Interests are held as ADSs; this figure has been multiplied by five for the purposes of recording Ordinary Shares.

(3) Total issued share capital: 3,814,951,606.

Taken together, the combined percentage interest of the Directors in the voting rights in respect of the issued ordinary share capital of National Grid at the Latest Practicable Date was 0.03785 per cent.

The Directors have no interest in the shares of National Grid's subsidiaries.

3.2 *Share awards*

The Directors had the following options and awards relating to Ordinary Shares under National Grid's employee share schemes.

3.2.1 *National Grid Long Term Performance Plan (LTPP)*

	Date Awarded	**Number of Ordinary Shares**	**Exercise Price**	**Vesting Date**
John Pettigrew	28-Jun-18	398,398	N/A	01-Jul-21
	28-Jun-19	431,969	N/A	01-Jul-22
	17-Aug-20	405,217	N/A	03-Jul-23
Andrew Agg	28-Jun-18	109,886	N/A	01-Jul-21
	28-Jun-19	213,999	N/A	01-Jul-22
	17-Aug-20	213,795	N/A	03-Jul-23
Nicola Shaw	28-Jun-18	186,263	N/A	01-Jul-21
	28-Jun-19	201,959	N/A	01-Jul-22
	17-Aug-20	189,452	N/A	03-Jul-23

3.2.2 *National Grid Sharesave Plan (SAYE)*

	Date Awarded	**Number of Ordinary Shares**	**Exercise Price**	**Exercisable from**	**Exercisable to**
John Pettigrew	27-Dec-19	4,219	£7.11	01-Apr-25	30-Sep-25
Andrew Agg	24-Dec-20	4,316	£6.95	01-Apr-26	30-Sep-26
Nicola Shaw	22-Dec-16	4,070	£7.37	01-Apr-22	30-Sep-22

4. Directors' service contracts and letters of appointment

4.1 *Executive Directors*

Details of the service contracts entered into are set out below:

	Date of appointment	Notice period by Company (months)	Notice period by Director (months)
John Pettigrew	1 April 2014 and 1 April 2016 as Chief Executive	12 months	12 months
Andrew Agg	1 January 2019	12 months	12 months
Nicola Shaw	1 July 2016	12 months	12 months

Executive Directors of the Company are appointed under service contracts, subject to annual re-election by Shareholders. The service contracts contain a termination notice period of 12 months and do not otherwise contain provisions for the payment of benefits upon termination.

4.2 *Non-Executive Directors*

Details of the terms of the letters of appointment of the Non-Executive Directors are set out below:

	Date of appointment	Notice period by Company (months)	Notice period by Director (months)
Sir Peter Gershon	1 August 2011 as Deputy Chairman and 1 January 2012 as Chairman	6 months	6 months
Paula Rosput Reynolds	1 January 2021 as Non-Executive Director and Chair Designate and from 31 May 2021 as Chair	6 months	6 months
Mark Williamson	3 September 2012	1 month	1 month
Jonathan Dawson	4 March 2013	1 month	1 month
Therese Esperdy	18 March 2014	1 month	1 month
Dr Paul Golby	1 February 2012	1 month	1 month
Elizabeth Hewitt	1 January 2020	1 month	1 month
Amanda Mesler	17 May 2018	1 month	1 month
Earl Shipp	1 January 2019	1 month	1 month
Jonathan Silver	16 May 2019	1 month	1 month

The Non-Executive Directors are appointed by letters of appointment for a three-year term, subject to annual re-election by Shareholders.

The letters of appointment of the Non-Executive Directors can be terminated on one month's notice by either party other than the Chairman and the Chair Designate whose letters of appointment have a six months' notice period. The Non-Executive Directors are not eligible to participate in any pension, bonus or share incentive schemes. None of the Non-Executive Directors' appointment terms provide for the payment of benefits upon termination of the appointment.

5. Significant Shareholders

As at the Latest Practicable Date, so far as the Company is aware, no person other than those listed below was interested, directly or indirectly, in 3 per cent. or more of the Ordinary Shares, and the amount of such person's interest, was as follows:

	Interest as at the Latest Practicable Date	
Shareholder	**No. of Ordinary Shares**	**% of voting rights[(1)]**
BlackRock Inc	253,998,855	7.21
The Capital Group Companies, Inc	145,094,617	3.88

(1) This number is calculated in relation to the issued share capital at the time the holding was disclosed.

6. Related party transactions

Save as disclosed below and in the information incorporated by reference into this document referred to in paragraph 13, no member of the Group entered into any transactions with related parties during the years ended 31 March 2018, 31 March 2019 and 31 March 2020. For further information, see:

- Note 29 of the National Grid Annual Report 2018;
- Note 31 of the National Grid Annual Report 2019; and
- Note 31 of the National Grid Annual Report 2020.

For the period from and including 31 March 2020 and the Latest Practicable Date, there were no related party transactions entered into by any member of the Group, save as disclosed below.

	2021
	£m
Sales: Goods and services supplied to a pension plan	3
Sales: Goods and services supplied to joint ventures(1)	76
Sales: Goods and services supplied to associates	1
Purchases: Goods and services received from joint ventures(2)	24
Purchases: Goods and services received from associates(3)	40
Receivable from joint ventures(4)	282
Payable to joint ventures	81
Dividends received from joint ventures(5)	48
Dividends received from associates(6)	27

(1) During the year, £12 million of property sites were sold to a joint venture, St William Homes LLP. A further £49 million of sales were made to Emerald Energy Venture, LLC.

(2) The Group also made purchases from joint ventures of £11 million from BritNed Development Limited, £8 million from Nemo Link Limited and £5 million from NGET/SPT Upgrades Limited.

(3) The Group received goods and services from a number of US associates, both for the transportation of gas and for pipeline services in the US, most notably, £37 million of purchases from Millennium Pipeline Company, LLC.

(4) Amounts receivable from joint ventures includes £254 million in relation to St William Homes LLP and £25 million in relation to Emerald Energy Venture, LLC.

(5) Dividends of £18 million were received from BritNed Development Limited and £25 million from Nemo Link Limited.

(6) Dividends of £22 million were received from Millennium Pipeline Company, LLC and £5 million from Sunrun Neptune Investor 2016, LLC.

7. Material contracts

7.1 *National Grid*

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which the Company or any member of the Group is a party, for the two years immediately preceding the date of publication of this document and a summary of any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of the Group which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

7.1.1 *The WPD SPA*

For a description of the WPD SPA, see Part III (*Summary of the Principal Terms of the WPD Acquisition*) of this Circular.

7.1.2 *The NECO SPA*

(A) *Parties*

On 17 March 2021, National Grid USA, PPL and PPL Energy, a subsidiary of PPL, entered into a share purchase agreement in respect of the NECO Sale. Pursuant to the terms of the NECO SPA, and subject to the conditions contained therein, National Grid USA has agreed to sell, and PPL Energy has agreed to acquire, 100% of the outstanding shares of common stock of NECO.

(B) *Timing and conditions*

Completion of the NECO Sale is expected to occur before the end of the first quarter of 2022 and is conditional upon the following conditions being satisfied or waived on or before 18 March 2022, subject to two three-month automatic extensions if required regulatory approvals have not been obtained (or such later date as the parties may agree):

(1) completion of the WPD Acquisition having occurred; and

(2) certain regulatory approvals including:

- approval from the RIPUC;
- approval from the FERC;
- approval from the Massachusetts Department of Public Utilities; and
- termination or expiration of the applicable waiting period under the HSR Act or receipt of the necessary clearance or approval thereunder; and

(3) other closing conditions customary in U.S. transactions including absence of a material adverse effect.

The NECO Sale will not proceed if the conditions are not satisfied or waived (if applicable). Completion of the WPD Acquisition is not conditional on completion of the NECO Sale.

(C) *Consideration*

The consideration payable by PPL Energy for the NECO Sale is US$3.8 billion (£2.7 billion) in cash, subject to a customary U.S. style completion accounts adjustment. In addition, National Grid USA will receive dividends of approximately US$52 million for FY21 and an equivalent amount for FY22 on a pro rata basis up to the date of completion.

(D) *Termination*

The NECO SPA may be terminated by either party if, among other things, the conditions to completion have not been satisfied or waived by the date that is 12 months from signing, subject to two three-month automatic extensions under certain circumstances or if the NECO SPA is terminated. There is no termination fee payable by any of the parties under the NECO SPA.

(E) *Warranties and indemnities*

National Grid USA, PPL Energy and PPL each have made certain customary representations, warranties and covenants in the NECO SPA which are subject to post-completion indemnification customary for U.S. style transactions.

(F) *Limitations on liability*

National Grid USA's aggregate liability in respect of all claims relating to the NECO Sale under the NECO SPA shall not exceed the purchase price for NECO set forth in the NECO SPA (without adjustment). All warranty claims and claims in respect of pre-closing covenants under the NECO SPA must be notified to National Grid by PPL Energy within 18 months of completion, in respect of claims under the business warranties, and within 60 days after the date upon which the applicable statute of limitation expires, in respect of claims under the fundamental warranties.

(G) *Covenants until Completion*

National Grid has undertaken to use its reasonable best efforts to procure that NECO will be run in the ordinary course of business until completion of the NECO Sale, subject to certain customary restrictions and covenants.

(H) *Governing law and jurisdiction*

The NECO SPA and any dispute or claim based on, arising out of or in connection with it (including non-contractual disputes or claims) is governed by Delaware law and subject to the exclusive jurisdiction of the Delaware courts.

(I) *Transitional Services Agreement*

In connection with the NECO SPA, National Grid USA and PPL Energy will enter into a transitional services agreement in order to ensure a smooth continuation of the services provided by National Grid to NECO for an interim period following completion.

7.1.3 ***Sponsor Agreement***

The Company and Barclays entered into the Sponsor Agreement on 31 March 2021, pursuant to which the Company appointed Barclays as sponsor in connection with the WPD Acquisition and the publication of this Circular (and any supplementary circular). Under the Sponsor Agreement, the Company has given certain customary indemnities, undertakings, representations and warranties in favour of Barclays. The liabilities under those indemnities, undertakings, representations and warranties are unlimited as to time and amount. In addition, the Sponsor Agreement provides Barclays with the right to terminate the Sponsor Agreement in certain circumstances, which are customary for an agreement of this kind.

7.1.4 ***Acquisition Facility***

The facilities made available under the Acquisition Facility are a £8,250,000,000 term loan facility ("**Facility A"**) and a £1,105,000,000 revolving loan facility ("**Facility B"**), subject to the satisfaction of certain conditions precedent. Amounts borrowed under Facility A are to be used for, inter alia, the financing of the WPD Acquisition, refinancing of WPD Group debt and the payment of certain costs in connection with the WPD Acquisition. Amounts borrowed under Facility B are also to be used for refinancing WPD Group debt.

The lenders under the Acquisition Facility are Barclays Bank PLC, Goldman Sachs Bank USA and Goldman Sachs International Bank.

The rate of interest on the loans under the Acquisition Facility is the percentage rate per annum which is equal to the aggregate of LIBOR/the relevant risk free rate and a margin (being the applicable percentage rate per annum) of between 0.55% and 1.5%, subject to a margin rating adjustment mechanism linked to the Company's unsecured corporate credit rating.

The Acquisition Facility contains a standard mechanism for transitioning from LIBOR to a risk free rate.

The maturity date of Facility A is 15 months after the date of first utilisation of Facility A and the maturity date of Facility B is 12 months after the date of first utilisation of Facility A. On such dates all outstanding amounts under such facilities shall be repaid to the lenders thereunder. Subject to certain conditions, the maturity dates for Facility A and Facility B may be extended, at the Company's sole option, for 6 months and subsequently, in the case of Facility A only, by a further 6 months after that. The Acquisition Facility may be prepaid without premium or penalty. Any amount prepaid may not be redrawn.

The Acquisition Facility contains customary representations, undertakings and events of default with agreed exceptions and materiality qualifiers (where relevant). The undertakings include, among others, restrictions on the creation of security, the disposal of assets and the incurrence of subsidiary financial indebtedness (each with permitted exceptions).

The Acquisition Facility includes a certain funds mechanism, whereby the lenders are obliged to participate in loans requested by the Company during a certain funds period (subject to certain key conditions being satisfied, which includes the passing of the resolutions).

The Acquisition Facility is governed by English law.

7.2 *WPD*

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which PPL WPD Investments or any member of the WPD Group is a party, for the two years immediately preceding the date of publication of this document and a summary of any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of the WPD Group which contains any provision under which any member of the WPD Group has any obligation or entitlement which is material to the WPD Group as at the date of this document.

7.2.1 *£845m Multicurrency Revolving Facilities Agreement*

On 13 May 2020, four members of the WPD Group (the "**Borrowers**") entered into an unsecured Multicurrency Revolving Facilities Agreement with a syndicate of eight banks (HSBC UK Bank plc, Lloyds Bank Plc, Mizuho Bank, Ltd., National Westminster Bank Plc, Royal Bank of Canada, Santander UK Plc, Barclays Bank PLC and MUFG Bank, Ltd) as original lenders pursuant to which the Borrowers hold four facilities equal, in aggregate, to £845 million (the "**RCF**"). Unless otherwise specified, capitalised terms shall have the same meaning given to them in the RCF.

Each of the facilities matures in May 2023, subject to the ability for the Borrowers to request, and each lender to grant in their discretion, two options of a one year extension in respect of each facility (which have not been requested yet). Under the terms of the RCF, the Borrowers may, on five business days' notice, voluntarily repay any part of a loan prior to the termination date, subject to a requirement that the prepayment is in a minimum amount of £1 million.

The interest rate under the RCF is equal to LIBOR plus a margin of up to 1% per annum.

The RCF contains mandatory prepayment provisions on illegality and, on a change of control, the Borrower(s) must give notice to the relevant agent within five days of becoming aware that any person has gained control of that Borrower. The requirement to provide this notification will be triggered by completion of the WPD Acquisition. Following such notification, the Borrower(s) and the lenders will enter into negotiations for a period of no more than 45 days with a view to agreeing whether the relevant facility(/ies) shall continue to be made available and whether any of the terms of the facility(/ies) require amendment having regard to the circumstances giving rise to the change of control. If no such agreement is reached, any lender may on 10 days' notice require the repayment of its share in any outstanding loan and cancel its commitment under the relevant facility or facilities, and, the majority lenders may on 10 days' notice require repayment in full of all outstanding loans and cancel the total commitments thereunder.

The RCF contains a covenant requiring the electricity distribution licence made and treated as granted to each Borrower (and any other authorisation, permit etc required by any of them) to be maintained. The RCF contains a number of other covenants that are customary for financings of this nature including restrictive covenants relating to granting security, restrictions on disposals, restrictions on mergers and reorganisations, restrictions on acquisitions, restrictions on subsidiary indebtedness and restrictions on non-arm's length transactions with members of the PPL group of companies. There are also covenants relating to, amongst other things, pensions and compliance with environmental laws and sanctions.

The RCF contains event of default provisions customary for financings of this nature, including payment defaults and cross-defaults.

7.2.2 *£210m Multicurrency Revolving Facility Agreement*

On 13 January 2016, Western Power Distribution Plc (the "**Borrower**") entered into an unsecured Multicurrency Revolving Facility Agreement with a syndicate of eight banks (Abbey National Treasury Services Plc (trading as Santander Global Banking and Markets), Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, Mizuho Bank, Ltd., RBC Europe Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Royal Bank of Scotland plc) as original lenders pursuant to which the Borrower holds a facility of £210 million (the "**£210m RCF**").

The facility matures in January 2023. Under the terms of the £210m RCF, the Borrower may, on five business days' notice, voluntarily prepay any part of a loan prior to the termination date, subject to a requirement that the prepayment is in a minimum amount of £5 million and an integral multiple of £1 million.

The interest rate under the £210m RCF is equal to LIBOR, or in relation to any loan in Euro, EURIBOR, plus the margin (being a ratchet from 0.65% to 1.30% per annum). In addition, various fees are payable by the Borrower.

The £210m RCF contains mandatory prepayment provisions on illegality and on change of control. The Borrower must give notice to the relevant agent within five days of becoming aware that any person has gained control of the Borrower. The requirement to provide this notification will be triggered by completion of the WPD Acquisition. Following such notification, the Borrower and the lenders will enter into negotiations for a period of no more than 45 days with a view to agreeing whether the facility shall continue to be made available and whether any of the terms of the facility require amendment having regard to the circumstances giving rise to the change of control. If no such agreement is reached, any lender may on 10 days' notice to the Borrower require the repayment of its share in any outstanding loan and cancel its commitment under the facility, and the majority lenders may on 10 days' notice require repayment in full of all outstanding loans and cancel the total commitments thereunder.

The £210m RCF contains a covenant requiring the Borrower to procure that each of the distribution companies in the WPD Group will at all times comply with the terms of its electricity distribution licence in all material respects; and not do anything which is reasonably likely to result in the loss or termination of its licence. If notice is given to revoke, or any licence is revoked, this may give rise to an event of default under the £210m RCF.

The £210m RCF contains a number of other covenants that are customary for financings of this nature including restrictive covenants relating to granting security, restrictions on disposals, restrictions on mergers and reorganisations, restrictions on acquisitions, restrictions on subsidiary indebtedness and restrictions on non-arm's length transactions with members of the PPL group of companies. There are also covenants relating to, amongst other things, pensions and compliance with environmental laws and sanctions.

The £210m RCF contains event of default provisions customary for financings of this nature, including payment defaults and cross-defaults.

7.2.3 ***£350m Loan Agreement***

On 26 February 2021, Western Power Distribution Plc (the "**Borrower**") entered into an unsecured facility agreement with a syndicate of three banks (Canadian Imperial Bank of Commerce, London Branch, JPMorgan Chase Bank, N.A., London Branch and The Bank of Nova Scotia) for a sterling term facility of £350 million (the "**£350m Loan Agreement**").

The facility thereunder matures in August 2021 (subject to the change of control mandatory prepayment provisions described below). Under the terms of the £350m Loan Agreement, the Borrower may, on not less than three business days' notice, voluntarily prepay any part of a loan prior to the termination date, subject to a requirement that the prepayment is in a minimum amount of £5 million and an integral multiple of £1 million.

The interest rate under the £350m Loan Agreement is equal to LIBOR plus the margin (being 1% per annum).

The £350m Loan Agreement contains mandatory prepayment provisions on illegality and on change of control. Upon any person (whether alone or acting together with any associated person or persons) gaining control of the Borrower, the facility will be immediately cancelled and shall immediately cease to be available for further utilisation. The loan, accrued interest and all other amounts shall then become immediately due and payable. The prepayment will be triggered by the occurrence of completion of the WPD Acquisition.

The £350m Loan Agreement contains a covenant requiring the Borrower to procure that each of the distribution companies in the WPD Group will at all times comply with the terms of its electricity distribution licence in all material respects; and not do anything which is reasonably likely to result in the loss or termination of its licence. If notice is given to revoke, or any licence is revoked, this may give rise to an event of default under the £350m Loan Agreement.

The £350m Loan Agreement contains a number of other covenants that are customary for financings of this nature including restrictive covenants relating to granting security, restrictions on disposals, restrictions on mergers and reorganisations, restrictions on acquisitions, restrictions on subsidiary indebtedness, restrictions on non-arm's length transactions with members of the PPL group of companies. There are also covenants relating to, amongst other things, pensions and compliance with environmental laws and sanctions.

The £350m Loan Agreement contains event of default provisions customary for financings of this nature, including payment defaults and cross-defaults.

8. Working capital

The Company is of the opinion that the Enlarged Group does not have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

Because the WPD Acquisition is classified under the Listing Rules as a Class 1 transaction, the Company is required to make an assessment, on the assumption that such acquisition completes, as to whether it has sufficient working capital for the Enlarged Group's present requirements, that is for at least 12 months following the publication of this document.

In order to confirm that it has sufficient working capital, National Grid would have to incur additional commitment fees on financing arrangements which the Directors consider to be unnecessary given the financing plans and expected outcomes of the discussions set out below. Therefore, National Grid has decided not to incur such additional fees at this time simply in order to be able to confirm that it has sufficient working capital. This is a similar approach to the one adopted by the Company at the time of the KeySpan Acquisition in 2006. However, National Grid is taking a series of actions to address this position in order to ensure that, assuming the actions are successful, the Enlarged Group would have sufficient working capital.

Under the terms of the WPD SPA, the total cash consideration payable for the WPD Acquisition is approximately £7.8 billion. National Grid has put in place the Acquisition Facility in the aggregate amount of £9.355 billion to finance the WPD Acquisition and refinancing of WPD Group debt. Under the terms of the NECO SPA, the total cash consideration receivable for the sale of NECO is US$3.8 billion (£2.7 billion).

However, National Grid has existing debt facilities comprising £4.2 billion of committed but undrawn facilities from its 21-strong relationship bank group and US$1.2 billion of drawn loans that, absent waivers, give the relevant lending banks the right to terminate the facilities and loans where certain material subsidiaries are disposed of. Completion of the NECO Sale would trigger these rights and accordingly National Grid is seeking such waivers.

In addition, National Grid has £2.0 billion of drawn loans from the European Investment Bank ("**EIB**") that give the EIB the right to request additional security following the recent credit rating downgrade. Such loans can be terminated if National Grid refuses or is unable to grant additional security or renegotiate the relevant terms in a manner acceptable to the EIB. National Grid expects to agree with the EIB revised terms such that the EIB loans would remain in place.

Accordingly to ensure that the Enlarged Group will have sufficient funds to meet its present working capital requirements, National Grid is seeking such waivers and discussing such terms with its existing lending banks. To date, National Grid has successfully concluded negotiations and agreed the terms of waivers in respect of £0.3 billion of the £4.2 billion referred to above. Whilst National Grid has not yet agreed the terms of the remaining waivers or the revised terms, it has good relations with its lenders and remains confident that it will do so. It has already had discussions with a number of banks regarding their willingness to provide the waivers and is in discussions with the EIB regarding revised terms.

Should the undrawn facilities and drawn loans listed above be cancelled, National Grid would seek to: (i) put in place replacement bank financing, in which regard National Grid has already had discussions with a number of banks regarding their willingness to provide such replacement financing should it be required; and (ii) access the debt capital markets for such amount which would be required to make up any shortfall generated by the unavailability of bank finance. National Grid frequently accesses the debt capital markets to finance its business and remains confident that it will continue to be able to access the debt capital markets to raise financing over the next 12 months.

Should the undrawn facilities and drawn loans listed above be cancelled and National Grid not be able to: (i) put in place replacement bank financing; and (ii) access the debt capital markets to raise financing as required, National Grid would expect a shortfall in funding to first occur in Q4 2021. After taking into account reasonable mitigating actions which are in the Company's control, the maximum shortfall in funding for the Enlarged Group would be approximately £3.2 billion.

As explained above, National Grid has decided not to incur additional commitment fees on financing arrangements unnecessarily at this time as National Grid will have sufficient funds to complete the WPD Acquisition and, taking into account the financing plans and the expected outcomes of the discussions set out above, the Company does not expect there to be a shortfall in funding and, accordingly, is of the opinion that the Enlarged Group will have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

9. Current trading, trends and prospects

See "*Forward-looking statements*" in the section of this Circular entitled "*Presentation of Information*".

9.1 ***National Grid Group***

On 8 December 2020, Ofgem published its final determination for the RIIO-T2 framework covering National Grid's UK Electricity and Gas Transmission businesses. On 2 March 2021 the Company confirmed that, following a detailed analysis of the final determination, it was accepting the overall package for the Electricity System Operator, and broadly accepting most of the package for the Electricity and Gas Transmission businesses. Whilst the Company welcomes the significant movement in totex allowances and greater flexibility around future net zero investment for Electricity and Gas Transmission, the Company will be submitting a technical appeal to the CMA regarding Ofgem's proposed cost of equity and outperformance wedge.

For the financial year ending on 31 March 2021, National Grid continues to assume an underlying operating profit impact from the COVID-19 pandemic of around £400 million with total capital investment of £5 billion, and expects asset growth towards the top end of its target range.

9.2 ***WPD Group***

The WPD Group's trading performance has been largely in line with expectations in the period prior to the date of this Circular, with the impact of the COVID-19 pandemic on financial performance being materially captured in management forecasts.

The WPD Group observed lower electricity volumes during the year (largely related to the COVID-19 pandemic with more people working from home). As a result, the WPD Group is expected to be in a revenue under-recovery position at 31 March 2021. This however will be recovered in subsequent periods under the regulatory framework periods (i.e. there is a timing impact on cash flows only). The COVID-19 pandemic also impacted the delivery of the capital programme between April 2020 and July 2020 due to UK lockdown restrictions imposed on construction activities. Normal working, however, was fully re-established in August 2020 and construction has not been impacted since then by subsequent lockdown events in the UK. The WPD Group has not experienced significant supply chain or employee issues and has not placed staff on furlough or used COVID-19 related government support schemes. In terms of regulatory performance, the WPD Group is on track to deliver Interruptions Incentive Scheme and Customer Satisfaction performance and incentives income as expected.

As at 31 March 2020, the WPD Group had Regulatory IOUs of £220 million including £53 million totex-related recoveries, under-recovered Timing balances of £145 million and under-recovered legacy balances related to previous price controls of £22 million.

10. No significant change

10.1 ***National Grid***

There has been no significant change in the financial performance or financial position of National Grid since 30 September 2020, being the date to which the last unaudited consolidated financial information of National Grid was published.

10.2 ***WPD Group***

There has been no significant change in the financial performance or financial position of the WPD Group since 31 March 2020, being the date to which the last consolidated historical financial information set out in Part IV (*Financial Information of PPL WPD Investments Limited and Subsidiaries*) of this Circular was published.

11. Litigation

11.1 ***National Grid***

There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months prior to the date of this document which may have, or have had in the recent past, significant effects on the Company and/or the Company's financial position or profitability.

11.2 ***WPD Group***

There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months prior to the date of this document which may have, or have had in the recent past, significant effects on PPL WPD Investments and/or the WPD Group's financial position or profitability.

12. Consents

Deloitte LLP has given and has not withdrawn its written consent to the inclusion in this Circular of its report on the WPD Financial Information in Section B of Part IV (*Financial Information of PPL WPD Investments Limited and Subsidiaries*) and its report on the Unaudited Pro Forma Financial Information in Section B of Part V (*Unaudited Pro Forma Financial Information of the Enlarged Group*) in the form and context in which they are included.

Barclays has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.

Goldman Sachs has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.

Robey Warshaw has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.

13. Incorporation by reference

The following documents, which have been approved, filed with or notified to the FCA, and which are available for inspection in accordance with paragraph 14 of this Part VI (*Additional Information*), contain information about National Grid which is relevant to this Circular:

- National Grid Interim Results 2020
- National Grid Annual Report 2020
- National Grid Annual Report 2019
- National Grid Annual Report 2018

The table below sets out the sections of these documents which are incorporated by reference in, and form part of, this Circular, and only the parts of the documents identified in the table below are incorporated by reference in, and form part of, this Circular. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular.

Except as indicated below, information contained on the Company's website or the contents of any website accessible from hyperlinks on the Company's website is not incorporated into and does not form part of this Circular.

Reference document	Information incorporated by reference into this Circular	Page number(s)
National Grid Interim Results 2020	The net assets have been extracted without material adjustment from the unaudited consolidated financial statements of the Company for the six months ended 30 September 2020.	21
National Grid Annual Report 2020	Note 31 of the notes to the audited consolidated financial statements of the Company for the year ended 31 March 2020 regarding related party transactions.	182
National Grid Annual Report 2019	Note 31 of the notes to the audited consolidated financial statements of the Company for the year ended 31 March 2019 regarding related party transactions.	162
National Grid Annual Report 2018	Note 29 of the notes to the audited consolidated financial statements of the Company for the year ended 31 March 2018 regarding related party transactions.	158

14. Documents available for inspection

Copies of the following documents will be available for inspection on the Company's website at https://www.nationalgrid.com/investors/shareholder-information/agm (other than the WPD SPA) and (subject to restrictions imposed by the UK Government due to COVID-19) for physical inspection at the Company's registered office, 1-3 Strand, London, WC2N 5EH, United Kingdom during normal business hours on Monday to Friday each week (public holidays excepted) from the date of this document up to and including the date of the General Meeting:

- the Articles of Association;
- the WPD SPA;
- the audited consolidated financial statements of Western Power Distribution plc and its subsidiary undertakings and the audited financial statements of PPL WPD Investments Limited in respect of the years ended 31 March 2018, 31 March 2019 and 31 March 2020;
- the audited consolidated financial information of National Grid in respect of the years ended 31 March 2018, 31 March 2019 and 31 March 2020;
- the unaudited consolidated financial information of National Grid for the period ended 30 September 2020;
- the consent letters referred to in paragraph 12 above; and
- this Circular.

This document is dated 31 March 2021.

PART VII

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"£210m RCF"	the £210,000,000 unsecured loan facility made available under the multicurrency revolving facility agreement between (1) Western Power Distribution Plc (as borrower) and (2) Abbey National Treasury Services Plc (trading as Santander Global Banking and Markets), Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, Mizuho Bank, Ltd., RBC Europe Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Royal Bank of Scotland plc as original lenders dated 13 January 2016
"Acquisition Facility"	the £8,250,000,000 term loan facility and £1,105,000,000 revolving loan facility made available under the bridge facilities agreement between: (1) the Company (as original borrower); (2) Barclays Bank PLC and Goldman Sachs Bank USA (as mandated lead arrangers); (3) Barclays Bank PLC, Goldman Sachs Bank USA and Goldman Sachs International Bank (as original lenders); and (4) Barclays Bank PLC (as agent) dated 17 March 2021
"ADSs"	American Depositary Shares being securities of the Company listed on the New York Stock Exchange, each of which represents five Ordinary Shares. They are evidenced by American Depositary Receipts or ADRs
"Articles of Association"	the articles of association of the Company
"Aztec"	Aztec Insurance Limited (registered company number 22227) a company incorporated under the laws of Guernsey
"Barclays"	Barclays Bank PLC, acting through its Investment Bank
"Board"	the board of Directors
"CGUs"	cash-generating units
"CEO"	Chief Executive Officer
"CFO"	Chief Financial Officer
"Circular"	this document
"CMA"	the UK Competition and Markets Authority
"Companies Act 2006"	the UK Companies Act 2006, as amended from time to time
"Company"	National Grid plc, a public limited company incorporated under the laws of England and Wales, with company number 04031152 and its registered office at 1-3 Strand, London, WC2N 5EH, United Kingdom
"Completion"	completion of the WPD Acquisition for the purposes of the WPD SPA in accordance with its terms (and references to "complete" shall be construed accordingly)
"CPIH"	consumer price index including owner-occupiers' housing costs
"CREST"	the system of paperless settlement of trades in listed securities of which Euroclear UK & Ireland Limited is the operator
"CREST Proxy Instruction"	has the meaning given to it in the Notice of General Meeting appended to this Circular
"DCUSA"	Distribution Connection and Use of System Agreements
"Directors"	the directors of the Company whose names appear at paragraph 2 of Part VI (*Additional Information*) of this Circular

"Disclosure Guidance and Transparency Rules"	the disclosure guidance and transparency rules made by the FCA under Part 6 of the FSMA
"DNO"	distribution network operator
"DSO"	distribution system operator
"DUoS"	distribution use of system
"ECL"	expected credit loss
"Enlarged Group"	National Grid following Completion
"EPS"	earnings per share
"ESPS"	the Electricity Supply Pension Scheme
"ESPS WPD"	the ESPS segment covering WPD South West and WPD South Wales
"ESPS CN"	the ESPS segment covering WPD East Midlands and WPD West Midlands
"EU Market Abuse Regulation" or "EU MAR"	Market Abuse Regulation 596/2014/EU, as amended from time to time
"Euroclear"	Euroclear UK & Ireland Limited, the operator of CREST
"FCA"	the Financial Conduct Authority
"FERC"	the US Federal Energy Regulatory Commission
"Form of Proxy"	the form of proxy accompanying this Circular for use by Shareholders in connection with the General Meeting
"FSMA"	the Financial Services and Markets Act 2000 (as amended)
"FVOCI"	fair value through other comprehensive income
"FVTPL"	fair value through profit and loss
"FY21"	the financial year ending 31 March 2021
"FY22"	the financial year ending 31 March 2022
"General Meeting"	the general meeting of National Grid to be held at 12 pm on Thursday 22 April 2021, or any adjournment thereof, in connection with the WPD Acquisition
"GMP"	guaranteed minimum pension
"Goldman Sachs"	Goldman Sachs International
"Group" or "National Grid"	the Company and its subsidiary undertakings (as defined in the Companies Act 2006), from time to time
"group relief"	has the meaning given in paragraph 11 of Part IV (*Financial Information of PPL WPD Investments Limited and Subsidiaries*)
"HMRC"	HM Revenue & Customs
"HSR Act"	the Hart-Scott-Rodino Anti-trust Improvements Act of 1976, as amended
"IFRS"	International Financial Reporting Standards as adopted by the European Union
"Interim Results 2020"	the Company's 2020/21 Half Year Results Statement containing the Company's unaudited consolidated financial statements for the six-month period ended 30 September 2020

"KeySpan Acquisition" .	the acquisition of KeySpan Corporation by the Company announced on 27 February 2006 and which completed on 24 August 2007
"Latest Practicable Date"	29 March 2021 (being the latest practicable date prior to the publication of this Circular)
"Listing Rules"	the listing rules of the FCA made pursuant to Part 6 of the FSMA, as amended from time to time
"National Grid" or "Group"	the Company and its subsidiary undertakings (as defined in the Companies Act 2006), from time to time
"National Grid Holdings"	National Grid Holdings One plc a company incorporated under the laws of England and Wales, with company number 02367004 and its registered office at 1 - 3 Strand, London, WC2N 5EH
"National Grid Partners"	the Group's venture investment and innovation business established in November 2018
"National Grid USA" . . .	National Grid USA, a company incorporated under the laws of Delaware, with its registered office at 51 Little Falls Drive, Wilmington, Delaware 19808, US
"National Grid Ventures"	the National Grid Ventures division of the Group that operates outside its core UK and US regulated businesses
"NECO"	The Narragansett Electric Company, a company incorporated under the laws of Rhode Island with its trading address at 280 Melrose Street Providence, RI 02907, US
"NECO Sale"	the sale by National Grid USA of NECO to PPL Energy
"NECO SPA"	the share purchase agreement among National Grid USA, PPL Energy and PPL for the NECO Sale dated 17 March 2021, as described in paragraph 7.1.2 of Part VI (*Additional Information*) of this Circular
"NGG"	National Grid Gas plc a company incorporated under the laws of England and Wales, with company number (02006000) and its registered office at 1-3 Strand, London, WC2N 5EH
"NGG Sale"	the proposed sale of a majority stake in NGG
"Non-Executive Directors"	Sir Peter Gershon, Paula Rosput Reynolds, Mark Williamson, Jonathan Dawson, Therese Esperdy, Dr Paul Golby, Elizabeth Hewitt, Amanda Mesler, Earl Shipp and Jonathan Silver
"Notice of General Meeting"	the notice for the General Meeting as set out on page 123 of this document
"Ordinary Shares"	ordinary shares of 12 204/437 pence each in the capital of the Company
"PPL"	PPL Corporation, a company incorporated under the laws of Pennsylvania, with its registered office at Two North Ninth Street, Allentown, PA 18101, US
"PPL Energy"	PPL Energy Holdings, LLC, a company organised under the laws of Delaware with its registered office at 1105 North Market Street, Suite 1300, Wilmington, Delaware 19801, US
"PPL WPD"	PPL WPD Limited, a company incorporated under the laws of England and Wales, with company number 09172857 and its registered office at Avonbank, Feeder Road, Bristol, BS2 0TB

"PPL WPD Investments"	PPL WPD Investments Limited, a company incorporated under the laws of England and Wales, with company number 10991462 and its registered office at Avonbank, Feeder Road, Bristol, BS2 0TB
"RAV"	regulatory asset value
"Registrar"	Equiniti, being the trading name of Equiniti Limited and Equiniti Financial Services Limited
"Regulated Asset Base"	has the meaning given in paragraph 4.1 on page 5 of this document
"Regulatory Information Service"	one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information from listed companies
"Regulatory IOUs"	has the meaning given in paragraph 4.2 on page 5 of this document
"RIIO-ED1"	the electricity distribution price control covering the eight-year period to March 2023
"RIIO-ED2"	the electricity distribution price control covering the five-year period to April 2028
"RIIO-T2"	the gas and electricity transmission network price controls covering the five-year period commencing 1 April 2021 to March 2026
"RIPUC"	Rhode Island Division of Public Utilities and Carriers
"Robey Warshaw"	Robey Warshaw LLP
"RPI"	retail prices index
"Shareholders"	holders of Ordinary Shares
"Sponsor"	Barclays
"SPPI"	sole payment principal and interest
"Timing"	revenue related to performance in one year that is recovered from, or returned to, customers in future years
"totex"	total expenditure, comprising capital and operating expenditure
"UK Government"	the government of the United Kingdom
"UK Market Abuse Regulation" or "UK MAR"	Market Abuse Regulation 596/2014/EU, as amended from time to time, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018
"Unaudited Pro Forma Financial Information"	the unaudited pro forma balance sheet as at 30 September 2020 for the Enlarged Group
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States" or "US"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"U.S. GAAP"	the generally accepted accounting principles issued by the Financial Accounting Standards Board in the United States
"WACC"	weighted average cost of capital
"WPD Acquisition"	the acquisition of PPL WPD Investments, the holding company of the WPD Group, by National Grid Holdings pursuant to the terms of the WPD SPA

"WPD East Midlands" . . Western Power Distribution (East Midlands) plc, a company incorporated under the laws of England and Wales with company number 02366923 and its registered office at Avonbank, Feeder Road, Bristol, BS2 0TB

"WPD Financial Information" . . . . the audited consolidated financial information relating to PPL WPD Investments as at and for the years ended 31 March 2020, 31 March 2019 and 31 March 2018 and the notes thereto included in Section A of Part IV (*Financial Information of PPL WPD Investments Limited and Subsidiaries*) of this Circular

"WPD Group" . . . . PPL WPD Investments and its subsidiary undertakings

"WPD South Wales" . . . Western Power Distribution (South Wales) plc, a company incorporated under the laws of England and Wales with company number 02366985 and its registered office at Avonbank, Feeder Road, Bristol, BS2 0TB

"WPD South West" . . . . Western Power Distribution (South West) plc, a company incorporated under the laws of England and Wales with company number 02366894 and its registered office at Avonbank, Feeder Road, Bristol, Avon, BS2 0TB

"WPD SPA" . . . . the share purchase agreement between National Grid Holdings, the Company and PPL WPD for the WPD Acquisition dated 17 March 2021, as described in paragraph 1 of Part III (*Summary of the Principal Terms of the WPD Acquisition*) of this Circular

"WPD West Midlands" . Western Power Distribution (West Midlands) plc, a company incorporated under the laws of England and Wales with company number 03600574 and its registered office at Avonbank, Feeder Road, Bristol, BS2 0TB

"WPUPS . . . . the Western Power Utilities Pension Scheme

NOTICE OF GENERAL MEETING

NATIONAL GRID PLC

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of National Grid plc (the "**Company**") will be held at 12 pm on Thursday 22 April 2021 at 1-3 Strand, London, WC2N 5EH to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. Acquisition of PPL WPD Investments Limited

THAT, conditional upon the passing of Resolution 2 (*Increased borrowing limit*), the acquisition by the Company of PPL WPD Investments Limited, as described in the circular to the shareholders of the Company dated 31 March 2021, on the terms and subject to the conditions set out in the share purchase agreement between the Company, National Grid Holdings One plc and PPL WPD Limited dated 17 March 2021 (as amended, modified, restated or supplemented from time to time) (the "**Share Purchase Agreement**") (the "**WPD Acquisition**"), together with all associated agreements and ancillary arrangements, be and are hereby approved, and that the directors of the Company (the "**Directors**") (or a duly authorised person) be authorised to:

(i) take all such steps, execute all such agreements, and make all such arrangements, to implement or in connection with the WPD Acquisition; and

(ii) agree and make any amendments, variations, waivers or extensions to the terms of the WPD Acquisition or the Share Purchase Agreement and/or all associated agreements and ancillary arrangements relating thereto (providing such amendments, variations, waivers or extensions are not of a material nature),

in each case which they in their absolute discretion consider necessary or appropriate.

2. Increased borrowing limit

TO approve, conditional upon the passing of Resolution 1 (*Acquisition of PPL WPD Investments Limited*), in accordance with Article 93.1 of the Company's articles of association, borrowings by the Company and/or any of its subsidiary undertakings (as calculated in accordance with Article 93) not exceeding £55,000,000,000, such approval to apply indefinitely.

By order of the Board

Justine Campbell

Group General Counsel & Company Secretary

31 March 2021

Registered Office: 1-3 Strand, London WC2N 5EH

Registered in England and Wales with number 04031152

EXPLANATION OF THE RESOLUTIONS

Resolution 1 (Acquisition of PPL WPD Investments Limited)

Due to its size, the WPD Acquisition is classified as a Class 1 transaction for the Company under the Listing Rules and accordingly requires the approval of Shareholders. Resolution 1 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. If this resolution is not passed, the WPD Acquisition (and therefore also the NECO Sale) will not complete.

This resolution proposes that the WPD Acquisition be approved and the Directors be authorised to take all such steps, execute all such agreements, and make all such arrangements to implement the WPD Acquisition and make any non-material amendments, variations, waivers or extensions to the terms of the WPD Acquisition in each case which they in their absolute discretion consider necessary or appropriate.

This Resolution 1 is conditional on Resolution 2 being passed.

Resolution 2 (Increased borrowing limit)

In addition to Resolution 1, the Company is proposing (subject to Resolution 1 being passed) to amend the borrowing limit in the Company's articles of association ("**Articles of Association**") from £45 billion to £55 billion. If this resolution is not passed, the WPD Acquisition (and therefore also the NECO Sale) will not complete.

Although shareholders approved increasing the borrowing limit to £45 billion at last year's Annual General Meeting, the WPD Acquisition requires this to be increased again.

As at 31 December 2020, the Company's net borrowings, calculated in accordance with the Articles of Association, were £30.1 billion. Following the WPD Acquisition, which is expected to complete by the end of July 2021, National Grid will take on: (i) additional borrowing pursuant to the Acquisition Facility; and (ii) the existing borrowings of the WPD Group. Accordingly, the Company needs to increase the borrowing limit to ensure it does not breach it in the short term. In the longer term, the Directors consider it is also important for the Company to have sufficient headroom to enable it to continue to be able to fund growth over the medium-term in an efficient manner following completion of the WPD Acquisition.

In accordance with the Articles of Association, an increase of the borrowing limit contained in Article 93.1 requires approval by shareholders by ordinary resolution at a general meeting. This approval will apply on an indefinite basis (unless it is further amended with the approval of shareholders) and, subject to the passing of Resolution 1, the increased borrowing limit of £55 billion will be incorporated into the Articles of Association when they are next updated.

NOTES

Entitlement to vote

1. To be entitled to attend and vote at the General Meeting, members must be registered in the register of members of the Company at 6.30 pm on Tuesday 20 April 2021 (or, if the meeting is adjourned, at 6.30 pm on the date which is two days prior to the adjourned meeting). Changes to entries on the Register of Members after this time shall be disregarded in determining the rights of persons to attend or vote (and the number of votes they may cast) at the General Meeting or adjourned meeting.
2. Registered holders of Ordinary Shares are entitled to attend, speak and vote, either in person or by proxy, at general meetings of the Company. However, in light of the COVID-19 pandemic, the General Meeting will take place as a closed meeting and shareholders are not permitted to attend the General Meeting. This means that the General Meeting will be held only with the minimum number of persons in attendance as is legally required to form a quorate meeting. Two directors, each of whom is either a shareholder, or a proxy or corporate representative appointed by a shareholder, will attend the meeting. **Please do not travel to the General Meeting as anyone who seeks to attend in person will be refused entry.**

Issued share capital and total voting rights

3. As at 29 March 2021 being the latest practicable date before publication of this Notice of General Meeting, the Company's issued share capital comprised 3,814,951,606 Ordinary Shares carrying one vote each at a general meeting of the Company and 265,759,757 Ordinary Shares held in treasury. Ordinary Shares held in treasury do not have voting rights. Therefore the total voting rights in the Company as at the Latest Practicable Date were 3,549,191,849.

Appointing a proxy

4. A member of the Company who is entitled to attend, speak and vote at the General Meeting and who is unable or does not wish to attend the General Meeting is entitled to appoint a proxy to exercise all or any of his/her rights to attend and to speak and vote on his/her behalf at the General Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the form of proxy.
5. As the General Meeting will be a closed meeting, we strongly urge all Shareholders to register their votes in advance by appointing the chairman of the General Meeting as their proxy and giving him/her voting instructions. We do not recommend the appointment of any other person as your proxy as they will not be able to attend the General Meeting and your vote will not be counted.
6. To be valid, any form of proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, must be received by hand or by post at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, by no later than 12 pm on Tuesday 20 April 2021. Alternatively, shareholders can complete the form of proxy online at www.sharevote.co.uk or www.shareview.co.uk by no later than the same deadline.
7. In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior). If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.

CREST

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by following the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy, the revocation of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (CREST ID RA19) by the latest time for receipt of proxy appointments specified in note 6 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/ her CREST sponsor or voting service

provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

Nominated persons

11. The statement of the rights of shareholders in relation to the appointment of proxies above does not apply to Nominated Persons. These rights can only be exercised by shareholders of the Company. Any person to whom this notice has been sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "**Nominated Person**") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

Corporate representatives

12. A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the General Meeting. In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares.

American Depositary Shares (ADSs)

13. If you held National Grid plc ADSs on 29 March 2021 you will be entitled to instruct The Bank of New York Mellon (the "**ADS Depositary**") to vote the shares represented by your ADSs at the General Meeting on your behalf as your proxy.
14. If you hold your ADSs directly on the register of ADS holders maintained by the ADS Depositary, simply complete and return the relevant ADS proxy card provided to the ADS Depositary to arrive by the voting deadline, 5 pm (EDT) on 16 April 2021. If you hold your ADS directly on the register of ADS holders maintained by the employee plan administrator, Vanguard, simply complete and return the relevant ADS proxy card provided to the employee plan administrator, Vanguard, to arrive by the voting deadline, 5 pm (EDT) on 14 April 2021. Alternatively, you can cast your vote online at www.proxypush.com/ngg or via telephone on 1-866-390-6235 (toll free number). Please have your voting instruction form to hand if you are voting by telephone.
15. If you hold ADSs indirectly through a bank, broker or nominee, you will need to contact them directly to exercise your right to instruct the ADS Depositary to vote the shares represented by your ADSs on your behalf as your proxy.

Shareholder questions

16. Shareholders who wish to put a question to the Company's board of directors relating to the business to be conducted at the General Meeting should submit questions by completing the form at https://www.nationalgrid.com/investors/shareholder-information/agm until 12 pm on 20 April 2021 or if the General Meeting is adjourned until 9 am on the date of such adjourned meeting. The Company reserves the right to consolidate questions of a similar nature. Answers to questions will be made available on our website at https://www.nationalgrid.com/investors/shareholder-information/agm.
17. In addition, the directors are committed to shareholder engagement and recognise the importance of communication with shareholders. This is particularly the case given the General Meeting will be a closed meeting due to the COVID-19 pandemic. In order to facilitate this, the Company will make available from 14 April 2021 a pre-recorded webcast for shareholders in advance of the proxy voting deadline. The webcast will be presented by members of the Company's senior management who will answer pre-submitted questions. We encourage shareholders to submit questions by completing the form at https://www.nationalgrid.com/investors/shareholder-

information/agm by 12 pm on 20 April 2021. Shareholders will be asked to supply their Shareholder Reference Number for verification when submitting questions. Following the webcast, answers to the questions submitted will also be made available on our website at https://www.nationalgrid.com/investors/shareholder-information/agm.

18. The Company is not required to answer questions if: doing so would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information; the answer has already been given on the Company's website in the form of an answer to a question; or it is undesirable in the interests of the Company or the good order of the General Meeting that the question be answered.

Electronic address

19. You may not use any electronic address provided either in this notice of meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Toppan Merrill, London
21-10308-1