Registered number: 03600574

NATIONAL GRID ELECTRICITY DISTRIBUTION (WEST MIDLANDS) plc

(formerly WESTERN POWER DISTRIBUTION (WEST MIDLANDS) plc)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2023

National Grid Electricity Distribution (West Midlands) plc
(formerly Western Power Distribution (West Midlands) plc)

Contents

Strategic report

For the year ended 31 March 2023

The directors present their report and the audited financial statements of National Grid Electricity Distribution (West Midlands) plc (formerly Western Power Distribution (West Midlands) plc) (the "Company" or "NGED West Midlands"), company number 03600574, for the year ended 31 March 2023.

Overview

NGED West Midlands is an electricity distribution network operator ("DNO") delivering electricity to approximately 2.5 million (2022: 2.5 million) homes and businesses over an area of 13,300 square kilometres in the West Midlands of England and employing on average 1,973 (2022: 1,959) staff.

We look after a network of wires, poles, pylons, cables and substations, delivering power to customers across our region.

Ownership

The Company is owned by National Grid Electricity Distribution plc (formerly Western Power Distribution plc) ("NGED plc"), which is a public limited company registered in England and Wales. The ultimate controlling parent of the NGED Group is National Grid Plc ("National Grid"), registered in England and Wales. National Grid plc is one of the world's largest investor-owned energy utilities, and operates in the UK and the US.

The NGED Group was acquired by National Grid in June 2021. As part of the integration of the Company and other subsidiaries of the NGED Group into the National Grid Group, on 20 September 2022 the name of the Company was changed to National Grid Electricity Distribution (West Midlands) plc from Western Power Distribution (West Midlands) plc.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2022/23 and on the National Grid website:
https://www.nationalgrid.com/

Group background

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

In addition to the DNOs, the Group also consists of a number of other smaller subsidiaries including National Grid Telecoms Limited (formerly WPD Telecoms Limited), National Grid Electricity Distribution Generation Limited (formerly Western Power Generation Limited) and National Grid Helicopters Limited (formerly South Western Helicopters Limited). The primary purpose of these businesses is to support the DNOs and network related activities of the Group. The Group also owns property companies to facilitate the management of non-network and investment properties of the Group.

Strategic report (continued)

For the year ended 31 March 2023

Financial highlights

	2022/23	**2021/22**	**% change**
Turnover	**670.0**	599.0	12%
Profit before tax	**259.9**	260.3	0%
Cash generated from operations	**338.4**	390.9	-13%

See pages 20 and 21 for details on financial highlights.

	2022/23	**2021/22**
Regulatory asset value ("RAV")	**3,380.9**	2,949.8
Return on equity ("ROE")	**14.1%**	12.0%

See page 21 and 22 for details.

Non-financial highlights ("NGED Group")

	2022/23	**2021/22**
Customer satisfaction score (out of 10)*	**8.99**	9.03
Network reliability	**99.995%**	99.994%

* Against Ofgem's target score of 8.2.

See pages 12-18 for further details on our key performance indicators ("KPIs").

What we do - electricity

The electricity industry connects generation sources to homes and businesses through transmission and distribution networks. Companies that pay to use transmission & distribution networks buy electricity from generators and sell it to consumers.

The UK electricity industry has five main sectors.

Generation

Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. NGED does not own or operate any commercial electricity generation facilities.

The UK is moving away from a historical reliance on large thermal power generation and there is now a greater diversity of supply and flexible demand than ever before. Therefore, the electricity distribution network has a pivotal role to play in the future energy mix, with evolving roles enabling a range of possible energy futures for the long-term benefit of consumers.

Interconnectors

Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps to provide a safe, secure, reliable and affordable energy supply for citizens and society across the region. Interconnectors also allow power suppliers to sell their energy to customers in other countries.

Great Britain is linked via interconnectors with Ireland, Northern Ireland, France, Belgium, Norway and Netherlands. National Grid plc is continuing to work on developing additional interconnector projects, which we believe will deliver significant benefits to customers.

National Grid Plc, through separate companies held outside of NGED, sells capacity on its UK interconnectors (with France, Belgium, Norway and the Netherlands) through auctions.

Strategic report (continued)
For the year ended 31 March 2023

What we do - electricity (continued)

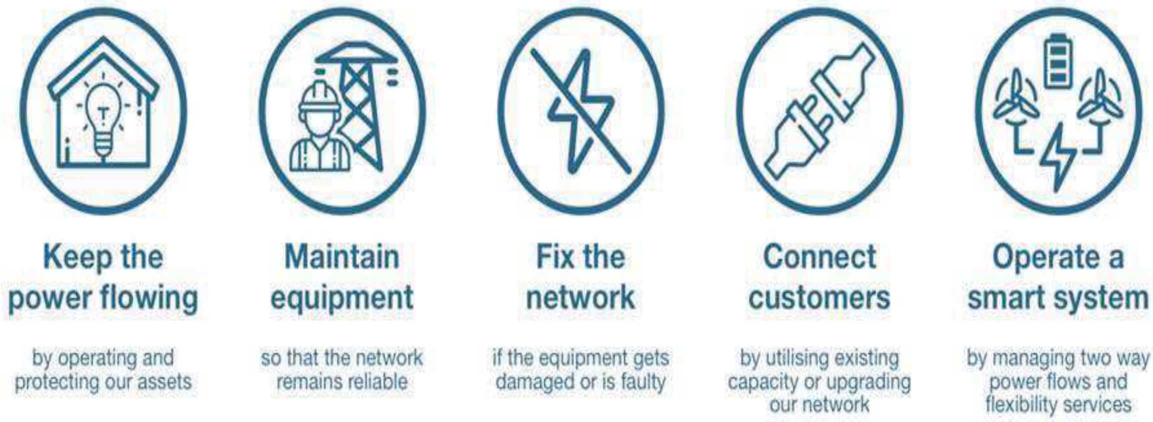
Transmission
National Grid Plc, through a separate company outside of NGED, owns and operates the high-voltage electricity transmission network in England and Wales. Electricity transmission ensures electricity is transported safely and efficiently from where it is produced, to reach homes and businesses reliably. Transmission systems generally include overhead lines, underground cable and substations and connect to industrial properties and distribution networks who deliver the electricity on to homes and commercial properties. They also facilitate the connection of generation assets to the transmission system.

Distribution
NGED West Midlands is a distribution network and system operator and our distribution network connects customers in our region to the National Grid electricity transmission network. We convert the high voltage electricity generated by large power generation sites, such as power stations, and delivered through the National Grid network, to lower voltages that can be used by the customers. We deliver it safely into homes and businesses in our regions, via our safe and reliable network. As the country drives towards decarbonisation, many smaller renewable generation installations are now connected directly to our network, bypassing the transmission system and the traditional model. During the coming years, we will experience unprecedented change in our industry, including an exponential rise in electric vehicles, heat pumps and battery storage. We aim to deliver transformation efficiently, while continuing to provide a resilient electricity supply.

Supply
The supply of electricity involves the buying of electricity and selling it on to customers. It also involves customer services, billing and the collection of customer accounts.

We do not sell electricity or bill directly to our consumers. Our customers are registered with licensed electricity suppliers, who in turn pay NGED West Midlands for use of the network.

What we do - NGED Business model
Our core activities are:



What we do - Business model (continued)

Our network comprises approximately 23,000km (2022: 23,000km) of overhead lines, 43,000km (2022: 42,000km) of underground cable and 51,000 (2022: 51,000) transformers. In 2022/23 NGED West Midlands distributed 4,151 (2022: 4,223) megawatts of electricity.

Our costs are regulated and based on an agreed allowance set by the Office of Gas and Electricity Markets ("Ofgem"); on average (based on a consumption of 3,100 kilowatt hours) NGED domestic customers pay £131.49 (2022: £90.25 per annum*) for electricity distribution costs. Our costs form part of the bill to customers from the electricity suppliers. The increase in the bill is primarily due to recovery of Last Resort Supply Payment (“LRSP”) claims arising due to significant supplier liquidations in 2021. Refer pages 19, 20 and 93 (note 5) for further details. Excluding the impact of recovery of these claims, NGED customers have paid £97.25 per annum for the electricity distributions costs.

We provide a reliable and efficient power supply at an affordable price, as well as supporting the most vulnerable people in the areas we serve. We believe that the use of in-house regional resources is crucial for cost effective and reliable delivery, which is why we use geographically based teams to serve each area. Our staff know the area, network, local developments and communities, enabling us to provide efficient, high quality customer service.

The critical role we play in society is changing. As well as keeping the lights on today, we are also committed to driving a more sustainable future. It is our mission to respond to the changing energy landscape and support the UK’s legislated ambition of achieving net zero carbon emissions by 2050.

What we do - Regulatory framework

Distribution network operators are natural monopolies and to ensure the provision of value for money services for consumers, are regulated by the Gas and Electricity Markets Authority, which operates through Ofgem. The operations are regulated under the distribution licence which sets the requirements that NGED West Midlands needs to deliver for its customers. Ofgem has a statutory duty under the Act to protect the interests of consumers. Ofgem also has responsibility to enable competition and innovation and to protect consumers from the ability of companies to set unduly high prices, Ofgem has established price controls that limit the amount of revenue our regulated business can earn. In setting price controls, Ofgem must also have regard to ensuring that licence holders are able to finance their obligations under the Act.

The regulatory framework is based on sustainable network regulation, known as the "RIIO" model where Revenues=Incentives + Innovation + Outputs. Under the RIIO model there is an emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers. The outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue, although some outputs and deliverables have only a reputational impact or are linked to legislation. We do not earn allowances if we do not deliver the associated agreed output. A key feature of the RIIO model is that the expected outputs delivered by network companies is influenced by its stakeholders through extensive engagement.

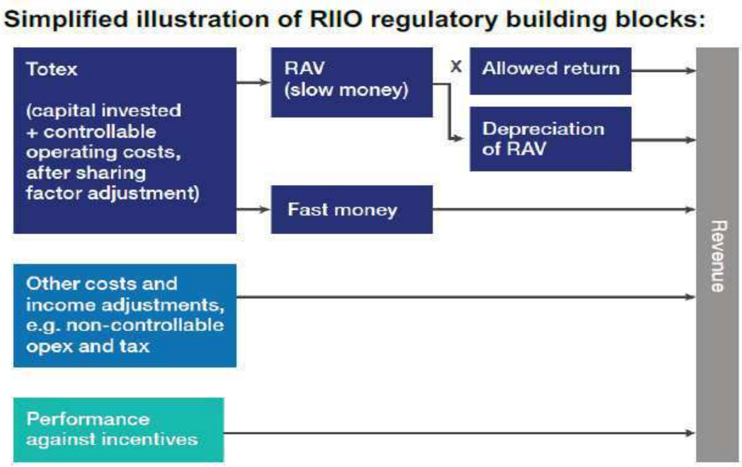
Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary for these deliverables to be achieved. Under RIIO this is known as ‘totex’, which is a component of total allowable expenditure and is broadly the sum of operating expenditure (opex) and capital expenditure (capex).

* The average domestic customer price stated in 31 March 2022 financial statements was £98.85 and was based on NGED's forecasted domestic consumption in kilowatt hours. In the current year, reporting has been amended to calculate the average price based on 3,100 kilowatt hours consumption and thus the comparative has been restated.

Strategic report (continued)
For the year ended 31 March 2023

What we do - Regulatory framework (continued)
A number of assumptions are necessary in setting the outputs, such as certain prices or the volumes of works that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses. Where we under or over-spend against the allowed totex there is a "sharing" factor. This means we share the under or overspend with customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers. Likewise, it provides a level of protection for us if we need to spend more than allowances.

Allowed revenue to fund totex costs is split between RIIO ‘fast’ and ‘slow’ money categories using specified ratios that are fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the year of expenditure. Slow money is added to our Regulatory Asset Value ("RAV"). In addition to fast money, each year we are allowed to recover regulatory depreciation, i.e. a portion of the RAV, and a return on the outstanding RAV balance. The RAV is also indexed to a measure of inflation i.e. RPI and CPIH. We are also allowed to collect additional revenues related to non controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. There are rewards and penalties for performance against incentives. Thus, allowed revenue that a regulatory company can earn through distribution use of system charges ("DUoS") comprises of base revenue and incentive rewards or penalties including uncertainty mechanisms. Base revenue includes allowance for operating costs, return of capital (RAV depreciation), return on capital (cost of equity and cost of debt funding), tax, pension deficit repair and any adjustment to previous allowances.



RIIO-ED1
The year ending 31 March 2023 was the final year of the 8 year electricity price control (known as RIIO-ED1). RIIO-ED1 was the first price control under the RIIO model and NGED submitted an outputs based Business Plan for the RIIO-ED1 period (2015-2023), which was accepted by Ofgem as "well justified" and "fast-tracked" for all four NGED licensed areas; the only DNO Group to be fast tracked. NGED's modified licences took effect from 1 April 2015.

What we do - Regulatory framework (continued)

RIIO-ED1 (continued)

Key parameters from Ofgem's RIIO-ED1 Determination for NGED

Allowed return on equity (refer page 22 for details)	6.40% real, relative to RPI at 65% gearing
Allowed debt funding	Based on 10-year trailing average of iBoxx
Depreciation of RAV	Straight line 45 year depreciation
Notional gearing (refer page 21 for details)	65%
Split between fast/slow money	80% capitalisation rate, being slow money
Sharing factor	70%
Core baselines totex in 2018/19 prices (cumulative for RIIO-ED1)	£2.4bn

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

RIIO-ED2
RIIO-ED2, covering the 5 year period April 2023 to March 2028, is the second price control to be set under the RIIO model and NGED has been allowed £5.9bn (in 2020/21 prices) of totex. As a result of the Government legislating for net zero carbon by 2050, DNOs will be at the forefront of its delivery enabling the transition to a smart, flexible, low cost and low carbon energy system for all consumers and network users. Our business plan was co-created with our stakeholders following an enhanced and robust approach to stakeholder engagement and outlines the network investment we propose to deliver for the 5 year period, how much it will cost and the benefits to customers and stakeholders.

The final submission of our business plan was made on 1 December 2021 and Ofgem published its final determination on 30 November 2022. For details refer to the "RIIO-ED2" section below on pages 29-30.

Our purpose, vision, values and strategy

In delivering our RIIO-ED1 commitments and laying the foundation for delivery of outputs within RIIO-ED2, we work within the purpose, vision, values and strategic priorities of the National Grid Group to ensure we are well positioned to respond to the changes in our operating environment.

The NGED Group is the largest electricity distribution network in the UK, providing a great platform from which to play our role in the energy transition to net-zero.

Our purpose
Our purpose is to **bring energy to life**.

Our vision
Our vision is to be at the heart of a **clean**, **fair** and **affordable** energy future:

Clean – Tackling climate change and leading the way to net zero.
Fair – Ensuring that no one is left behind in energy transition.
Affordable – Everyone should be able to pay for their essential energy needs.

Our purpose, vision, values and strategy (continued)

Our values

Our values underpin everything we do at NGED:

Our values shape our company and how our customers and communities experience us. They inform our decisions, how we show up and the way we treat each other. Our values hold great importance because as a company at the heart of a clean, fair and affordable energy future, we know the work we do is important but how we do it is just as important.

Our strategy

To deliver our vision, we have a strategy which sets the bounds of our business, guided by our four strategic priorities.

Within the RIIO-ED1 business plan we have 76 commitments pertaining to **safety**, **reliability**, **environment**, **connections**, **customer satisfaction** and **social obligations**. Our strategic priorities above are aligned to our business plan commitments. These strategic priorities enable us to deliver our RIIO-ED1 business plan commitments by investing our allowance efficiently and are also crucial to laying the foundation for delivery of the outputs within RIIO-ED2. Refer to pages 29-30 for details on our RIIO-ED2 commitments.

Strategic report (continued)

For the year ended 31 March 2023

Delivering our strategic priorities

Enable the energy transition for all		
What this means	**2022/23 achievements**	**Looking ahead**
We will increase the positive impact we have on the environment and society by innovating our networks and influencing policy to enable clean electricity and electrified heat and transport.	• NGED's flexible services are low cost alternatives to network reinforcement that help to manage constraints on the network and save customers money. In 2022/23, we have procured 154MW of flexibility services via our flexible power brand. Across all flexibility zones (including procurements in previous years), this impacts approximately 1.34 million customers and defers £43 million of reinforcement.	• During the next 5 years of RIIO-ED2, NGED will prepare for the future electrification of transportation and heating by enabling the Group network to cater for up to 1.5 million additional electrical vehicles, 600,000 heat pumps and a significant increase in renewable energy.
	• We have streamlined our connections process making it quicker and easier for customers to connect electric vehicle chargers and heat pumps. The Group has received and processed over 30,000 domestic EV charger and heat pump applications in the current year. 98% of those were approved within 2 working days.	• By adopting a ‘flexibility first’ approach to all load related investment decisions, we have committed that by 2028 NGED will save over £94 million of network reinforcement costs by operating our networks more flexibly.
	• As part of the Green Recovery initiative launched last year, we have completed multiple projects encouraging growth of Low carbon technologies ("LCTs"), specifically electrical vehicles. As a result of these targeted investment projects, meeting the criteria of enabling net zero, NGED has connected around 2,900 of additional LCTs since the launch of this initiative.	• As part of its ‘Smart and Fair’ project NGED is developing a Capability Lens and offering profiling tools, enabling us to model the capabilities of vulnerable customers to participate in a smart, low carbon future. These will be used to improve access to existing smart energy schemes and services and design and implement new interventions to support wider participation in a smart energy market.

Delivering our strategic priorities (continued)

Deliver for our customers efficiently		
What this means	**2022/23 achievements**	**Looking ahead**
Our investments in energy system decarbonisation are underpinned by a track record of operational excellence and financial discipline, ensuring the delivery of safe, reliable, resilient, and affordable energy for our customers.	• The NGED Group has exceeded Ofgem's targets for customer service in the Broad Measure of Customer Satisfaction, achieving 8.99 out of 10 for overall customer satisfaction. • We have continued to deliver service improvements, exceeding targets for both Customer Interruptions and Customer Minutes Lost by 40% and 39% respectively. • We have achieved the British Standard Institution ("BSI") for Inclusive Service Provision ("BS18477") for the tenth year running and we were reaccredited with Customer Service Excellence ("CSE") Standard. We are compliant on all elements and 47/57 (2022: 46/57) elements are awarded 'compliance plus' level, demonstrating UK-wide best practice. • NGED has resolved 85% of complaints within one day, beating the RIIO-ED1 target of 70%. • NGED has launched a project called Demand Forecasting Encapsulating Domestic Efficiency Retrofits ("DEFENDER") to assess the benefits of different energy-saving interventions on a range of archetype buildings. By gaining a greater understanding of the energy requirements we can help illustrate which interventions are likely to be cost effective to customers, and also whether the network benefits from reducing electricity consumption could justify our investment in targeted energy efficiency schemes.	• For RIIO-ED2, NGED intends to ensure that power cuts will be at their lowest ever levels and customer satisfaction will be at its highest at over 93%. Crucially, we will achieve all of this whilst maintaining affordability for our customers. • For RIIO-ED2, NGED has also committed to resolving at least 90% of complaints within one day and 99% of complaints within 31 days. • The Group will more than double our fuel poverty support, to help deliver over £60 million of savings for 113,000 fuel poor customers over the course of RIIO-ED2. • Maintain network reliability where on average power cuts are better than one interruption every two years lasting less than 24 minutes whilst utilising vulnerable customer data to prioritise network improvement schemes.

Delivering our strategic priorities (continued)

Grow our organisational capability

What this means	2022/23 achievements	Looking ahead
To deliver our part in a changing energy system, we are transforming our internal processes, strengthening our customer focus, and sharpening our commercial edge.	• In this rapidly changing energy sector, we have continued to build on our organisational capabilities. During RIIO-ED1, NGED transformed its network to accommodate a significant growth of distributed generation, with the capability to connect 53GW of generation on a network originally designed for 14GW of demand. Energy storage is increasingly being used alongside generation to store excess power and release it to the network at a later point in time. A total of 11.3 GW distribution generation is connected to our Group network to date, of which 7.5GW is low-carbon generation, an increase of 12% compared to last year. This includes biofuels, wind, solar, hydro and storage.	• NGED will undertake three regional collaboration trial schemes by 2025 involving gas, electricity, water, waste, transport and heating sectors. This will enable us in utilising whole systems approach for major reinforcement and to look across wider energy systems to provide capacity for the future needs of our customers in the most efficient way. • NGED is investing in our Planning State Estimation & Data Historian platforms, which will enable us to consolidate all our real time data sources into one place. This improved network visibility will enable us to improve operational decision making and our long-term planning.

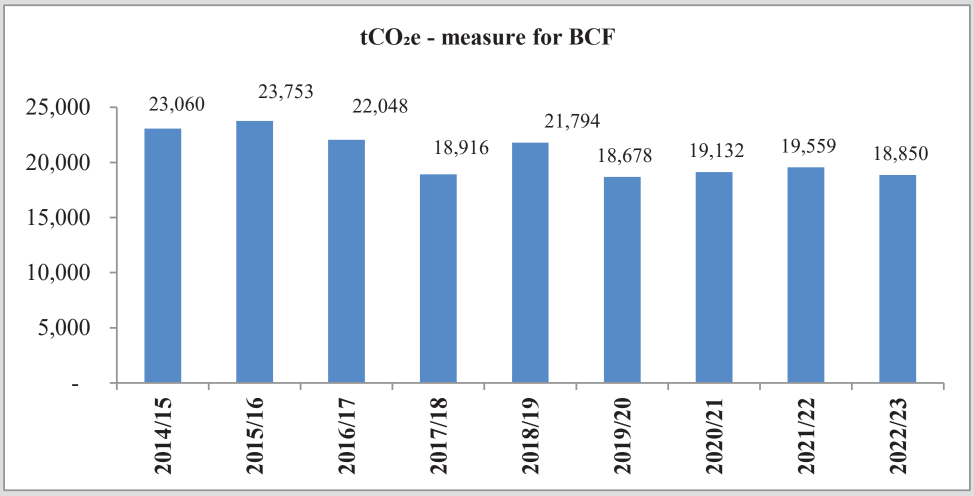
Empower our people for great performance

What this means	2022/23 achievements	Looking ahead
Our people shape the culture and ways of working needed to deliver outcomes that exceed the expectations of all our stakeholders. By attracting diverse talent and developing our people, we will ensure our colleagues are best placed to work towards a clean energy future.	• In response to results of NGED's employee survey 'Grid:voice', the Group developed an action plan which earmarked 37 areas of improvement and to date have completed 24 of them, with many others being ongoing areas of improvement. Our training journey during the year is one such area that was a direct result of feedback from Grid:voice. During the current year, the Group has significantly increased its training programmes covering a vast range of areas such as craft staff, apprentices, DSO, telecoms, graduate engineering, project management and data & digitalisation. NGED currently has 700 employees on formal training programmes, including those we are training ahead of need to ensure we are ready for the future. We have also introduced a range of courses to widen the development opportunities for colleagues.	• We intend to continue achieving year on year improvements to the levels of diversity within the business and publish an annually updated Diversity, Equity and Inclusion Action Plan ("DE&1"). We also will review our processes to further embed DE&I training as part of the induction.

Delivering our strategic priorities (continued)

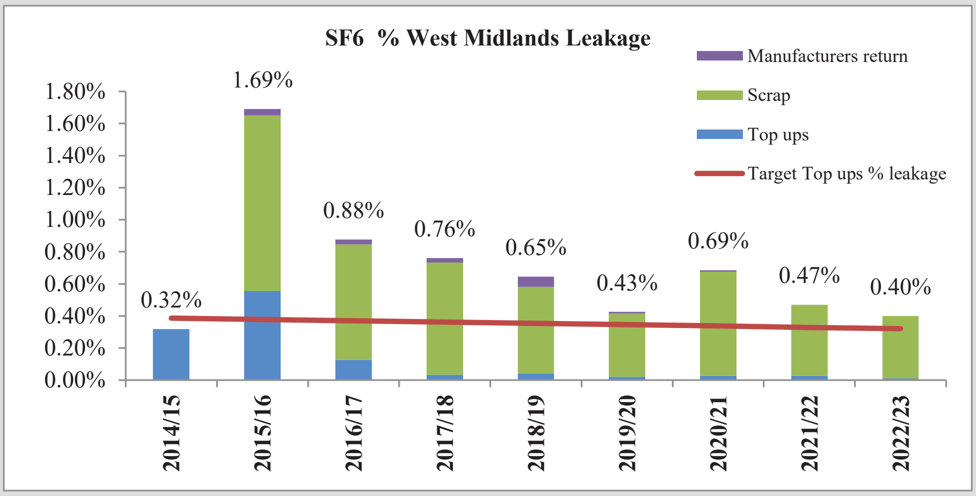
Empower our people for great performance		
What this means	**2022/23 achievements**	**Looking ahead**
Our people shape the culture and ways of working needed to deliver outcomes that exceed the expectations of all our stakeholders. By attracting diverse talent and developing our people, we will ensure our colleagues are best placed to work towards a clean energy future.	• We launched a new training scheme called Power Network Craft Assistant (“PNCA”), specifically aimed at people who have left school without or with minimal qualification. This scheme provides a paid 12-15 months training programme, following which a craft assistant job will be offered. NGED appointed 16 employees in the current year under this scheme. • With an aim of preparing our colleagues for the challenges of RIIO-ED2 and further evolving our culture, we have designed a new training programme for our managers called 'Building High Performing Teams'. 280 managers across the NGED Group are scheduled to undertake a six month training programme to support them in their leadership role.	• We will continue to promote and expand internal traineeships for colleagues. A new training programme that is to be implemented next year is for technician development. In addition we are also continuing with our High Performing Teams leadership programme providing soft skills training for front line people managers. We will also continue to run DE&I training for all people managers, as well as a diversity training workshop with MindGym for senior leaders.
	• A 'Safe to Say' initiative was launched to ensure that all colleagues have a voice and feel safe and empowered to raise a concern or idea, either directly or in confidence. • During the year, we have placed great focus on the well-being of our colleagues, in particular relating to mental health. This includes recruiting over 200 mental health first aiders who are being trained to provide support across the business.	• We will continue to utilise our annual Grid:voice survey and our interim Pulse survey to identify areas of improvement, with the aim of ensuring that NGED continues to be a great place to work.

Key performance indicators (KPIs)

Enable the energy transition for all	
KPI	**Performance and comments**
Business carbon footprint ("BCF")	 Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO_2") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO_2e"). We currently report a number of scope 3 emissions including contractor emissions and business mileage (road rail, air). NGED West Midlands follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") carbon reporting guidance, the 2020 UK Government GHG Conversion Factors for company reporting and ISO14064-3. Our BCF has reduced by 18% (2021/22: 15%) since 2014/15. For details on methodology for calculation of our BCF refer to page 62.

Key performance indicators (KPIs) (continued)

Enable the energy transition for all	
KPI	**Performance and comments**
SF6 emissions (emissions as % of SF6 bank)	SF6 gas is used throughout our industry as an insulating medium in switchgear. Although it provides many benefits it is a potent greenhouse gas. There are currently no viable alternatives to SF6. Therefore we continuously monitor our SF6 emissions. The amount of SF6 emitted is expressed as a percentage of the overall 'bank' of SF6 contained within our switchgear, as this will vary over the period of RIIO-ED1. The target is based on an average of emissions between 2009/10 and 2010/11.

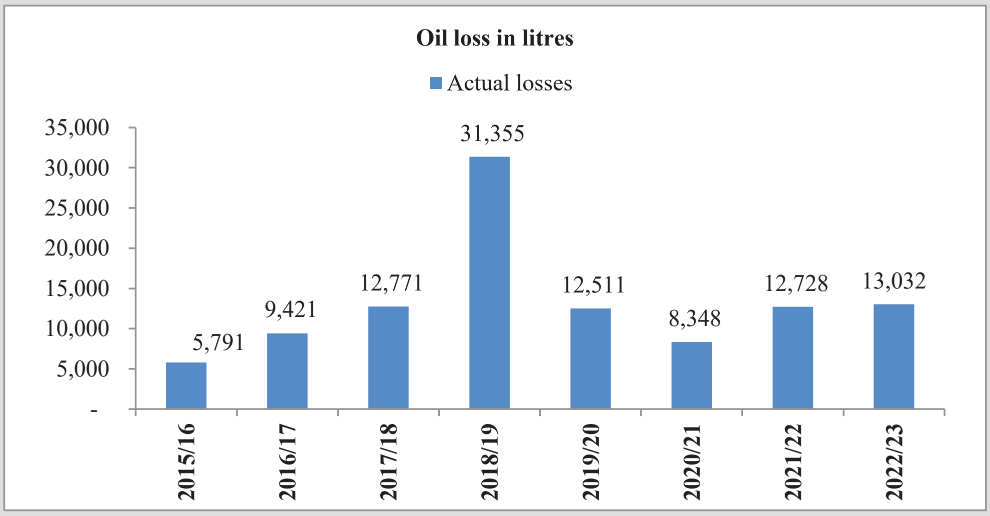


NGED Group's current target is a 17% reduction over the RIIO-ED1 period. The target was set at the start of RIIO-ED1 and relates only to top ups % leakage as the scrap and manufacturers return data was not compiled at that time. This target has been achieved.

When replacing switchgear, we give priority to the switchgear with the highest leak rates. Within RIIO-ED1, we have committed to replacing any 11kV distribution assets that show signs of leakage and any higher voltage assets that have leaked three times. When a leak becomes apparent we locate its source so that a strategy can be developed to manage the situation, taking into account the potential for repairs and the lead times for replacement switchgear.

Key performance indicators (KPIs) (continued)

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

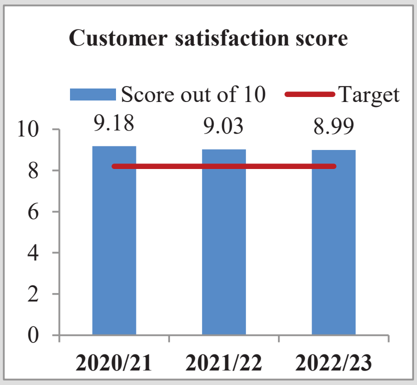


The losses from NGED West Midlands' fluid filled cables can vary from year to year generally dependent on the number of small leaks at disparate locations. The increase in the current year is mainly due to three big events i.e. Bustleholm Kingstanding losing 4,314 litres, Kitwell / Longbridge 3 losing 1,665 litres and Lye / Dudley (Lye) losing 1,934 litres. Older styles of electricity cables containing oil occasionally leak when equipment is damaged, seals deteriorate or as a result of changing ground conditions (wet to dry). Replacement programmes for the older styles of cables have been planned. The Environment Agency ("EA") and Natural Resources Wales is kept fully informed of the oil losses, and we continue to operate under the EA Fluid Filled Cable Operating Code of Practice.

Key performance indicators (KPIs) (continued)

Deliver for our customers efficiently	
KPI	**Performance and comments**

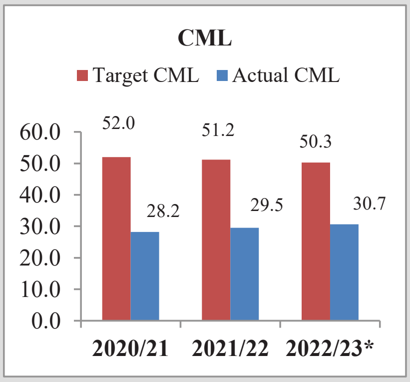
Overall customer satisfaction (NGED Group)



As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connection quotations and delivery, interruptions and general enquiries. The customer satisfaction score is given out of 10. For NGED's four licence areas around 21,000 customers are surveyed per year.

NGED continues to deliver levels of customers service significantly above the baseline set for RIIO-ED1 and continues to earn high levels of incentives rewards under the BMCS by outperforming the 8.2 target.

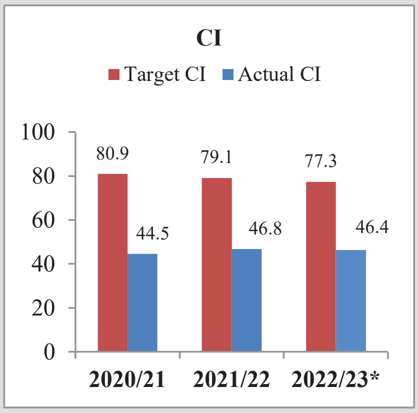
Customer minutes lost ("CML")



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

*The 2022/23 actuals are subject to Ofgem confirmation.

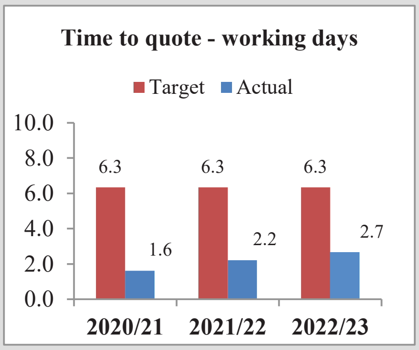
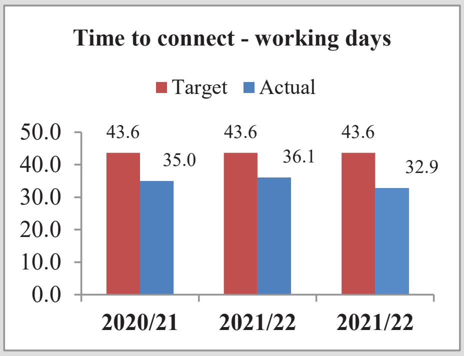
Number of customer interruptions ("CI")

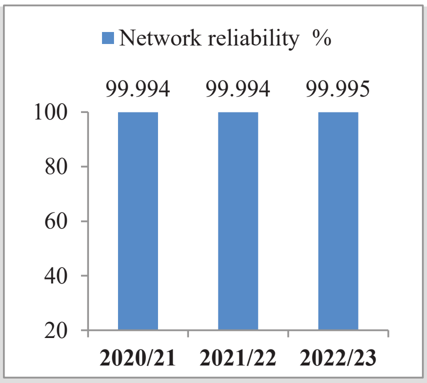


CI represents supply interruptions experienced by connected customers, per 100 customers. Adjustment for exceptional one off events that are outside the control of DNOs is allowed by Ofgem. The targets are defined by Ofgem at each DNO level. Year on year the Company is performing better than its targets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

*The 2022/23 actuals are subject to Ofgem confirmation.

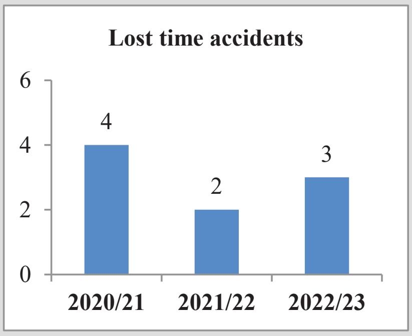
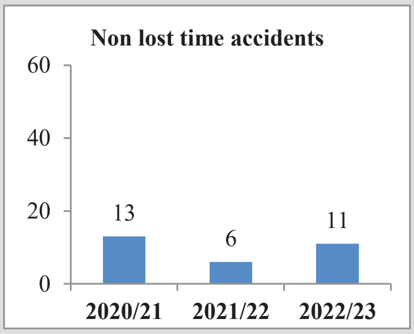
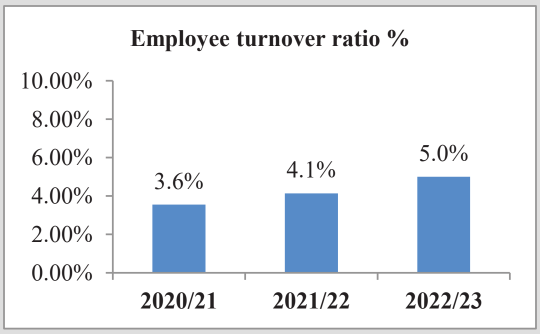
Key performance indicators (KPIs) (continued)

Deliver for our customers efficiently	
KPI	**Performance and comments**
Connections	  Ofgem set's the targets for the overall "time to quote" and "time to connect" for single domestic connections and small commercial connections. LVSSA customers are those seeking single domestic connections requiring no mains work at low voltage. LVSSB customers are those seeking two to four domestic connections or one-off commercial connections at low voltage requiring no network reinforcement work. The above target is an average of the Ofgem target for LVSSA and LVSSB.

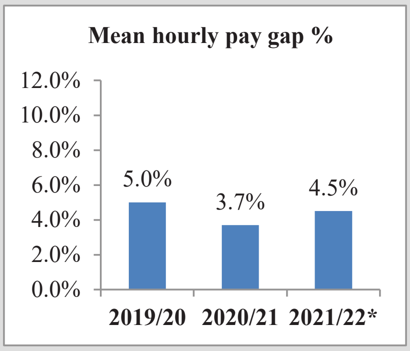
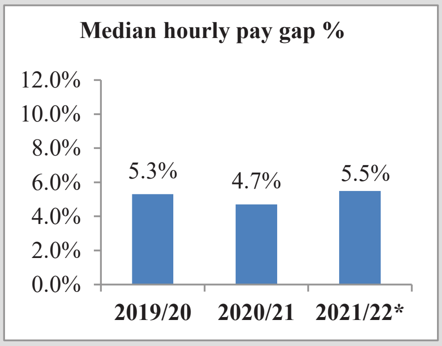
Grow our organisational capability	
KPI	**Performance and comments**
Network reliability (NGED Group)	 We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans. The table represents our consolidated performance across our four regions.

Key performance indicators (KPIs) (continued)

Empower our people for great performance

KPI	Performance and comments
Level of work related accidents	  NGED Group's lost time accident frequency rate based on working hours as at 31 March 2023 was at 0.076 (2022: 0.080). The total number of accidents to staff increased from 8 in 2021/22 to 14 in 2022/23. Electricity distribution carries inherent safety risks and the NGED directors are committed to the highest levels of safety in all areas. All accidents are investigated and appropriate safety communications are conducted with the relevant teams. Our accident categorisation system focuses on actual or potential for harm, allowing NGED to be more effective in its investigation and root cause analysis of accidents. We ensure that all our planned safety inspection and maintenance programmes are completed during the year. NGED also monitors the overall rate of accidents per 100 employees (as reported to Ofgem). The accident rate for the NGED Group for 2022/23 is 0.72 (2021/22: 0.62) outperforming the RIIO-ED1 target of 1.61. Further details on our performance reporting to Ofgem regarding safety can be found at the link below: https://www.nationalgrid.co.uk/performance-reporting-riio-ed1
Employee turnover ratio (NGED Group)	 There has been a increase in the year on year turnover ratio. This is mainly due to voluntarily leavers aged 55 years or below.

Key performance indicators (KPIs) (continued)

Empower our people for great performance	
KPI	**Performance and comments**
Employee gender pay gap *Note: We have amended our disclosure from prior year to reflect the entity position instead of the NGED Group position. This is to align with our statutory reporting on gender pay gap.*	  *2021/22 are the latest available results and is for data on snapshot date of 05 April 2022. The report for snapshot date of April 2023 will be available by April 2024. Whilst the mean hourly pay gap has declined, the mean incentive pay gap in 2022 has improved significantly to 34.8% from 71.6% in 2021. Our full gender pay gap report can be found at link below: https://www.nationalgrid.com/careers/understanding-our-uk-gender-pay-gap

Business review

We have completed the RIIO-ED1 price control period in a position of strength, outperforming the majority of our RIIO-ED1 business plan commitments. In the year 2022/2023, we continued to deliver excellent service for our 8 million customers, whilst developing plans for the next price control. We have continued to beat our targets for customer minutes lost and customer interruptions by 39% (2021/22: 42%) and 40% (2021/22: 41%) respectively, accident rates is at 0.72 (2021/22: 0.62) accidents per 100 staff for the Group against RIIO-ED1 target of 1.61 and our Business Carbon Footprint ("BCF") has reduced by 18% (2021/22: 15%) since 2014/15.

As energy prices continue to rise steeply it is more important than ever that we keep customers updated on ways to save energy and manage their use more effectively. Some customers on low incomes cannot afford to effectively heat their properties – and those who were previously 'just about managing' may have been tipped in to fuel poverty by soaring energy prices and inflation. With its various fuel poverty schemes, the NGED Group has supported over 24,000 fuel poor customers, leading to an estimated annual saving of £20.6m for these customers. Further, the Group annual community funding was increased from £1m to £3.8m in the current year and was awarded to 759 organisations benefitting almost 400,000 people in our communities. Our community funding is tailored to support communities at the grassroots level, ensuring that support is given to those most in need of help. We were proud to have been recently recognised for our work, earning a Gold Award at the Chartered Institute of Public Relations ("CIPR") Pride Awards in the Community Relations Campaign Category for our Community Matters Fund fuel poverty support programme.

Business review (continued)

Our hard work during the year is reflected in our excellent performance against the Broad Measure of Customer Satisfaction ("BMCS") results scoring 8.99 (2021/22: 9.03) out of 10 overall for the Group, outperforming the 8.2 target.

A comprehensive view of our progress against the full range of commitments made within the RIIO-ED1 business plan, including expenditure, can be found on our website at the link below:
NGED Your Power Future - Performance reporting - RIIO - ED1 (nationalgrid.co.uk)

As the Government now focuses on energy security and affordability, as well as decarbonisation, we embrace our role in delivering the energy system of the future. Decarbonisation of energy will lead to greater electricity demand meaning that we will need to provide more power through the distribution network. Our Distribution System Operator ("DSO") function has continued to identify where we can adopt alternative arrangements to defer reinforcing the network. In the light of the current energy crisis, it is our objective to keep our proportion of the customers' bills as low as possible and minimise the requirement for load-related reinforcement by adopting a 'flexibility first' approach in order to maximise the utilisation of the existing network. We have established innovative processes for procuring and using flexibility services as an alternative to conventional network reinforcement which allows customers to connect more quickly and at a lower cost. The amount of contracted flexibility services for the Group under contract is 763.49MW as at 31 March 2023.

For the second year in a row NGED has proved it's changing the face of the electricity industry by scooping the Disruptor of the Year award at the 2022 Utility Week Awards for our 'Take Charge' innovation project. This project has developed new technology to deliver the electrical capacity to power 80 rapid EV charges at a single service station site in a compact modular format. It is an innovative solution that brings the equivalent of the "electrical capacity of a small town" to each motorway services. We were also nominated for our EQUINOX project, which is a first of its kind helping the energy industry to decarbonise heat for customers in the most cost-efficient manner.

Energy supplier failures

Since the beginning of 2021, 31 energy companies have ceased trading, leaving over two million customers dependent on the safety net provided by the market regulator, Ofgem, to maintain their supplies and protect their credit balances while it moves them to a new supplier. Supplier failures impact the DNOs in the following areas:

Last Resort Supply Payment ("LRSP") claim

When a supplier fails, Ofgem ensures continuity of supply to the failed supplier's customers by appointing a Supplier of Last Resort ("SoLR") to supply the failed supplier's customers at short notice. The SoLR may then recover certain costs from the Distribution Network Operators ("DNOs") via a Last Resort Supply Payment ("LRSP") claim. Each DNO is then able to recover those costs via its Distribution Use of System ("DUoS") charges which are levied across all suppliers. Essentially these claims are a pass through cost for the DNOs. The total SoLR claims received during the year amounted to £22.9m (2021/22: £83.9). These claims will be payable to suppliers from March 2023-March 2024, with associated revenue being recovered through DUoS tariffs from April 2023-March 2024. Claims received last year were paid in the current year, with majority of associated revenue also recovered in the current year. Refer page 20 for details on turnover.

Bad debts

Another impact for the DNOs is bad debts incurred in relation to DUoS charges up to the date of the supplier failure. Ofgem regulations allow for full recoverability of credit losses on DUoS debtors, provided certain credit management protocols are performed in accordance with industry standards as governed by the Distribution Connection and Use of System Agreements ("DCUSA"), thus minimising any potential credit risk to the Group. The recoverability for the Group occurs through an increase in DUoS charges.

Business review (continued)

Financial highlights

Financial measure	2022/23 (£m)	2021/22 (£m)	% change	Performance and comments
Revenue	670.0	599.0	12%	Our allowed revenues are set in accordance with our regulatory price control. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from this estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences. If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. The increase in the revenue during the year is mainly due to recovery of LRSP claims paid, through increased DUoS revenue during the year. The revenue recovered for LRSP claims amounts to £82.3m. This does not result in a corresponding increase in profit as the payment of LRSP claims increases the operating costs during the year.
Profit before taxation ("PBT")	259.9	260.3	0%	As part of the regulatory process Ofgem sets the allowed rate of return within each price control which for RIIO-ED1 is set at 6.4%. As evident from the level of capital expenditure below, NGED West Midlands invests in excess of profits back into the networks to ensure that we continue to provide an efficient, reliable and secure service to our customers.

Business review (continued)

Financial highlights (continued)

Financial measure	2022/23 (£m)	2021/22 (£m)	% change	Performance and comments
Fixed asset additions	354.3	331.5	7%	NGED West Midlands operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure as is evident from the total extent of our capital expenditure, as well as an increase during the year. Due to the age of the network and technological advancements significant investment is required in capital related activities. During the RIIO-ED1 period we have invested £2.4bn in capital related activities.
Cash generated from operations	338.4	390.9	-13%	The movement in cash generated from operations is driven by adverse changes in working capital.
Regulatory asset value ("RAV")* * Because of timing, the 2022/23 RAV used in these calculations is the latest draft and not finalised value. As directed by Ofgem, the RAV is calculated using an average of March 2023 and April 2023 inflation.	3,380.9	2,949.8		RAV is a regulatory concept to represent assets with a long term life. It is essentially equivalent to the net book value of the fixed assets of the business only calculated in regulatory terms using methodology provided by Ofgem. It is an important measure for all DNOs as the allowed revenue in any year includes a return on RAV and amortisation of RAV as determined by Ofgem. Other important measures such as gearing ratios and recoverable amounts of DNOs with respect to impairment calculations are calculated using RAV. Movement in RAV is largely driven by additions to our RAV during the year which are based on 80% of our total expenditure ("totex") calculated in accordance with methodology provided by Ofgem and after application of the totex incentive. Note, the differences in methodology between IFRS and regulatory guidance have accumulated over time and as such cannot be reconciled.
Gearing	**2022/23 (£m)**	**2021/22 (£m)**		Gearing for the Company is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the revolving credit facility covenants for several of the NGED companies and is used as a key internal measure. To comply with bank covenants the gearing ratio does not exceed 85%. The regulatory gearing target for RIIO-ED1 was 65% and is 60% for RIIO-ED2.
Net debt*	1,569.3	1,562.8		
RAV	3,380.9	2,949.8		
Net debt to RAV	46.4%	53.0%		
*Refer to note 18 on page 107.				

Business review (continued)

Financial highlights (continued)

Interest cover	**2022/23 (£m)**	**2021/22 (£m)**
PBT	259.9	260.3
Interest payable	82.5	79.5
Depreciation	85.5	81.0
Amortisation-intangible assets	0.7	0.6
EBITDA	428.6	421.4
Interest payable	82.5	79.5
Interest cover	5.2	5.3

A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for the Company. It is also used as a key internal indicator of the financial health of the DNO. In order to comply with bank covenants the interest cover ratio cannot fall below 3:1; our interest cover ratio is at an acceptable level and shows a sufficient level of earnings to cover interest payments.

Return on equity ("ROE")	**2022/23 %**	**2021/22 %**
Base return	9.6%	9.6%
Totex incentive mechanism	1.3%	-1.1%
Other revenue incentives	3.2%	3.5%
ROE	14.1%	12.0%

Our ROE is based on the allowed regulated return on equity. Regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

As part of the regulatory process Ofgem sets the allowed rate of return within each price control which for RIIO-ED1, is set at 6.4%. Base return ROE for the year, normalised for a long-run inflation rate of 3% (2022: 3%) was 9.6% (2022: 9.6%).

Totex incentive mechanism relate to sharing of any under or over spend on our allowances through our adjustment to allowed revenue in future years. 2022/23 totex incentives includes a 0.4% reduction adjustment for ED1 green recovery projects. Ofgem have confirmed that no new allowances will be given in RIIO-ED2 but projects can be completed using allowances received in base allowances in RIIO-ED1. Further spend is forecast in 2023/24 to complete these projects, therefore the 2022/23 ROE has been adjusted to align the 2023/24 spend with 2022/23 allowances. This ROE adjustment is expected to be unwound in 2023/24.

Incentive performance has remained high year on year.

Note: ROE is a performance measure based on the allowed regulated return on equity and cannot be reconciled to any statutory measure. In the current year, ROE has been included as an APM to reflect our performance within the regulatory regime and to align with performance reporting by our ultimate parent company, National Grid Plc.

Strategic report (continued)

For the year ended 31 March 2023

Our business environment

We are committed to delivering net zero whilst ensuring fairness and affordability for customers. Through our work with governments and regulators, we are delivering infrastructure investments and shaping policy to realise climate goals.

	Impact on our industry	Our response
Fairness and affordability We are committed to delivering energy safely, reliably and affordably to the communities we serve. We will play our role in ensuring no one is left behind in the short term due to increased energy prices, or in the longer-term transition to clean energy.	• Energy price volatility has been a significant driver of inflation in the UK. In 2022, consumer price inflation reached 11.1%, a 41-year high. • Government has protected customers from worst extent of energy price volatility through support schemes and have announced their intentions to review policy and markets to support consumers in the long term.	NGED has an established social contract which acts as a focal point for our business to deliver greater social and environmental benefits, giving strategic direction to our promise to do the right thing for our customers. As part of our social contract, we have various fairness and affordability initiatives as outlined below: • During the year, NGED awarded a £2.5m fund to help those in fuel poverty, as part of our wider annual £3.8m Community Matters Fund. The Fund supported 319 organisations, providing savings for over 138,000 people in our communities. • NGED continues to partner with four fuel poverty organisations, one in each of our licence areas, to deliver the 'Power Up' scheme. The project helps customers by offering income and energy efficiency advice, such as benefits and grant applications and energy saving schemes. Customers are offered free, independent, confidential and impartial advice on a full range of interventions. The project works by partner organisations such as Citizens Advice taking referrals directly from NGED. Every customer contacted as part of our Priority Service Register ("PSR") calls are given the opportunity to be referred to a partner organisation, such as The Energy Savings Trust and the Centre for Sustainable Energy, for support. • In addition, NGED continues to partner with four community based organisations, one in each of our licence areas, to deliver an 'Affordable Warmth' fuel poverty scheme. Customers receive the same assistance and support as those referred to a Power Up partner but these customers are self-generated by Affordable Warmth partners and then are signed up to the PSR as part of the support package.

Our business environment (continued)

	Impact on our industry	Our response (continued)
Fairness and affordability (continued)		• We work closely with partners and our Customer Panel to improve services and identify innovative ways to support customers. We held our annual social obligations workshop in the current year in light of energy price rises and NGED's £113,000 Energy Affordability Fund ("EAF") has enabled six new innovative projects to find new ways of supporting customers in 2023, with a specific focus on designing and delivering interventions to widen participation in the smart energy transition and addressing digital exclusion. • In the year 2022/23, NGEDs EAF, Power Up and Affordable Warmth schemes contributed to the total 24,463 (2021/22: 25,928) customers who saved over £20.6m (2021/22: £14.6m). The NGED Group's fuel poverty support is the largest programme of any UK network company and has provided support to over 142,000 customers, helping them to save over £72 million over the course of RIIO-ED1.
Net Zero By connecting a growing volume of renewable generation and reducing our own greenhouse gas emissions, we are demonstrating our focus on enabling the energy transition.	• The Government's independent Net Zero Review stated that "significant governmental action is required to ensure that the UK achieves net zero in the best way possible for the economy and the public." • More than 90% of global Gross Domestic Product ("GDP") is now covered by a net zero target.	• Our two core strategic focus areas are, 'Becoming a Net Zero Organisation' and 'Ensuring we are environmentally responsible'. Following feedback from our customer engagement groups during 2022, we have now further refined our environment strategy so that we are now aligning our activities to additional UN Sustainable Development Goals, including 'Ensure access to affordable, reliable, sustainable and modern energy for all' and 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation'. • As part of Energy Network Association ("ENA"), we are working collaboratively with other DNOs to develop and implement a comprehensive tool to assess the impact of embedded carbon in relation to our assets and activities. • The NGED Group has increased the percentage of electric vehicles in its commercial and leased fleet by 5% during the current year.

Our business environment

	Impact on our industry	Our response (continued)
Net Zero (continued)		• By continuing with its vehicle replacement programme and raising awareness of the impact of driving style and the continued roll-out of our Driver Behavioural System (DBS), NGED has outperformed its RIIO-ED1 5% reduction target for annual fuel use by 9.8%. • We have signed a collaboration agreement with the charity, Heart of England Forestry, which will enable extensive tree planting, habitat restoration, biodiversity net gain and community involvement over the course of RIIO-ED2. • We completed a biodiversity foot printing report for our operational activities and our current supply chain. The report identifies the impact our operations have on biodiversity net gain. This will form the basis for our biodiversity strategy. • We are trialling the utilisation of a biodiversity net gain metric tool at around 20 substations to establish a baseline from which bespoke biodiversity management plans will be developed. • We have continued to work collaboratively with our waste management partners to significantly reduce the amount of waste disposed of to landfill. Three of our four licence areas continue to routinely report zero waste to landfill on a monthly basis. In 2022/23, 3.7% of waste from our operations is being sent to landfill as compared to 32.7% in 2014/15. • For further details on our actions relating to Net Zero, please refer our detailed environment and innovation report at link below: National Grid - Environment

Our business environment (continued)

	Impact on our industry	Our response
Decentralisation System flexibility and resilience are becoming increasingly important as the UK moves away from large centralised energy generation to a system of more geographically distributed intermittent energy sources.	• 2022 saw significant growth in electric vehicles, with sales growing by more than 25% in the UK. • Driven by policy and innovation, heat pump prices are reducing for consumers. • Ofgem's regulatory deal for RIIO-ED2 included funding to make network investments that will enable the rapid growth in electric vehicle chargers, heat pumps and batteries.	• Our DSO team has established flexibility markets that provide an alternative means of addressing network constraints. These harness the power of new technology and the ability of some network users to provide flexibility in their own consumption either by increasing, reducing or shifting their net import or export. Flexibility has the potential to manage capacity shortfalls economically and responsively until the need for conventional reinforcement is more certain. Our DSO is responsible for assessing which investment option is most efficient and economical, and does so using industry standard tools. It recommends the investment decision independent of the network owner function of the business. To enable this, we have completed the organisational changes to separate our DSO function from our DNO. If flexibility has been selected as the optimal choice, a formal process is used to tender for providers. We currently utilise a Dynamic Purchasing System to procure openly and competitively against our requirements. Before awarding contracts, the Distribution Network Options Assessment (DNOA) process will be triggered to ensure value is still being delivered to customers, given the final commercial terms. • We have made significant progress on the Equitable Novel Flexibility exchange ("EQUINOX") project to allow customers to play a part in a flexible energy future using heat pumps in their own homes. We have developed the novel commercial arrangements and supporting technologies needed to unlock flexibility from residential low carbon heating and recruited customers to take part in the largest trial of heat flexibility in the UK. The trial phase is now underway. This project is the first of its kind to aim to answer key questions on how electricity network operators can participate proactively in the decarbonisation of heat in the most cost-efficient way for customers, managing increased network demand while maintaining network reliability. The project will assist in the deferral or avoidance of network reinforcement due to the predicted dramatic uptake of heat pumps in the upcoming RIIO-ED2 price control period and beyond.

For the year ended 31 March 2023

Our business environment (continued)

	Impact on our industry	Our response
Digitalisation We’re bringing customers, employees, and assets together as we progress on our journey to being an intelligent, connected enterprise. Digitalisation supports our progress towards net zero targets and improves customer experience and value.	• Ofgem now requires DNOs to publish a network digitalisation strategy, and has announced its plans for the creation of “common digital energy infrastructure” to improve the efficiency and coordination of flexibility markets. • Supported by policy in the UK, networks’ investments in digitalisation will enable predicative maintenance, automate operations and control, and digital twins, making it easier to plan network expansion and make connection offers.	We launched our digitalisation strategy and action plan last year upon submission of our RIIO-ED2 business plan to Ofgem. Digitalisation of the energy system is at the heart of NGED’s transition to build a smart and efficient energy system, delivering net zero. Our focus is to achieve the best possible positive outcomes for our customers, by utilising innovative solutions and smarter working practices to drive efficiency in all we do and our digitalisation strategy sets the foundation for this. Our innovative new digitalised solutions and services will transform the way customers interact with us and with energy, providing them with real value. Some examples being below: • A new digital tool has been launched that allows customers to apply online to connect domestic electric vehicle chargers. It is an automated online application that provides a real-time response to the customers. By moving the process online, we are able to deal with significant volumes and responses are not restricted to normal working hours. The online digital tool launched for domestic electric vehicles will be extended to applications for other low carbon technologies (“LCTs”) as well, such heat pumps and domestic solar installations. We also have launched our online budget tool. Customers can now obtain an immediate budget estimate for low voltage connections by entering information into the budget estimate tool as opposed to having to send the information to a local planner. • We have extended our capabilities in relation to smart meter data by gathering high resolution voltage data for the first time and gathering anonymised load data at a more granular level. There are issues with low carbon technologies not being registered with the DNOs and without correct records, the accuracy of network planning will be affected. With the expected increase in load at low voltage from heat pumps and electric vehicle charge points, there is a risk that the degree of unbalance on a network can be significant. The Smart Meter Innovations and Test Network (“SMITN”) project is examining how the smart meter data can be used to solve the problems of missing or incorrect data for low voltage networks by applying algorithms to smart meter data in a novel way.

Distribution System Operator ("DSO") Function
Distribution System Operations is all about developing and operating a smarter and more flexible electricity system. To deliver benefits from this smarter approach requires not only investment in data, systems and processes to enable this capability, but also for this capability to be exploited. This is the role of the Distribution System Operator. Through RIIO-ED2 we will deliver a number of enhancements to broaden and deeper our DSO capabilities. Our three key roles as a DSO function are:

Planning and network development:
- Plan efficiently in the context of uncertainty, taking account of whole system outcomes, and promote planning data availability.

Network operation:
- Promote operational network visibility and data availability;
- Facilitate efficient dispatch of distribution flexibility services.

Market development
- Provide accurate, user-friendly and comprehensive market information;
- Embed simple, fair and transparent rules and processes for procuring distribution flexibility services.

To facilitate neutral markets we have identified functions and activities which are specifically related to DSO and functionally separated them within our business to avoid any potential for conflict between system operator and network owner. The DSO's key focus is to make decisions which enable capacity to be provided efficiently and economically, through creating competition in how that capacity is provided. The DNO is responsible for providing accurate data and information on its asset capability and current or historical network loading. The DNO's key focus is to invest in the data and smart grid technology which can be used by the DSO. Data and its exchange will be a significant enabler in the relationship between DNO and DSO and during RIIO-ED2 this needs to be codified. NGED will take a lead in this development.

The DSO is responsible for accurately sizing the investment in the new capacity required to serve the current and future needs. It is responsible for doing this efficiently through the use of flexibility, which may be provided by third parties or the DNO's own smart grid network. It will also direct traditional reinforcement where this is most efficient. We were the first DNO to commit to a six monthly procurement cycle for flexibility services through our customer facing flexibility brand, known as 'Flexible Power'. Using flexibility services we will build in competition, both against alternative options for managing constraints (such as reinforcement), as well as between providers. This aims to find the optimal solution for the network. Our Flexible Power product has been adopted by four other DNOs and is now a national tool for flexibility dispatch. Network Operators are able to see availability of flexible assets under contract and dispatch that flexibility to maintain the network within limits.

Our DSO Strategy can be found at the link below:
https://www.nationalgrid.co.uk/dso/dso-strategy

RIIO-ED2

The RIIO-ED2 price control period will cover the five year period from April 2023 to March 2028. All the DNOs, submitted their final business plan to Ofgem on 1 December 2021. Ofgem published its final determinations on 30 November 2022.

Following the final determination by Ofgem allowing NGED £5.9bn, we have prepared a RIIO-ED2 Delivery Plan, setting out how we will continue to improve on our already industry leading standards while adapting to the changing needs of our customers and the environment in which we operate. Our Business Plan for RIIO-ED1 (2015 to 2023), was ambitious and industry leading. Building on this impressive platform, we have listened to our stakeholders and will deliver an even bolder set of stretching commitments for RIIO-ED2, driving a smart, sustainable energy revolution for the communities we serve. The RIIO-ED2 delivery plan contains 42 ambitious core commitments and more than 400 wider commitments, all designed to achieve four crucial outcomes for our customers.

Sustainability : NGED will support the UK's ambitions to achieve net zero carbon emissions by 2050, driving crucial changes in energy usage and customer green behaviour. NGED will set the benchmark by achieving net zero in its own operations by 2043 (following a Science Based Target initiative) and will ensure the network is ready to enable local authorities to achieve similar ambitions in their regions. Last year, NGED was planning to achieve phased net zero targets, aiming to be net zero excluding network losses and scope 3 emission by 2028. However, following integration with the National Grid Group, instead of following the previous phased approach, NGED has now aligned its net zero target with the target of the National Grid Group and thus set one single target to be in line with the 1.5ºC Science Based Targets by 2043, The Science Based Targets include Scope 1 and Scope 2 emissions including network losses and thus is a step ahead of the initial 2028 target excluding network losses.

Connectability : A lack of network capacity should not be a barrier for our customers. NGED will ensure that the Group network can cater for up to 1.5 million additional electric vehicles, 600,000 heat pumps and a significant increase in renewable generation over the next five years.

Vulnerability: NGED will deliver a first class programme of inclusive support. This will include offering 600,000 smart energy action plans for vulnerable customers of the Group each year, ensuring no one is left behind in a smart future. NGED will also more than double our ground breaking fuel poverty support to deliver over £60 million of savings for 113,000 fuel poor customers over the course of RIIO-ED2.

Affordability: NGED will continue to deliver the highest standards of safety, reliability and customer service that customers have come to expect from us. NGED aims to keep the power cuts at their lowest ever levels, whilst targeting customer satisfaction at over 93%. Crucially NGED will achieve all of this while keeping our portion of the average domestic customer bill affordable.

NGED has developed a suite of wide ranging, dynamic, ambitious and interconnected strategies that will be implemented in RIIO-ED2. Each one is designed to contribute towards the delivery of our four overarching strategic outcomes we intend to achieve for our customers over the course of RIIO-ED2. Some of the key strategies developed by the Group in this regard are: Climate Resilience strategy, Digitalisation strategy and action plan, Net Zero Communities' strategy, Environment strategy and action plan, Workforce Resilience strategy, DSO strategy and Customer Vulnerability strategy. Each of our strategies is embedded across our operations.

RIIO-ED2 (continued)
In NGED's business plan submission to Ofgem, NGED had proposed to deliver the Group's commitments with a budget of £6.7 billion. Due to its proven track record of innovation development and roll out, NGED had embedded £700m of efficiency savings into the business plan. In its final determinations, Ofgem has allowed NGED £5.9 billion, the largest amount allowed of any DNO Group in the UK. The reduction in allowances relating to volume adjustments is around £200m, plus an efficiency challenge of £600m.

Ofgem has set a challenging price control for the next 5 years and we are required to be ambitious and significantly improve our services for our customers with a challenging asymmetrical incentive package in terms of rewards and penalties. Our strong track record of delivering excellent levels of performance for customers underpins confidence that we can build on the successes of RIIO-ED1 to deliver our holistic plans for RIIO-ED2. As we plan for the challenges of a rapidly changing energy market, we are more ambitious than ever. We want to exceed our customers' expectations and deliver a sustainable, reliable and innovative network for everybody.

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

This year the Innovation team has continued to deliver a varied portfolio of projects that focus on key areas of decarbonisation and net zero, heat, transport, data and communities/consumer vulnerability. New projects this year have included using data from smart meters to improve the energy use profiles for distribution substations used by network planners ("SMITN"), investigating the benefits of different energy efficiency measures on a set of building archetypes ("DEFENDER") and introducing real-time asset ratings into our active network management systems (Running cool).

Many projects have reached their final stages reflecting the end of the current price control period at the end of March 2023. From April 2023 onwards, the larger projects that were previously funded via the Network Innovation Competition will be replaced by the Strategic Innovation Fund ("SIF"). This has the advantage of breaking down these larger projects into Discovery Phase, Alpha and Beta phases so that the potential issues with ambitious projects can be identified earlier on in the process before significant costs are committed. NGED applied for 5 SIF projects, which have been approved and will be implemented in 2023/2024. The projects will cover a wide range of themes including developing a digital twin of our network to aid local energy planning, creating advanced flexibility services with water companies that can alter the times at which they use their pumps and using the ability of Electric Vehicles to reverse their power flow to supply energy to help vulnerable customers during outages.

NGED's Equinox project, which is investigating how flexibility can be included in the solutions that decarbonise domestic heating, has now started, being the largest heat flexibility trial in the UK.

Helping to understand consumers in a post pandemic world gave an insight into how our largest ever vulnerability led project, Vulnerability and Energy Networks, Identification and Consumption Evaluation ("VENICE") is exploring the problems surrounding vulnerable customers in light of COVID-19. The project was launched last year and so far has explained what makes a customer vulnerable, described the persistence of the effects of the pandemic on both our network and customers and has developed models that will inform the industry on the best ways to engage communities that are deemed fuel poor in the energy transition. Over the next few months, VENICE will be modelling an 'art of the possible' solution showing how smart meter data can be leveraged to help all consumers, our smart meter data analysis and business models will be finalised and a sandbox trial will be developed.

Innovation and Development (continued)

After a trial of more than three years, NGED's overhead line power pointer project has provided some exciting results. Our aim was to trial a self-powered device capable of providing real-time information on voltage, current power flows and conductor temperature. This information can be monitored remotely as monitors have built in communication; by using 4G sim cards we are able to send all this data from the overhead network back to our services and to network management system providing real time visibility of our overhead network. This project supports our commitment to net zero and sustainability as monitoring through this self powered device, that can be clipped on to overhead lines, will reduce the amount of resources required to locate the faults, remove the need to use the helicopter unit and also enable faster restoration of supplies. New ratings based on conductor temperature may release latent capacity in the network allowing more renewable generation to be connected.

The success of NGED's projects was also recognised with NGED's Take Charge project receiving the 2022 Utility Week Disruptor award. Take Charge developed a new type of compact primary substation that can be used to provide large capacity to support fast charging facilities at motorway services, where space for a traditional primary substation would not be available. Our Dynamic Charging of Vehicles project won the Energy Innovation Showcase award for Best Collaborative Initiative.

In June 2022, we held ‘28 to Zero', our first large scale in-person dissemination event after Covid. The event attracted more than 130 stakeholders. Leading industry experts gathered to explore some of the key challenges confronting the energy industry as it strives to deliver a fair low carbon future. This year we have had a record number of abstract submissions accepted for the international conference for electricity distribution (“CIRED”), which will allow us to share our learning with stakeholders all around the world.

The success of the dissemination event and our projects reflects our commitment to excellence. Being able to demonstrate the benefits from our projects and the value for money that they provide was essential to the RIIO-ED2 price control negotiations. Ofgem have authorised an £18m budget for Network Innovation Allowance projects for the next three years that will allow us to keep innovating.

Further details on our innovation projects can be found at the link below:
https://www.nationalgrid.co.uk/innovation

Internal controls and risk management

The National Grid Electricity Distribution Plc Board has overall responsibility for NGED’s system of risk management and internal control across the NGED Group. The NGED Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our stakeholders.

Managing our risks

The NGED Group is exposed to a range of uncertainties that could have a material adverse effect on its strategic objectives, financial condition, operational results, reputation, and its value. The Board sets and monitors the amount of risk the NGED Group is prepared to seek or accept in pursuing its strategic objectives, within the parent Company, National Grid Group’s risk appetite framework. The Board assesses the NGED Group’s Principal Risks ("GPRs") and monitors the risk management process through risk review sessions. These have taken place monthly at Executive meetings throughout the year and are reviewed twice per year by the NGED Board.

Internal controls and risk management (continued)

Managing our risks (continued)
Emerging risks ("ERs") are less defined than GPRs and typically do not pose an immediate threat. They are future focused, with a higher degree of uncertainty and are difficult to quantify; however, they could have the potential for significant impact and consequences and so threaten the future achievement of our strategy. Utilising future scenarios, horizon scanning and emerging risk assessments, we identify ERs and include the identification, assessment, response, and reporting of ERs in our risk management processes. Assessment includes the potential impact and velocity (time to impact) and our response is to then either watch, monitor or manage the risks that are reported to the NGED Board and Group's PRs using our emerging risk radar.

The risk management framework and process is further set out in our Corporate governance statement on page 50.

Actions during the year
The NGED risk profile continues to be managed by drawing upon the most significant risks across our business profile. This year we reviewed our risk management framework and principal risks to align better to the National Grid parent Company's Group Principal Risks along with our own business plan commitments. We assessed risks against the strategic business objectives of the ultimate parent Group, and devised a new set of principal risks for NGED, ensuring these were assessed in accordance with the parent Group Board's strategic objectives, risk appetite and associated key controls, which are clearly defined and assessed.

The rapidly evolving political and economic uncertainty continue to dominate, requiring very careful monitoring and assessment of our NGED Group's GPRs and ERs. The uncertainty has created an increase in the underlying (inherent) threat across our cyber, disruption of energy, political and societal expectations, and satisfactory regulatory risks, which we are continuously monitoring.

We developed our principal climate change risk during the year, establishing a discrete risk around our energy transition role; and further incorporated the physical impacts from climate change on our assets (adaptation) into our sustained loss of customer supply risk, to ensure a clear focus on the actions needed to mitigate these different risks. The "sustained loss of customer supply" risk focuses on significant disruptions of energy from network reliability and resilience issues across our operations.

Following the final determinations of the RIIO-ED2 price control, the executive directors revisited the NGED GPRs in January 2023, focussing on the delivery risk associated with the ED2 price control and increased scrutiny and complexity associated with regulatory and legal compliance risks. In the current ever changing economic and political climate, the directors are also focused on our risk relating to political and regulatory stakeholder and societal expectations. The GPRs are currently discussed monthly by the executive directors, to help maintain focus and alignment to the parent's risk appetite framework and to enhance the monitoring and mitigation of risks.

Internal controls over financial reporting
Periodic Sarbanes-Oxley ("SOX") reports regarding management's opinion on the effectiveness of internal control over financial reporting are received by the Board in advance of the full year results. Reports conclude the Group's compliance with the requirements of s404 of the Sarbanes-Oxley Act, and are received directly from the Group Controls Team; and through the Executive and Audit Committees. This is to satisfy the reporting requirements for the parent, National Grid plc.

Internal controls and risk management (continued)

Internal controls over financial reporting (continued)

We have specific internal mechanisms that govern the financial reporting process. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company. Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and prior year results. These are presented to, and reviewed by, senior management within our Finance function.

These reviews are supplemented by monthly business reviews attended by the National Grid Group CEO and CFO, during which financial and non-financial metrics are considered via analysis of performance contract scorecards. Deep dives on particular topics are driven by identified risks and opportunities.

The NGED risk profile is presented below:

Strategic risks

Risk	**Mitigating actions**
Capability and talent: There is a risk that we fail to attract, retain, equip and inspire the necessary diverse talent to lead our business and deliver our business plans and the pipeline of talent is not sufficiently strong to fill roles as colleagues retire. *Strategy link: Grow our organisational capability.*	We continue to evolve initiatives to secure future engineering talent, including through apprenticeships; and identify high potential talent in our teams to build capability through segmentation and analysis, and through leadership training. We continue to apply rigour in development and succession planning, including focus on diversity and inclusion through talent and development activities. In 2023, we will launch the global diversity, equality and inclusion strategy and resources aligned to the ultimate parent company, National Grid plc.
Energy transition role and delivery of net zero: There is a risk that we fail to meet our strategic principle of enabling the energy transition for all and that we fail to change sufficiently to enable the UK's transition to net zero or meet our own net zero commitments, because of planning to an incorrect strategic envelope, anticipatory investment arrangements not being acceptable to our regulators, implementing the wrong environmental plan, failure to meet customer expectations, and delivery. *Strategy link: Enable the energy transition for all.*	We continue to focus on our core priorities to improve our strategic planning capability and appraisal of various options in connection with the net zero delivery risk. We are developing flexibility in our network to manage and monitor our load risk, whilst we also adopt whole system coordination.

Internal controls and risk management (continued)

Strategic risks

Risk	Mitigating actions
Societal and Stakeholder expectations: There is a risk that we fail to understand and manage societal and stakeholder expectations of our business because of weak stakeholder engagement, leading to reputational damage or increased regulatory intervention. *Strategy link: Enable the energy transition for all.*	We continue to operate a number of stakeholder inclusive activities, including: • Customer Engagement Group ("CEG"), which reflects the needs and expectations of existing and future consumers in the development of its business plans; • Customer Panel representing a wide range of stakeholders, meeting quarterly to provide critical review of our performance, provide extensive expert knowledge and help steer our strategic priorities; • Annual workshops, surgeries and webinars to understand the needs of stakeholders and ensure these are aligned with our strategic priorities. We also deploy significant resources on: • Engaging with Ofgem on industry initiatives, new consultations and decisions; • Enhancing and consolidating our digital roadmap and social media channels; • Delivering on our Group commitment to be a responsible business.

Compliance risk

Risk	Mitigating actions
Regulatory and legal compliance: There is a risk that non-compliance with a regulatory licence or statutory obligation adversely impacts customers or stakeholders and leads to a significant fine or damaged reputation. *Strategy link: Grow our organisational capability.*	We manage and mitigate this risk through having a dedicated regulation and compliance team with skilled colleagues who track regulatory changes and provide advice on interpretation and on-going compliance plus associated updates and changes. There is regular dialogue with the ultimate parent's Board on political and regulatory developments that may impact the NGED Group. The Board monitors the senior management and executives' progress in ensuring compliance with changes to legislation.

Internal controls and risk management (continued)

Operational risks	
Risk	**Mitigating actions**
Significant injury or loss of life risk: There is a risk of significant injury or loss of life to employees, contractors or the public as a result of operational business activity because of a failure of a critical asset or system; or inadvertent or deliberate contact with the distribution network. This risk also includes similar safety impacts from environmental events. *Strategy link: Enable the energy transition for all.*	Our preventative and detective safety controls focus on: • A well-established risk management procedure including safety policies, procedures, standards, risk assessments and actions plans; • Competency and training at induction and on an ongoing basis; • A clear focus on safe behaviours including leadership level site safety visits, safety moments in our meetings, a 'Stand-up for Safety' campaign, and support for managers from the specialist safety professionals' team to develop and mature safe practices in the workplace; • Shared learning and action from significant safety incidents.
Cyber security incident: There is a risk that we fail to adequately anticipate and manage disruptive forces on our systems or to protect our systems from a cyber-incident that results in electricity outages for customers, loss of automated control of the electricity network, damage to assets, loss of data or compromised ability to provide critical customer services. *Strategy link: Grow our organisational capability.*	• We commit significant resources and financial investment to maintain the security and integrity of our systems, data and technology infrastructure by continually investing in strategies that are commensurate with the changing nature of the security landscape. • Stringent policies and procedures are in place to provide controls over network security, proactive threat intelligence gathering, asset monitoring and management, data integrity, back-ups and incident response. • We work collaboratively with our parent Company, leading edge Government agencies, and with cyberspace security frameworks to build resilience, incident response planning and contingency.
Sustained loss of customer supply: There is a risk that we fail to predict and respond to a significant asset failure or severe weather event which causes significant disruption to customer power supply and our asset performance or our service response is inadequate, leading to customer harm, lasting reputational damage, loss of franchise or damage to investor confidence. *Strategy link: Deliver for our customers efficiently*	Our planning and incident response controls are widespread across our assets, systems, communications and infrastructure including: • Installations and changes within a controlled change management framework and to industry leading standards; • Planned, effective maintenance of the network including preventative tree cutting programs; • Security and management of supply chain for strategic stock holding levels, delivery lead times and monitoring of market conditions; • Regular training sessions for our engineers; • Exercises and practise sessions to system emergency scenarios and response plans; • Physical and Logical resilience and response planning for extreme weather events and IT/Telecoms failures.

Internal controls and risk management (continued)

Operational risks	
Risk	**Mitigating actions**
Business transformation: There is a risk that we fail to identify and apply suitable technologies, practices and innovations to efficiently deliver our Price Control commitments, position our business for success in RIIO-ED2 and beyond and meet our business objectives. *Strategy link: Enable the energy transition for*	Key control areas to manage business transformation risk include: • A clear set of priorities and defined transformation outcomes; • A transformation plan; • Value levers; • Performance reporting; • Building capability and capacity fit for the future.
Delivering ED2 price control: There is a risk that we fail to deliver the price control within the allowed settlement revenue because of uncertainty over delivery mechanisms, supply chain issues, poor industrial relations, weak resource management or funding gaps, leading to reputational damage or increased regulatory intervention. *Strategy link: Enable the energy transition for all.*	To manage this risk we ensure we have: • An effective resourcing strategy; • Awareness programmes to help our colleagues understand the current regulatory deal and the consequences of our choices and deliverables; • Detailed plans of the volumes and variety of new initiatives we expect to deliver during the ED2 regulatory period; • Established the data, processes and technology that are needed to enable timely, accurate delivery and regulatory reporting.

Financial risks

While all risks have a direct or indirect financial impact, financial risks are those which relate to financial objectives and performance. Financial risk management is a critical process used to make investment decisions and aims to maximise investment returns and earnings for a given level of risk. None of our financial risks are currently classified as group principal risks. Refer to page 59 in the Director's report for details on our financial risks. The NGED Group's key financial risks are described in the NGED Group consolidated annual report for March 2023, available on our website.

Our commitment to being a responsible business

At National Grid, we are committed to doing the right thing, delivering social and environmental value for our colleagues, customers and wider society. It's enshrined in our purpose - Bring Energy to Life. We care about our customers and our communities, the way we engage and interact with our stakeholders and how we take responsibility within the communities we serve.

NGED has established a social contract that sets out how we do business in a way that actively benefits our region and the people we serve, both now and into the future. The social contract is a promise to listen actively to our communities and colleagues and act with integrity, contributing positive, locally-tailored solutions to the challenges they face. Structured around three key focus areas: our customers and communities, our people and our environment, our annual social contract update was published in January 2023. It includes a progress report and action plan, summarising activities delivered to date and our approach for the year ahead and can be found at the link below:
https://www.nationalgrid.co.uk/our-social-contract

Our commitment to being a responsible business (continued)

While the Social Contract provides a framework for us to make a local impact, our alignment with the United Nations Sustainable Development Goals demonstrates the crucial role our communities play in global society. It acts as a platform for our actions to be shared and up scaled to deliver even more benefits.

Customers and community

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

Some of the key outcomes in 2022/2023 were as follows:

- NGED awarded £3.8 million to local good causes via our shareholder-funded Community Matters Fund. This includes £2.5m to help tackle fuel poverty, £500,000 aimed at supporting mental health and social isolation, £500,000 focused on alleviating holiday hunger for school children and £300,000 awarded as a special Christmas fund to support the most vulnerable during the winter period.
- In addition to the Community Matters Fund, NGED has supported 127 charitable and non-charitable organisations by donating an additional £109,000 to good causes.
- NGED refurbished and redistributed 465 iPads to community organisations, supporting customers who are digitally excluded, providing devices along with mobile data and digital skills training.
- NGED's Science, Technology, Engineering and Maths ("STEM") ambassador programme has grown to 23 colleagues, who deliver outreach and education to students across our region. NGED has supported the Engineering Education Scheme Wales (“EESW”) Sixth Form Project, promising to give a wider understanding of the careers available through STEM. The project sees us partner with schools to set teams of students a STEM-based task, which they are asked to solve by researching, designing and building a prototype of their idea. The projects last around 6 months, where three NGED STEM ambassadors run them and have regular visits to answer student’s questions. The students are also given the opportunity to attend site visits. At the end, the students write a report and present their solved projects at the EESW awards event, where they have a chance to win awards for their prototypes and innovative idea.
- A pylon to power project that gives talks to students about the future of renewable energy took place during the year. Students were invited to learn more about renewables and also the history of coal energy. They also received a presentation from NGED about the distribution network. After the presentation, the students were tasked with designing and building their own towers during an activity led by the EESW.
- We provide safety information focussed on potential hazards and how to avoid them, so that our customers stay safe around our electrical assets. Our comprehensive education programme uses a range of activities to teach children about the importance of electrical safety. NGED's website Power Discovery Zone won the digital innovation award at the South Wales Argus Education Awards. The website contains fun education resources and promotes electrical safety, energy saving and renewable energy, with a ‘Circuit Squad’ of superhero characters.

Our commitment to being a responsible business (continued)

Customers and community (continued)

Customer vulnerability and fuel poverty

We currently support 643,000 customers on our Priority Services Register ("PSR") that records details about vulnerable customers so that additional tailored support can be provided when the customer contacts us or when their supply is interrupted. We have a dedicated team of people to proactively contact customers and check their details at least every two years to ensure that the register remains up-to-date. NGED continues to work with industry partners to develop processes to share data with other organisations that hold information about vulnerable customers, in line with data protection laws. NGED already sends PSR data monthly to six water companies and receives data from two of them and is working alongside industry colleagues to ensure two-way data sharing is in place with all water companies. Links have also been established with many organisations who act as 'referral partners' such as the British Red Cross to improve the understanding of the needs of vulnerable customers. These 180 referral partners (up from 149 last year) include charities, local authorities and health organisations who sign customers up to the PSR and share power cut resilience advice with their clients.

In light of the current cost of living crisis it remains vital that we keep customers updated on ways to save energy and manage their consumption more effectively. Some customers on low incomes may not be able to effectively heat their properties – and those who were previously 'just about managing' may have been tipped in to fuel poverty by soaring energy prices and inflation. NGED works with over 100 partner agencies to provide fuel poverty support and advice. Please refer to the "Fairness and Affordability" section on pages 23-24 for details on work done by us during the in the area of customer vulnerability and fuel poverty.

Our people

We are committed to being a stand out employer, attracting new talent to the electricity sector and driving the transition to net zero. While continuing to prioritise safety, health and wellbeing, we are focused on improving diversity, equity and inclusion, upskilling and empowering our people to thrive in their careers.

Health and Safety

The health and safety of our employees is paramount. Our commitment to this is reflected through our training programmes, policies, processes and procedures - all of which align with national and international standards and have been tested and implemented over many years. Our safety management system is ISO 45001, accredited and independently audited by National Quality Assurance each year.

We have an annual Safety, Health and Environment ("SHE") calendar and programme focussed on key topics identified from our annual SHE plan, employee feedback, accident statistics and, where appropriate, national programmes. We have collaborative working with our contractor organisations to ensure we share best practice, and all achieve the same SHE standards.

There is a culture of proactive colleague communications to share learning from incidents or events and we have regular safety surveys, for colleagues to share their views on the company's safety culture. There are regular meetings between managers and colleague representatives to discuss, agree and implement initiatives related to health and safety. There is proactive colleague communication to share learning from incidents or events. In addition this year, a "Safe to Say" initiative was launched with the aim of encouraging staff to use their voice and speak up without fear, being empowered to raise issues, flag concerns and offer ideas.

Our commitment to being a responsible business (continued)

Our people (continued)

Diversity, equity and inclusion ("DE&I")

It is important that our colleagues reflect the diverse communities we serve. By increasing the diversity of our organisation, we will be even better placed to represent these communities and to drive innovative solutions for all our customers.

We recognise that this remains a key challenge for our business; the electricity distribution industry as a whole continues to fall short of other sectors when it comes to colleague diversity. However, we refuse to be complacent and are committed to making significant changes to our approach, to see a real and sustained difference. We have therefore developed a DE&I strategy which we update annually to continue our progress in this area. Some examples of actions during the current year are as follows:

- appointing a Diversity Officer who drives our diversity and inclusion agenda and attends national events on best practice to recruit, support and retain diverse talent;
- launching new DE&I training courses for all people managers, helping equip them with the confidence to handle sensitive issues; requiring all new colleagues to review the DE&I policy and code of Ethics during the induction process;
- using an online applicant tracking system to anonymise applications and ensure recruitment and progression is based on merit;
- training managers and team members who sit on interview panels to recognise and overcome unconscious bias;
- reviewing our job vacancy advertisements to ensure the language is accessible, and assisting candidates who require adjustments;
- advertising external job roles more widely to attract more diverse candidates.

We also engage with a range of partner organisations to improve our approach to recruiting diverse talent:

- 10,000 Black Interns: a programme facilitating paid work experience, training and professional development for young Black people in the United Kingdom, across a range of industries.
- Change 100: a programme aiming to remove the workplace barriers experienced by disabled people through a programme of paid summer work placements, professional development and mentoring.
- Career Transition Partnership: an organisation providing resettlement services for those leaving the Royal Navy, Army, Royal Air Force and Marines.

Employee well being

We are driven to enable our teams to do their best, by feeling their best. We have several schemes that actively promote the mental and physical wellbeing of our colleagues and offer support when they need it, for example:

- Switched on to Health intranet, providing a wide range of resources or the health and wellbeing of our colleagues and managers;
- Access to NGED's in-house occupational health team and Employee Assistance Programmes. NGED's Employee Assistance Programme is a 24/7, confidential service providing free access to support and counselling across a range of issues, including family, legal, financial or work related difficulties;
- Monthly health communications which raise awareness and provide advice around different physical and mental health topics, based upon colleagues feedback and health monitoring programmes;
- Flexible working policies, providing support to eligible colleagues who wish to incorporate homeworking or flexible working;
- Proactive mental health provision including a mental health first aider programme and Employee Assistance Programme aligned to colleagues' feedback and health monitoring.

Our commitment to being a responsible business (continued)

Our people (continued)

Employee well being (continued)

In addition to initiatives for physical and mental wellbeing, we also provide enhanced maternity and paternity support, flexible working options and care for retirees and terminally ill colleagues. Recognising that significant life transitions can impact mental health and wellbeing, we strive to adopt leading policies that provide holistic support to our colleagues during difficult times.

For team members who are nearing retirement, we offer in-house retirement courses, pension support and pre-retirement leave to help individuals transition to leaving the workplace. To protect the rights of terminally ill colleagues, we are signatories of the 'Dying to Work' charter. We provide childcare vouchers, adoption leave, shared parental leave arrangements and keeping in touch days to encourage eligible colleagues to continue their careers while caring for a family.

Our environment

We are committed to leading in the net zero transition, setting an example for others to follow. While rapidly reducing emissions in our own operations, demonstrating excellent environmental performance and improving biodiversity at our sites, we are also helping others to achieve their own net zero ambitions. For further details on this refer pages 8, 24 and 25 of our Strategic report.

For its commitment to Net Zero, NGED has been listed as one of Europe's Climate Leaders for 2022 in the Financial Times-Statista list. More than 4,000 companies were scrutinised in terms of past emission reductions, current reporting standards and ratings as well as commitments for the future. NGED is featured as one of the 400 European Climate Leaders in 2022.

Since 2011, we've been working to an internationally agreed environmental standard (ISO 14001) to improve our environmental performance. To be certified to this standard, an organisation must consider all environmental issues relevant to its operations, such as air pollution, water and sewage issues, waste management, soil contamination, climate change mitigation and adaptation, and resource use and efficiency. This certification ensures we strive for continual improvement and innovation in our approach to the environment, while maintaining legal compliance.

This year, NGED supported its first team to compete in the Greenpower Challenge, a project that enables school children (aged 11-16) to design, build and race electric cars, with the help of NGED STEM ambassadors. The initiative focuses on renewable energy, recycled materials and the varied careers available in engineering.

We are working with third party organisations, such as local ecologists, to understand the impact of our activities on biodiversity. This includes increasing scrutiny of environmental and sustainability factors in our tendering process, and identifying areas in our business with the highest emissions, so that we can engage with suppliers and contractors to improve the impact of our supply chain on the environment. As part of National Grid's ongoing commitment to biodiversity and the environment, we plant native trees and shrubs across our operating regions each year, in partnership with The Conservation Volunteers. This year, we supported planting meadow flowers at Creswell Crags in Nottinghamshire - one of the most important Stone Age archaeological sites in Europe.

Our commitment to being a responsible business (continued)

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

Taxation
As part of the National Grid Group, NGED adopts a responsible approach to taxation aiming to comply with applicable tax legislation. Details of the approach are included in the National Grid tax strategy that is published annually and covers all businesses within the group. The tax strategy can be found on the National Grid website or using the link below:
https://www.nationalgrid.com/about-us/corporate-information/corporate-governance

For details of the Company's effective tax rate see note 8.

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

For our modern slavery statement, refer to the National Grid website or using the link below:
Modern Slavery Statement | National Grid Group

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

Task Force on Climate-related Financial Disclosures ("TCFD")
Refer to the Annual Report and Accounts of National Grid plc, pages 38-51 for TCFD disclosures, including climate related risks of National Grid Group.
https://www.nationalgrid.com/investors/resources/reports-plc

Strategic report (continued)

For the year ended 31 March 2023

Non-financial information statement

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

- Business model

Refer to pages 3-4.

- Environment

Refer to pages 8, 24,25 and 40 for details on our policy regarding the environment.
Refer to pages 12-14 for our KPIs in relation to environment.

- Employees

Refer to pages 38-40 for details on our policies regarding employees.
Refer to pages 17-18 for our KPIs in relation to employee satisfaction.

- Social matters

Refer to pages 37-38 in relation to details on our policies and activities in relation to our social responsibilities.

- Human rights

Refer to page 41.

- Anti-corruption and anti-bribery matters

Refer to page 41.

Section 172 Statement

Refer to pages 55-57 for the Section 172 statement.

Approved by the Board and signed on its behalf by:

Cordelia O'Hara
Director
30 June 2023

National Grid Electricity Distribution (West Midlands) plc
(formerly Western Power Distribution (West Midlands) plc)
Avonbank
Feeder Road
Bristol BS2 0TB

Corporate governance statement

For the year ended 31 March 2023

For the year ended 31 March 2023, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has adopted the Wates Corporate Governance Principles for Large Private Companies.

The principles below have been applied throughout the year ended 31 March 2023.

Purpose and leadership

Our purpose is to **Bring Energy to Life.** As described on pages 6-7 of the Strategic report, we work within the purpose, vision, values and strategy of the National Grid Group to ensure we are well positioned to respond to changes in the operating environment. The Board is responsible for oversight of the Company's strategy and has considered its development during the reporting period.

Our purpose, vision and values are the fundamentals of our business, they are what motivate us and drive how we behave to deliver our purpose in the rapidly changing energy sector.

At NGED West Midlands we care about all of our stakeholders. This is a fundamental attribute that allows us to fulfil and deliver our purpose to meet the needs and expectations of our stakeholders. We do this by listening and taking decisive action on what our stakeholders tell us.

Our purpose, vision and values are constantly reinforced to the workforce through various internal communications such as roadshow presentations from the President, our in-house magazine, regular intranet news updates, direct emails from the President and other executive directors of the Company and from the Chief Executive of the National Grid Group. The Board is confident that they have, throughout the organisation articulated that we are a purpose-led Company.

Each year, the President conducts roadshows throughout the Company. In addition, the President visits smaller workforce groups to monitor the alignment of the workforce culture with the Company's purpose. The other directors also actively engage with the workforce through informal and formal methods. This direct engagement enables the Company to get invaluable insights into the culture of the Company and its alignment to our core values. Our senior leadership conferences, presented by the President and other executive directors to the senior management, support open dialogue between the executives and the senior management team. This is an effective way of strengthening the feedback from senior managers and cascading key messages by the executive directors throughout the organisation and ensuring all colleagues can contribute to delivering the Company's purpose.

To support this, the directors have introduced a peer to peer recognition campaign 'Living our Values'. This campaign helps us celebrate colleagues from across our business at all levels, for actions big and small, that showcase the positive impact of our values in action.

Our leadership is driving the transformation in the energy sector, moving towards a smart, low carbon network to enable our communities to reach net zero, by connecting their renewable generation, electric vehicles and heat pumps. We are in a strong position to do this being part of the National Grid Group, the largest electricity transmission and distribution business in the UK, giving us a great platform to play our role in the future. The proactive involvement of the Board and the Company as a whole with our stakeholders, under the Boards leadership is detailed in the 'stakeholder relationships and engagement' section on pages 51-54.

Board composition

Balance and diversity

Reinforcing its commitment to sound corporate governance, the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level. At the year end, the Board consisted of four executive directors, two Group-appointed non-executive directors and two Sufficiently Independent Directors ("SIDs"). The non-executive directors are part of the senior management team of the NGED Group shareholder, National Grid, who between them provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector and external bodies. The size of the Board is aligned to the organisational structure of the Group with each executive director responsible for the oversight of its relevant area under the overall leadership of the President.

The designation of the executive director roles are the President, Chief Financial Officer, Operations Director, and Regulation & Corporate Director. All the executive directors are experienced in their respective roles and responsibilities.

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

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

In addition to regularly attending Board meetings, the SIDs regularly attend the Group's holding company board meetings and in doing so gain an understanding of matters at the group level and the views of the Shareholder.

Outside of formal meetings, the SIDS and the Group-appointed non-executive directors are provided with timely information and given access to relevant updates, including invitations to meetings, where they are encouraged to offer constructive feedback.

The SIDs and the Group-appointed non-executive directors have access to the Company Secretary and to legal advisors funded by the NGED Group. As with all Board members, the SID's and Group-appointed non-executive directors have the authority to request Board meetings.

As at 31 March 2023, the ratio of female directors on the board to 37.5%. Following the appointment of a female President for the NGED Group from 1 April 2023, the ratio increased to 57%. The Hampton-Alexander review, an independent voluntary and business-led initiative supported by the Government to increase the representation of women in senior leadership positions and on Boards, set a target of 33% women representation on FTSE 350 Boards and FTSE 350 senior leadership teams by the end of 2020. Although the Company is not required to do so it has exceeded this target.

Corporate governance statement (continued)
For the year ended 31 March 2023

Board composition (continued)

Balance and diversity (continued)
A detailed profile of our Board can be found on our website at the link below:
https://www.nationalgrid.co.uk/about-us/meet-our-executive-team

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

Chair
There is no permanent appointment of the Board's Chair, however, it is usual practice for the President to be appointed the Chair at each Board Meeting. The President is the President of Electricity Distribution within the National Grid Group management organisation and as such has extensive engagement with the shareholder. Through this engagement, the role is well placed to identify and facilitate the views of the ultimate shareholder. The Board believes this is a valuable part of the overall corporate governance framework which is appropriate for a subsidiary company that is part of a larger group and provides greater benefits than separating the roles of the Chair and President.

Appointments
The President is appointed by the Group shareholder, National Grid. The appointment of the President and the other directors follows the National Grid policy on the "Appointment of Directors of Subsidiary Companies Procedure" (the "Appointments Procedure"). This is to ensure that appointments and changes to the composition of the boards of directors of subsidiary companies within the National Grid Group are fully evaluated in a consistent manner that can be reviewed for compliance with statutory requirements. It also ensures an appropriate level of representation and the provision of the right skills and experience on relevant company boards.

Other executive directors, SIDs and Group-appointed non-executive director nominations and appointments are recommended and approved with the support of the President in line with the Appointments Procedure. The process followed for the nomination of these directors involves the consideration of the relevant skills, expertise, experience, professional background and various other personal attributes. The People & Governance Committee of the parent, National Grid is responsible for succession planning within the NGED Group.

Newly appointed directors undertake an induction programme which is tailored to their specific needs.

The Board ensures their knowledge is current and relevant through a variety of means such as attending training programmes and appropriate industry conferences, holding memberships of relevant institutes, completing technical training updates and attending meetings with various industry participants e.g. regulators and investors. The executive directors adopt a hands on leadership style and regularly meet with their management teams to ensure that they are updated on the latest business developments and have immediate access to the current information.

Corporate governance statement (continued)
For the year ended 31 March 2023

Directors' responsibility

Accountability and discharge of responsibilities

The Board maintains a schedule of matters specifically reserved for its consideration and decision. This is aligned, as appropriate, to that of the National Grid plc board with additional responsibilities as required by licence obligations. There are well-defined policies, as approved by the Board, clearly establishing the overall duties and liabilities of the directors, the areas of responsibility and accountability for each director and the process for delegation of authority. Policies have been established that define the framework within which we expect managers and the workforce to operate. These policies represent one of the means through which decisions on stakeholder interests are enacted and there is a robust process in place for the regular review and update of policies and processes to ensure they remain relevant and fit for purpose.

To support the Board, there is a Finance sub-committee and a Corporate governance sub-committee of the Board, to which the Board delegates defined duties under Terms of Reference and within a framework of the National Grid plc Delegation of Authority ("DoA"). Further detail on the work of the sub-committees can be found below.

There are four principal Board meetings scheduled each year. The Board meetings are generally scheduled and communicated well in advance to provide all directors with sufficient notice to attend the meetings. The matters to be considered throughout the annual board meeting schedule fulfil the Board's responsibilities in line with its statutory duties, licence obligations and its matters reserved for the Board.

If the need arises, the directors can call additional meetings at any time, organised through the Company Secretary. The Board receives and is updated on all key and important business information by the executive directors at the Board meetings.

Overall operational responsibility of the Company lies with the President. The President fulfils this responsibility in conjunction with and through oversight of the other executive directors and senior leadership. Until December 2022, regular formal meetings, known as the Executive Council, consisting of the President, Chief Financial Officer, Operations Directors, Regulation & Corporate Director, Director of Distribution System Operator and Director of SHE, Training and Engineering Policy, were conducted. From January 2023, this has been replaced with the President's Senior Leadership Group meetings. Senior Leadership Group meetings have a wider participation than the Executive Council and also include the Chief People Officer, Electricity Distribution Transformation Lead and Chief Information Officer. These meetings act as a forum for the discussion of business performance, strategic considerations and identification of matters to be considered by the Board. Other senior management may attend the meetings for the purpose of providing updates to the directors. Any key items are circulated and communicated to the Board in a timely manner.

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

Corporate governance statement (continued)

For the year ended 31 March 2023

Directors' responsibility (continued)

Accountability and discharge of responsibilities (continued)

The directors are conscious of the changing reporting and governance landscape and are committed to fulfilling their responsibilities effectively by ensuring that their skills and knowledge are refreshed and updated regularly. There is an established code of ethics policy of the Group which is adhered to by all the workforce including the executive directors.

The executive directors understand the importance of leading with integrity. The Group policy sets out potential conflicts of interest and at each Board meeting the directors disclose any potential conflicts of interest in any of the Group transactions or arrangements. In addition the Company Secretary administers an annual process, whereby the directors disclose any interests in related parties or any related party transactions.

Finance Committee

The Board has established a Finance Committee of the Board during the year. The Finance sub-committee is responsible for setting policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities, all subject to the risk appetite of the Board. It also approves other treasury, taxation and pension funding matters, as well as having responsibility for the governance of the Company's pension schemes and the Company's insurance strategies, and if appropriate, recommends these to the Board.

Membership of the sub-committee comprises the Chief Financial Officer and Group Treasurer and Director of Pensions of National Grid plc. The sub-committee interfaces with the Finance Committee of National Grid plc and the Board. During the year, the Finance sub-committee met three times.

Governance committee

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

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

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

Directors' responsibility (continued)

Accountability and discharge of responsibilities (continued)

The Company does not have an Audit & Risk Committee, Nominations Committee or Remuneration Committee as these functions are provided by National Grid plc – see the Annual Report and Accounts of National Grid plc (page 69) for information about the National Grid Group Audit Committee, People & Governance Committee (which covers the responsibilities of a typical Nominations Committee) and the Remuneration Committee.

https://www.nationalgrid.com/investors/resources/reports-plc

Integrity of information

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

Key financial information is taken from the our financial systems. Our finance team is appropriately qualified to ensure the integrity of this information and necessary training is provided to keep them up to date with statutory, regulatory and financial reporting requirements. NGED continues to operate a Sarbanes-Oxley ("the Act") compliance programme that is aligned to the needs of the parent company. In accordance with the requirements of the Act, our management team undertakes an annual assessment of internal controls over financial reporting. This includes ensuring all key financial processes have been documented with specific details on the controls in place. Key controls over financial reporting are periodically reviewed and tested by National Grid's corporate audit team.

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

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

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

Opportunity and risk

Opportunity

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

Opportunity and risk (continued)

Opportunity (continued)
The energy sector is undergoing a significant and exciting period of change as the UK works towards a net zero carbon future. Net zero cannot happen without us and the Board is fully aware of the fact that our leadership will directly impact the pace and efficiency with which it is achieved. Recognising this responsibility, the directors have ensured that our RIIO-ED2 business plan places us at the heart of this transition. The Board oversaw the development of NGED's RIIO-ED2 business plan and ensured the plan was constructed to take full account of the UK Government's published plans to achieve Net Zero Carbon Emissions by 2050. The directors ensured that the business plan was prepared with unprecedented levels of scrutiny and collaboration by engaging, directly and indirectly through senior management, in our largest ever stakeholder consultation process with a broad range of representatives.

NGED's skill and wide experience of adapting to change and investing in innovation has demonstrated our ability to adopt new technologies to create an ever more cost-effective electricity network. With final determination of the RIIO-ED2 business plan requiring significant efficiency challenges from the DNOs, the Board is focused on ensuring that we continue to make full use of and further develop our existing experience and expertise in innovation and flexibility services, as we provide consumers with the network strength to cope with a range of increased new demand and accommodate increased input from green power generation. The directors are focused on utilising digitalised solutions across our operations and aim to instil a culture that maximises every opportunity to work smarter for our customers. For details of achievements in the current year in areas of decentralisation and digitalisation refer to pages 26-27 of the Strategic report.

To enable stakeholders to achieve net zero, our business plan for 2023 to 2028 outlines how we will create a smart, flexible energy grid and facilitate the mass connection of LCTs including electric vehicle charging points, heat pumps and more locally sourced renewable generation. Many of these LCTs will be connected at lower voltages making it vital to ensure that there is sufficient capacity for the LCTs to connect. NGED will proactively identify parts of the network that are heavily loaded and provide more capacity. We will use smart meter data, increased amounts of network monitoring and enhanced analysis to identify where network reinforcement is required. We will also look at ways in which the LCT loads can be managed to make greatest use of existing network capacity which may involve steps including controlling when EVs are charged. Together these proactive actions will enable more LCTs to connect overall, in shorter timescales and at lower cost than if conventional reinforcement was required.

The Board is invested in ensuring that our own commitment to sustainability includes leading by example and reducing our own Business Carbon Footprint to net zero by 2043 in line with our verified 1.5ºC Science Based Target. This will be delivered by reducing the amount of waste we send to landfill, adopting electric vehicles across our transport fleet to reduce emissions, significantly reducing harmful gas and oil leaks from our equipment and ensuring we actually enhance the local environment by delivering a net gain in biodiversity for new major projects and at selected primary substations. Based on feedback from our stakeholders, small scale UK based offsetting will also be used. Our intention for RIIO-ED2 is to develop a broad portfolio of UK based offsetting including habitat creation, for example tree planting, peatland and sea grass restoration, as well as local community based offsetting schemes such as solar for schools. All of our offsetting schemes will be UK based within our licence areas and therefore bring direct and tangible benefit to our customers and the communities which we serve.

In the nation's move to decarbonisation, the directors are determined to achieve a sustainable energy future by delivering a dynamic, innovative and high functioning energy grid that stands ready to serve many generations to come.

Opportunity and risk (continued)

Risk

The NGED Board is responsible for the oversight of risk management and internal controls across the NGED group. The responsibility for the risk management framework and internal controls cascades from the President and the executive directors to senior management teams responsible for risk assessment and the implementation of appropriate mitigation. Managers are responsible for the identification of risks and the deployment of appropriate controls within their areas of responsibility. Policies are established, reviewed regularly and made available on the Group intranet to assist the managers with establishing an appropriate control environment. We consider the involvement of qualified and competent employees with the appropriate level of expertise throughout the business a key factor for implementing an effective internal control environment.

Risk management is embedded into the organisational structure, with specialist teams established to manage certain key risk areas. Specifically, we have long established teams reporting to senior managers responsible for health and safety, regulatory compliance, employee relations, cyber security, financial reporting and legal compliance. During the year, NGED started a change process to align its risk framework to the National Grid Group risk management framework with the support of a Head of Risk and Compliance secondee from the National Grid Group's Chief Risk Officer Function.

The Company's principal risks were reviewed and revised to align better to the three lines of defence model adopted by the National Grid Group and its risk management framework in terms of business risk objectives, taxonomy, common risk language and scoring scales. By the year end, NGED had established a revised set of principal risks, mitigating controls and an assurance plan aligned to the parent company's risk management framework. Consideration of principal and emerging risks and related decisions are undertaken by the Executive Council/Senior Leadership Group meetings. Monthly reporting to the Executive Council/Senior Leadership Group meetings of the principal risks under development for NGED has been made throughout the year. The Executive Council/Senior Leadership Group exercises suitable judgement as to any control decisions that merit Board attention. Emerging and principal risks are regularly reported to the Board facilitating the oversight of the risk management process of the Company. Pages 32 to 35 of the Strategic report outline the key risks and the related mitigating actions for the Company.

Remuneration

The remuneration of executive directors, including the role of President and of the Group-appointed non-executive directors is determined by the ultimate parent company, National Grid plc. Elements of directors' remuneration and further information on this is available from National Grid within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 90-106.

https://www.nationalgrid.com/investors/resources/reports-plc

The pay of the majority of NGED's wider workforce is negotiated and agreed upon with the recognised trade unions, with the aim to ensure that the terms and conditions are aligned to current industry practices and benchmarked against appropriate energy and comparator groups.

Stakeholder relations and engagement
The Board believes that the overall success of the business is dependent upon the way we work with our stakeholders and is fully committed to fostering effective stakeholder relationships that are aligned to the Company's purpose and strategy.

Our key stakeholders are customers, other network users, the workforce, regulators, suppliers and our shareholder. The Board actively promotes engagement and transparency with all these stakeholder groups and the executive directors ensure that a fair and balanced view of the Company's position is communicated to the relevant stakeholders. This is evident from the stakeholder engagement that is conducted for all our key initiatives and business commitments, recently, the most significant being the stakeholder engagement conducted in producing our RIIO-ED2 business plan before final submission to Ofgem on 1 December 2021. Using a co-creation approach, we developed the Business Plan from a blank sheet of paper, ensuring it is prepared with our customers, for our customers and contains ambitious, impactful commitments. For further details on our stakeholder engagement in relation to the RIIO-ED2 business plan, refer to our detailed business plan document which details how we built our plan with our stakeholders:
NGED Your Power Future - Further information on our plan (nationalgrid.co.uk)

Details of engagement with each our key stakeholder are as follows:

Customers
The Board strives to deliver the class-leading service our customers expect and is keen on continuing to support all our customers including our vulnerable customers. Some of the key customer engagement during the year is highlighted as below:

Customer panel
Our established customer panel meets quarterly and expert members represent a wide range of customers and key stakeholder groups. The panel is attended by the President and other directors and through the panel they seek honest and challenging customer views about the way we operate and our future plans. This level of engagement plays an important role in helping the Company achieve its purpose of delivering good value and quality service for its customers. This year the panel continued to run topic-specific surgeries between meetings, for example on social obligations and connections.

Stakeholder workshops and events
Annually NGED hosts an array of workshops, events, webinars and surgeries to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. These are attended by the directors and senior management, with all key information fed back to the Senior Leadership Group and the Board to ensure there is informed decision making.

In September and October 2022, NGED hosted six workshops across the region, focused on Ofgem's draft determinations for the RIIO-ED2 Business Plan. The workshops were designed to seek feedback from stakeholders on our commitments relating to a smart and flexible network, connections, community energy, innovation, environment and sustainability, customers in vulnerable situations, Social Contract, customer service, network resilience, safety, IT and cyber and workforce resilience.

In addition to the RIIO-ED2 workshops, many other topic-specific events were held for those interested in connections, low carbon technologies, community energy and local investment plans. To address the challenges of engaging with end customers, who often have little prior knowledge of NGED, we adopted an innovative tailored approach by developing customer knowledge over a prolonged period of research exercises and deliberative discussions. Customers have undergone a programme of research and focus groups over a number of years, enriching their understanding and ability to offer informed scrutiny of our plans.

Stakeholder relations and engagement (continued)

Customers (continued)

Stakeholder workshops and events (continued)
All these events and workshops welcomed stakeholders from a range of different backgrounds including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors. In total, during the year, NGED engaged with over 42,000 (2021/22: 44,000) stakeholders via a range of methods and delivered 308 (2021/22: 384) improvement actions based on feedback received.

Connections Customers Steering Group ("CCSG")
The ("CCSG") is held three times a year to help inform and guide our strategic objectives and future plans for connections services. The CCSG is chaired by one of our directors and is attended by connection stakeholders representing a cross-section of sectors. The CCSG covers a broad range of connections related topics and previously fed into the development of our Incentive Connections Engagement ("ICE") plan for Ofgem's RIIO-ED1 incentive. Going forward CCSG will now feed into our Major Connections Strategy for RIIO-ED2.

Customer engagement group ("CEG")
As part of RIIO-ED2's enhanced engagement, a Customer Engagement Group ("CEG") was established to scrutinise our business plan. NGED followed a robust, independent and transparent process to appoint all 14 members of the CEG. The CEG provided independent challenge to our business plan and reflected the needs and preferences of existing and future consumers, with a focus on affordability, the protection of vulnerable consumers, the environment, sustainability and the transition to a low carbon energy system. NGED has continued to retain five members on the CEG panel, as the RIIO-ED2 Monitoring Group to continue their oversight, remaining focussed on delivery of the RIIO-ED2 Business Plan.

Customer awareness campaign
Annually, NGED delivers an annual customer awareness campaign to customers, reminding them of who we are, what we do, how to contact us and offering useful advice on preparing for power cuts and joining the Priority Services Register ("PSR"). In the current year, we coincided our campaign with the rebrand of the Group, following acquisition by National Grid. This involved delivering leaflets to all homes and businesses in our operating region informing them of the change from Western Power Distribution to National Grid along with useful contact and power cut information. The campaign also included social media promotion. Over the winter period, NGED also delivered a further campaign centring specifically on being prepared in case of power cuts, with potential of outages heightened by adverse seasonal weather conditions. The campaign included a preparation checklist, with links to our online power cut map and signing up to the PSR, with advertising covering print media, social media and buses to extend its reach.

The directors' commitment and, in turn, that of senior management and the wider workforce, to being proactive in customer engagement is evident from the external assessment of customer service and engagement under the CSE Standard and BSI Standard for Inclusive Service Provision (BS18477). For CSE, NGED is the only company to have held the accreditation for 30 consecutive years and has achieved an impressive total of 47 out of 57 'Compliance Plus' ratings. NGED was also the first DNO group to achieve the BSI and has achieved 10 years of full compliance, the longest period for any company in UK. Far from providing just validation, accreditations such as the CSE Standard and the BSI Standard continue to drive improvements for our customers. They allow our strategies and processes to obtain critical external evaluation and ensure we receive recommendations for further improvement. This helps us to drive our standards even higher and continuously improve our customer service.

Stakeholder relations and engagement (continued)

The workforce

The directors recognise and acknowledge how critical our workforce is to our business performance and to achieving our vision to be at the heart of a clean, fair and affordable energy future. The directors are keen to understand how the workforce feel and how best we can support and develop them to ensure a happy and healthy workforce. The annual Grid:voice engagement survey provides insights into what is important to our colleagues and how they are feeling about the Company's strategy and leadership.

The results of the survey were presented to the Board and the feedback resulted in a 37 point action plan. The action plan is published on our intranet showing our progress against each of the 37 actions. Since publication of the action plan in summer 2022, 24 actions have now been completed, with many others being continuous areas of improvement.

The President accompanied by the Regulation & Corporate Director conducted 49 face-to-face roadshow events open to all colleagues across the Group, setting out our future as a business and inviting all colleagues to have the chance to ask questions personally. The roadshows provided an update on key events, performance to date, our integration with National Grid and also provided visibility of our strategic priorities in action whilst emphasising the vital role of the workforce in achieving those priorities.

In addition to the roadshows, senior leadership conferences conducted by the executive directors and our internal communications through our team briefs, colleagues' webinars and podcasts, in-house magazine, news bulletins and direct email updates from the executive directors, have all been used during the year to conduct meaningful engagement with the workforce. Through these communications, the workforce have been kept informed about key business updates and changes such as RIIO-ED2 and our integration with the wider National Grid Group. In ensuring that the integration to National Grid is smooth for our workforce, the directors launched Project Connect to share our purpose, vision, values and strategic priorities as we continued to integrate with National Grid. This also included information on how the wider group is organised and various other areas to help the workforce familiarise themselves with the National Grid Group.

Regulators

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

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

NGED's Director of SHE, Training and Engineering Policy is the chair of the National Health & Safety Committee ("HESAC"), (of which the HSE is a member), and attends the committee meetings. NGED aligns its internal safety campaigns to support HSE initiatives and their current 'Working Minds' campaign, as well as actively participating in the National HESAC led 'Powering Improvement' programme which is also supported by the HSE and Trade Unions. The President is also a director of the ENA and a member of the Roundtable for Europe's Energy Future ("REEF").

Annually the members of the senior leadership and management team attend the National SHE conference run by the ENA.

Stakeholder relations and engagement (continued)

Suppliers for our goods and services

Defined policies are in place for procurement of goods and services and associated supply chain management and engagement. We have a dedicated procurement team that assists with engagement with suppliers. The Operations Director has oversight responsibility for logistics, including the supply chain function. The Operations Director is supported by the NGED Logistics Manager and the ultimate parent, National Grid's UK Procurement Director. Key issues related to supply chain matters are reported and discussed at the Senior Leadership Group meetings.

We carry out payment performance reporting for suppliers. We are fair to our suppliers and committed to paying them promptly. On average we pay our suppliers in 19 days (2021/22: 18 days). Further details on payment performance for suppliers by NGED West Midlands can be found at the UK Government website at link below:

https://www.gov.uk/check-when-businesses-pay-invoices

Shareholder

The Board actively engages with our single shareholder, National Grid, on all key matters. As stated above, the Group-appointed non-executive board members of the Company are members of the National Grid plc senior management team. National Grid's executive directors and senior management has regular contact and dialogue with the Company's executive directors and senior management and all key information is fed back to the National Grid plc Board on a timely basis. There is a suite of financial management and regulatory reporting presented to National Grid on established timelines and regular financial and regulatory update meetings are conducted with National Grid's management team to provide updates on any key accounting, business, and legal issues. Additionally, as part of the National Grid Group plan, NGED's financial plan is presented to the National Grid plc Board for detailed review and approval on an annual basis. Any senior leadership events at National Grid are attended by the NGED President and other executive board members.

Section 172 statement

For the year ended 31 March 2023

The Board ensures that the directors have acted both individually and collectively in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs (a) to (f) of section 172. Details on this are set out below:

The likely consequence of any decision in the long term

Our long term success is intrinsically linked to our vision of a clean, fair and affordable energy future. We will achieve our vision by focusing on our four strategic priorities; enable energy transition for all, deliver for our customers efficiently, grow our organisational capability and empower our people for great performance. These strategic priorities clearly reflect that the Board is focused on promoting the success of the business by ensuring that the Company makes the provision of exceptional service to our customers and the communities we serve an absolute priority, at the same time ensuring that we support their environmental and social well-being.

The four strategic priorities form the basis of all the Board’s key decisions and these are monitored by the Board through established KPIs as detailed in the Strategic report on pages 12-18.

The Board recognises its responsibilities to each of the Company's stakeholder groups and to wider society. The directors endeavour to ascertain the interests and views of our stakeholders and consider these when taking decisions. The Board strives to balance the different priorities and interests of our stakeholders in a way compatible with the long-term, sustainable success of the business and which maintains a standard of business conduct aligned to our values and purpose.

Most engagement with key stakeholders is carried out by management teams and takes place at business level and the directors engage directly with stakeholders where possible. Reporting mechanisms are in place to collate feedback and developments from such engagement and enable a flow of this information to the Board to inform decision making. By receiving regular updates on business programmes and objectives, the Board monitors that management is acting in accordance with the agreed purpose, vision and values. Processes are in place to ensure that the Board receives all relevant business information to enable it to monitor performance in support of the Company’s long-term success.

The Board has oversight responsibility for risk management across the Company. For the purposes of business resilience, the Board satisfies itself that there is an appropriate risk management approach and that reasonable mitigations are in place for the key risks of the Company. For details on the Company's risk management approach refer to pages 31-36 of the Strategic report and page 50 of the Corporate governance statement.

The interests of our colleagues

Our workforce are critical to our success. The directors understand how important our employees and the wider workforce are to the long-term success of the business and are committed to keeping them motivated and fully involved in all aspects of the business.

At NGED West Midlands, we work collaboratively with our trade union colleagues to provide a working environment that allows our colleagues to develop, be motivated to succeed, and progress within a team structured organisation where an empowered workforce can and do have the opportunity to flourish. Our aim is to provide a fair and balanced reward framework that is competitive within the market. It is underpinned by our strategic priority of “empowering our colleagues”. The directors are keen for employees to be able to share in our success and therefore schemes such as annual Sharesave plan and Share Incentive Schemes exist for employees to participate in.

Pages 38-40 in the Strategic report provide further details on how the directors continually take measures to promote the interest of the Company’s employees and wider workforce.

Section 172 statement (continued)

For the year ended 31 March 2023

The need to foster the Company's business relationships with suppliers, customers and others

The Board believes that the overall success of the business is dependent upon the way we work with our stakeholders and is fully committed to fostering effective stakeholder relationships that are aligned to the Group's purpose and strategic priorities. Details of this can be found on pages 51-54 of our Corporate governance statement.

The impact of the Company's operations on the community and the environment

The service we provide is critical to our communities and impacts the businesses and homes we serve on a daily basis. The directors believe that working closely with our communities is important in creating shared value for the business, the people we serve and the communities we operate in. Benchmarking has been conducted to establish best practice regarding Environmental, Social and Governance ("ESG"), with NGED's prime ESG rating demonstrating our best in class performance. This rating by the Institutional Shareholder Services ("ISS") is only given to companies with an ESG performance above the ambitious threshold for the sector set by ISS. The rating places us significantly above the majority of ISS-rated Gas and Electricity Network Operators and reflects the Board's commitment to incorporating sustainability and wider environmental and social considerations into our decision making, as we carry out our work to keep the power flowing and to meet the energy challenges of the future.

Pages 36-41 in the Strategic report set out our commitment to being a responsible business and the actions we have taken during the year in relation to our community and environment.

Pages 23-24 of the Strategic report sets out actions taken by us in relation to fairness and affordability.

We face exciting challenges as the UK works towards achieving the Government's de-carbonisation target of net zero carbon emissions by 2050. We have long recognised the role that the electricity sector plays in contributing to the UK's ambitions towards carbon reduction. Pages 24-25 set out how we have responded to net zero developments within our business environment.

The desirability of the Company maintaining a reputation for high standards of business conduct

The Board is committed to the National Grid values of 'do the right thing', 'find a better way' and 'make it happen', providing a framework for reporting business conduct matters, educating employees and promoting a culture of integrity at all levels of the business. The Board aspire to develop a culture where the management and workforce are motivated for success which is aligned to its shareholder expectations by creating long term value and at the same time maintaining its commitment to satisfying customer needs. The Board also aim for the Company to be a valued member of the community, which includes acting as a responsible steward of the environment. We conduct our business in a responsible manner, considering the needs of the present and future generations. We are committed to being an exemplary corporate citizen, seeking to improve the quality of life in the communities in which we do business. The Board ensures that the purpose, vision, values and the strategic priorities of the Company support this. Our engagement with all stakeholder groups reflects that this aim is embedded across the business and impacts the decisions taken throughout the organisation. Our employee Grid:voice survey is an example of one such engagement. The survey helps us understand the thoughts of our colleagues, not only on matters impacting our workforce, but also on our strategic priorities and how they feel we are showing up for our customers. This helps us ensure that we continue to build on what works well and improve in areas where we can do better. The aim of the survey is to continue making NGED a great place to work, a great experience for our customers and a greater leader for the energy transition.

Pages 36-41 in the Strategic report set out our commitment to being a responsible business.

Section 172 statement (continued)

For the year ended 31 March 2023

The desirability of the Company maintaining a reputation for high standards of business conduct (continue

The Board is committed to an inclusive, respectful and diverse workplace that rewards performance, enables professional development and encourages employee engagement. We value inclusiveness and diversity as essential components of our identity and long-term success. Pages 38-40 in the Strategic report provides further details.

We strive hard to get things right first time but sometimes things can go wrong. When we receive complaints we treat them with urgency and aim to deal with them to the customer's full satisfaction as quickly as possible. The NGED Group resolved 85% (2021/22: 84%) of complaints within one day, beating the RIIO-ED1 target of 70%. We resolved 99% (2021/22: 98%) of complaints within 31 days and there have been no repeat complaints across any of its licence areas.

The Company's workforce have access to the National Grid's internal ethics helpline at all times. The contact information is publicised to all colleagues so that concerns can be reported anonymously. We will support and protect whistle blowers.

Our dedication to conducting our business to the highest standards is also demonstrated by the emphasis placed by the directors on the safety environment within the organisation. Safety and training videos are available to the workforce to view and a programme of bulletins is provided on screens in offices to keep staff aware of key safety information. In support of an annual safety action plan, monthly colleague communications focussed on health and safety topics is provided. Safety conferences and presentations are held each year to ensure that a safe working environment is a key priority throughout the organisation. There is a diligent system for reporting near misses and incidents to avoid future recurrences. Safety is a crucial KPI for the Board that is monitored stringently and the Board is focused on developing a fair culture of accountability as opposed to a 'perceived culture of blame', when an accident happens. Page 38 of the Strategic report sets out further details in relation to focus of the directors on the health and safety of employees.

The need to act fairly between members of the Company

The Company's ultimate shareholder is National Grid. The Board has developed a robust corporate governance framework which allows the directors to understand the views of the shareholder. This allows the directors to both effectively and constructively engage with and report to the shareholder.

Directors' report

For the year ended 31 March 2023

The directors present their annual report on the affairs of National Grid Electricity (West Midlands) plc (formerly Western Power Distribution (West Midlands) plc), together with the financial statements and auditor's report, for the year ended 31 March 2023.

Registered company number

The Company's registered number is 03600574.

Results, dividends and share capital

The profit for the year to 31 March 2023 is £205.4m (2022: £134.9m).

The Company also reports other comprehensive loss, which was posted directly to capital and reserves, of £(195.7)m (2022: £227.0m income). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

For the year to 31 March 2023 dividends paid by the Company totalled £nil (2022: £67.0m). No dividend has been paid subsequent to the year end. All dividend payments are made out of the distributable reserves of the Company.

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

As part of the regulatory process, Ofgem sets the allowed rate of return within each price control period; Ofgem set the Company's cost of equity at 6.4% (9.6% when normalised for a long-run inflation rate of 3%) for RIIO-ED1. As is evident from the levels of our annual capital expenditure (see page 21 of the Strategic report), we reinvest in excess of our profits back into the network to ensure an efficient, reliable and environmentally sustainable network. The Board ensures that it understands and takes account of the views of our shareholder in order to preserve positive investor relations. The Board acts in the shareholder's best interests by proposing an amount of dividend in accordance with the financial parameters of our regulatory allowance whilst maintaining strong financial health metrics.

Political affiliations, donations and expenditure

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

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

Financial assistance from the Government

NGED has not received any financial assistance from the Government during the year. The Company can potentially access an additional 10% of its Apprenticeship Levy payments in order to fund approved training programmes for apprentices. However, for the year ended 31 March 2023, the payments into the fund by the Company were in excess of the funding the Company reclaimed.

Financial risk management objectives and policies

Inflation risk
For RIIO-ED1, DNO allowed revenue is linked to the Retail Prices Index ("RPI"), as published by the Office for National Statistics to provide protection against economy-wide inflation. Thus, if costs increase due to inflation, for the most part there is a natural hedge for the Company as a result of operating in a regulated industry.

The Company'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 Company's regulated assets ("RAV"), which are also linked to RPI due to the price setting mechanism imposed by the regulator, and also the price cap is linked to RPI. By matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash.

Interest rate risk
The Company has external debt during the year, at floating and fixed rates of interest, which exposes it to interest rate risk.

The Company's interest rate risk management policy includes trying to achieve the lowest possible cost of debt financing whilst managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows.

Currency risk
The Company's assets and liabilities are principally sterling denominated; however, the Company 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 Company'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 Company 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 Company's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

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

Liquidity and going concern
NGED West Midlands is supported by its credit facilities. At 31 March 2023 NGED West Midlands had committed borrowing facility available, in respect of which all conditions precedent had been met at that date of £250m, maturing in May 2025. At 31 March 2023 no borrowings had been drawn against the facility. On 3 April 2023, this facility was cancelled and replaced with a new facility of £250m with a 5 year maturity expiring on 3 April 2028. The Company also has an uncommitted two-way loan agreement with its ultimate parent, National Grid Plc, of which £58.4m was drawn as at 31 March 2023.

On a day-to-day basis, NGED South West provides liquidity to the whole of NGED with balances with other group companies being settled periodically. At 31 March 2023, NGED South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £220.0m maturing in May 2025, of which nil was drawn.

Directors' report (continued)
For the year ended 31 March 2023

Liquidity and going concern (continued)
The Company has net current liabilities of £243.2m (2022: £221.6m) of which £27.6m (2022: £28.2m) related to amounts due to companies within the NGED group. The Company had cash (excluding restricted cash) and short-term deposits of £0.5m (2022: £1.2m). At 31 March 2023, NGED West Midlands had £1,481.7m (2022: £1,475.6m) of external debt outstanding all of which was due after more than one year. The Company's liabilities will be settled with a combination of cash flows from operating activities, use of existing long-term facilities and issuances of long-term debt.. The Company can access either short or long term borrowings in order to finance repayment of any loans. The Company has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Company’s ability to raise debt, to indicate that the Company will be successfully able to raise debt to finance repayments as needed. A letter of support has also been obtained from a parent undertaking that it will provide financial support to the Company for not less than 12 months from the date of approval of the financial statements.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Company is crucial for the continuation of existing essential services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Due to the licensed regulatory obligations of the business, the necessity of continued operations even in times of economic uncertainties and having access to sufficient liquidity, the Company does not consider that there is material uncertainty over the entity’s ability to continue as a going concern.

The directors have considered the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of the Company, the existing and future forecasted covenant compliance of the Company, which includes the gearing ratio and the anticipated ability of the Company and the NGED Group to be able to raise additional long term debt in the future and the ability of the parent undertaking to provide financial support. The directors have also assessed the principal risks discussed in the Strategic report (pages 31-36) in arriving at the going concern assumption for the preparation of the financial statements.

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

Policy for disabled employees
Employees are selected and promoted according to their abilities and merits and to the requirements of the job. Applications for employment by people with disabilities are fully considered and in the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues by way of making adjustments to their role and/or working environment or through retraining arranged as appropriate. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

For further details on our DE&I policies refer page 39 in the strategic report.

Strategic report
The following information required in the Directors' report has been included in the Strategic report:

- an indication of future developments in the business - see pages 28-31;
- an indication of activities of the Company in the field of research and development - see pages 30-31;
- employee policies - see pages 38-40.

Directors' report (continued)

For the year ended 31 March 2023

Corporate governance statement
The Company's Corporate governance statement is detailed on pages 43-50.

Employee engagement statement
Details of how the directors have engaged with employees and considered employees' interests during the year can be found in the Corporate governance statement on page 53.

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

Customers
- Strategic report - see page 15, 16, 37 and 38; and
- Corporate governance statement - see pages 51 and 52.

Suppliers
- Corporate governance statement - see page 54.

Regulators
- Corporate governance statement - see page 53.

Streamline energy and carbon reporting ("SECR")

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

	tCO_2e		tCO_2e per employee	
	2023	2022	**2023**	2022
Scope 1 (direct emissions)				
Operational transport	**4,659**	5,317	**2.36**	2.71
SF6 gas	**2,648**	3,088	**1.34**	1.58
Fuel combustion (diesel / gas oil)	**763**	732	**0.39**	0.37
Buildings	**98**	98	**0.05**	0.05
	8,168	9,235	**4.14**	4.71
Scope 2 (energy indirect emissions)				
Buildings electricity	**781**	880	**0.40**	0.45
Substation electricity	**3,150**	3,289	**1.60**	1.68
National Grid Telecoms	**79**	54	**0.04**	0.03
	4,010	4,223	**2.04**	2.16
Total scope 1 & 2	**12,178**	13,458	**6.18**	6.87
Scope 3 (other indirect emissions)				
Business transport	**346**	586	**0.18**	0.30
Operational transport (contractors)	**4,889**	2,674	**2.48**	1.36
Fuel combustion (diesel / gas oil) (contractor)	**1,437**	2,841	**0.73**	1.45
Total scope 1, 2 & 3	**18,850**	19,559	**9.57**	9.98

Directors' report (continued)
For the year ended 31 March 2023

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

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

Aggregate in kWH of annual quantity of energy consumed for business activities and own use
Electricity energy consumed for the year to 31 March 2023 is kWH 4,444,745 (2022: kWH 4,396,932).

Gas energy consumed for the year to 31 March 2023 is kWH 534,564 (2022: kWH 534,564).

Energy consumed for helicopters for the year to 31 March 2023 is kWH 1,257,523 (2022: kWH 1,909,046).

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

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

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

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

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

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

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

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

Measures for increasing Company's efficiency during the year
During 2022/23, the Company has implemented the following energy efficiency measures:

- replacement of older operational fleet vehicles with more fuel efficient alternatives and improving awareness of the impacts of driving style on fuel efficiency and vehicle emissions;
- the purchase and roll-out of electric operational fleet vehicles;
- installation of electric vehicle charging points at many of our non-operational depot sites for both fleet and employee owned electric vehicles;
- improvements to the reporting of SF6 gas leaks from our installed equipment and fully utilising the infrared SF6 detection cameras enabling us to quickly pinpoint the source of leaks;
- ensuring that all newly built NGED depots achieve the UK BREEAM standard of 'Excellent' as a minimum and that refurbished existing depots achieve the 'Very Good' standard; and
- the on-going replacement with more modern and energy efficient heating and cooling systems throughout our property portfolio plus undertaking an energy efficiency review at many of our non-operational and operational sites including employee energy awareness campaigns.

Subsequent events
On 3 April 2023, the £250m RCF facility expiring in May 2025 was cancelled and replaced with a new facility of £250m with a 5 year maturity expiring on 3 April 2028.

On 24 April 2023, the Company repurchased £115.8m of the £800m 5.75% bond due in April 2032. The bond was repurchased at a fair value of £117.2m.

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

Cordelia O'Hara, Director (appointed 1 April 2023)
Darren Pettifer, Director (appointed 17 August 2022)
Graham Roy Halladay, Director
Alison Jane Sleightholm, Director
Laura Sophie Scudamore Barbrook, Group-appointed non-executive Director
Justine Campbell, Group-appointed non-executive Director
Philip Swift, Director (resigned 31 March 2023)
Ian Robert Williams, Director (resigned 31 July 2022)
Anthony John Cardew, Independent non-executive Director
Maurice Edwin Fletcher, Independent non-executive Director (resigned 31 March 2023)

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

Directors' report (continued)
For the year ended 31 March 2023

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

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

Independent auditor
Deloitte LLP have expressed their willingness to continue in office and a resolution proposing their reappointment will be put before the shareholders of National Grid Plc at the 2023 Annual General Meeting.

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

Cordelia O'Hara
Director

30 June 2023

National Grid Electricity Distribution (West Midlands) plc
(formerly Western Power Distribution (West Midlands) plc)
Avonbank
Feeder Road
Bristol
BS2 0TB

Directors' responsibilities statement

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

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

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

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

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

C O'Hara

Cordelia O'Hara
Director

30 June 2023

Independent auditor's report
to the members of National Grid Electricity Distribution (West Midlands) plc

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

1. Opinion
In our opinion the financial statements of National Grid Electricity Distribution (West Midlands) plc (the 'company'):
- **give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:
- the profit and loss account;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet;
- the statement of cash flows; and
- the related notes 1 to 28.

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

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

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

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

3. Summary of our audit approach

<u>Key audit matters</u>
The key audit matter that we identified in the current year was capitalisation of overheads:

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

Similar level of risk

3. Summary of our audit approach (continued)

Materiality
The materiality that we used in the current year was £13.1m (2022: £11.6m) which was determined on the basis of 5% of profit before tax. This is consistent with the methodology applied in 2022.

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

Significant changes in our approach
There were no significant changes in our approach compared to the prior year.

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

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

- Assessing the company's financing facilities including the nature of facilities, repayment terms, covenant compliance and support from the ultimate controlling parent, National Grid Plc;
- Assessing the assumptions used in the forecasts;
- Testing the mechanical accuracy of those forecasts;
- Assessing the historical accuracy of forecasts prepared by management; and
- Evaluating whether the company's disclosures in respect of going concern within the financial statements are appropriate.

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

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

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

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

The key audit matter identified in the current year, capitalisation of overheads, was also a key audit matter in the prior year in relation to the judgement involved in assessing the value to be capitalised.

5.1 Capitalisation of overheads

Key audit matter description

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

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

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

Corporate overheads of £30.5m (2022: £26.4m) have been capitalised during the year as shown in note 3. These are included within the fixed assets additions of £354.3m (2022: £331.5m) as shown in note 12.

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

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

We obtained an understanding of, tested and relied on relevant controls.

We evaluated the appropriateness of the accounting treatment for capitalising overheads by reference to the requirements of IAS16 Property, Plant and Equipment and evaluated the policies, procedures and assumptions used in estimating the value of overheads that are directly attributable to capital projects.

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

Key observations

Based on the work performed we are satisfied that the assumptions made in respect of the capitalisation rates applied to overheads within the fixed assets balance are reasonable as at 31 March 2023.

6. Our application of materiality

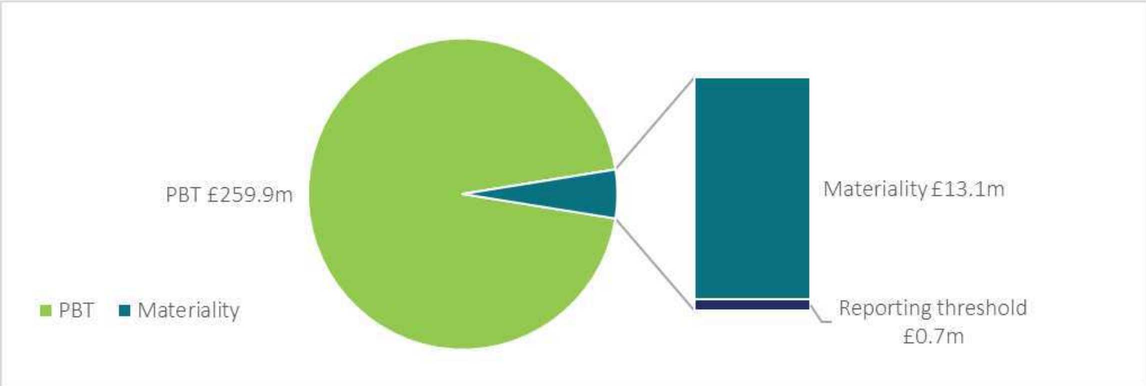
6.1 Materiality

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

6. Our application of materiality (continued)

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

Materiality:	£13.1m (2022: £11.6m).
Basis for determining materiality:	5% of profit before tax. This is consistent with the methodology applied in 2022.
Rationale for the benchmark applied:	We have determined materiality based on profit before tax as this is the key metric used by management, investors, analysts and lenders, with shareholder value being driven by the result.



6.2 Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- Our cumulative experience from prior year audits;
- The low level of corrected and uncorrected misstatements identified from the prior year audits;
- Our risk assessment, including our understanding of the entity and its environment; and
- Our assessment of the company's overall control environment and that we consider it appropriate to rely on internal controls over a number of business processes including fixed assets and revenue.

6.3 Error reporting threshold
We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.7m (2022: £0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

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

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

7.2 Our consideration of the control environment

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

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

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

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

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

7.3 Our consideration of climate-related risks

Climate change impacts the company's business in several ways as set out in the Strategic Report on page 33 of the annual report. It represents a key strategic consideration of management.

We reviewed management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our risk assessment procedures. Management's assessment included environment and sustainability as core commitments in the RIIO-ED2 Delivery Plan. The company will support the UK's ambitions to achieve net zero carbon emissions by 2050 by setting the benchmark of achieving net zero in its own operations by 2043.

In addition to the procedures mentioned above, with the involvement of our climate change specialist we:

- made enquiries of senior management to understand the potential impact of climate change risk including physical risks to producing network assets, the potential changes to the macro-economic environment and the potential for the transition to a low carbon environment to occur quicker than anticipated; and

- read the climate-related statements made by management (as disclosed in 'The Environment' section of the 'Our commitment to being a responsible leader' in the Strategic Report) and considered whether these were in line with our understanding of management's approach to climate change and the narrative reporting was in line with financial statements and the knowledge obtained throughout the audit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

11.2 Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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

11.2 Audit response to risks identified (continued)

Our procedures to respond to risks identified included the following:

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Independent auditor's report

to the members of National Grid Electricity Distribution (West Midlands) plc (continued)

Report on other legal and regulatory requirements (continued)

14. Other matters which we are required to address

13.2 Directors' remuneration

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

We have nothing to report in respect of these matters.

14.1 Auditor tenure

Following the recommendation of the Board of Directors, we were appointed by shareholders on 16 June 2017 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 March 2017 to 31 March 2023.

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

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

15. Use of our report

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

Suzanne Gallagher

Suzanne Gallagher (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
30 June 2023

Profit and loss account

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Turnover	4	**670.0**	599.0
Operating expenses	5	**(340.3)**	(262.5)
Operating profit	6	**329.7**	336.5
Profit on disposal of fixed assets		**0.8**	0.3
Other income		**0.4**	-
Profit before interest and tax		**330.9**	336.8
Interest receivable and similar income		**0.1**	-
Interest payable and similar charges	7	**(82.5)**	(79.5)
Net finance income relating to pensions and other post retirement benefits	22	**11.4**	3.0
Profit before tax	4	**259.9**	260.3
Tax on profit	8	**(54.5)**	(125.4)
Profit for the financial year		**205.4**	134.9

All activities relate to continuing operations.

The accompanying notes 1 to 28 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Profit for the financial year		**205.4**	134.9
Other comprehensive (loss)/income:			
Other comprehensive loss to be reclassified to income or loss in subsequent periods:			
Reclassification adjustments for losses on cash flow hedges included in profit or loss (interest payable)		**(0.8)**	(0.7)
Income tax effect		**0.2**	0.1
		(0.6)	(0.6)
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (losses)/gains on defined benefit pension plan	22	**(260.4)**	314.9
Re-measurement gain on unfunded pension liability	22	**0.3**	-
Income tax effect		**65.0**	(87.3)
		(195.1)	227.6
Other comprehensive (loss)/income for the year, net of tax		**(195.7)**	227.0
Total comprehensive income for the year, net of tax, attributable to equity holder of the parent		**9.7**	361.9

Statement of changes in equity

For the year ended 31 March 2023

	Note	Share capital £m	Share premium account £m	Other reserves* £m	Profit and loss account £m	Total equity £m
At 1 April 2021		235.1	713.6	0.6	884.2	1,833.5
Profit for the year		-	-	-	134.9	134.9
Other comprehensive (loss)/gain		-	-	(0.6)	227.6	227.0
Total comprehensive income for the year		-	-	(0.6)	362.5	361.9
Equity dividends paid	9	-	-	-	(67.0)	(67.0)
Share based payment	24	-	-	0.2	-	0.2
At 31 March 2022		235.1	713.6	0.2	1,179.7	2,128.6
Profit for the year		-	-	-	205.4	205.4
Other comprehensive loss		-	-	(0.6)	(195.1)	(195.7)
Total comprehensive income for the year		-	-	(0.6)	10.3	9.7
Share based payment	24	-	-	0.8	-	0.8
At 31 March 2023		**235.1**	**713.6**	**0.4**	**1,190.1**	**2,139.2**

* Other reserves consist of hedging reserve and non-cash capital contribution reserve (see note 24).

Balance sheet

As at 31 March 2023

	Note	**2023** **£m**	2022 £m
Non-current assets			
Tangible fixed assets	12	**4,838.3**	4,574.3
Intangible assets	13	**13.6**	11.5
Pension asset	22	**235.7**	463.5
Trade and other receivables	15	**-**	0.5
		5,087.6	5,049.8
Current assets			
Stocks	14	**3.0**	2.1
Trade and other receivables	15	**92.2**	90.6
Cash at bank and in hand	16	**0.5**	4.6
		95.7	97.3
Creditors			
Amounts falling due within one year	17	**(338.9)**	(318.9)
Net current liabilities		**(243.2)**	(221.6)
Total assets less current liabilities		**4,844.4**	4,828.2
Creditors			
Amounts falling due after more than one year	17	**(2,290.5)**	(2,242.6)
Provisions for liabilities			
Deferred tax	20	**(403.7)**	(443.9)
Other provisions for liabilities	21	**(10.2)**	(12.0)
Pension liability	22	**(0.8)**	(1.1)
Net assets		**2,139.2**	2,128.6
Capital and reserves			
Share capital	23	**235.1**	235.1
Share premium account	24	**713.6**	713.6
Other reserves	24	**0.4**	0.2
Profit and loss account	24	**1,190.1**	1,179.7
Equity shareholder's funds		**2,139.2**	2,128.6

As at 31 March 2022, lease liabilities and right-of-use assets were presented on the face of the balance sheet. On the basis of materiality, during the current year, lease liabilities and right-of-use assets have been reclassified to creditors and tangible fixed assets respectively. Comparatives have been reclassified and presented on the same basis as the current year.

The accompanying notes 1 to 28 are an integral part of these financial statements.

The financial statements of the Company (registered number 3600574) on pages 75 to 118 were approved and authorised for issue by the Board of Directors on 30 June 2023 and were signed on its behalf by:

Cordelia O'Hara, Director

Darren Pettifer, Director

Statement of cash flows

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Operating activities			
Profit for the year		**205.4**	134.9
Adjustments to reconcile profit for the year to net cash flows from operating activities:			
Income tax expense		**54.5**	125.4
Interest payable		**82.5**	79.5
Interest receivable		**(11.5)**	(3.0)
Share based payment		**0.8**	0.2
Depreciation of tangible fixed assets	6	**85.5**	81.0
Amortisation of customer contributions		**(14.2)**	(13.6)
Amortisation of intangible assets	6	**0.7**	0.6
Gain on disposal of tangible fixed assets		**(0.8)**	(0.3)
Difference between pension contributions paid and amounts recognised in the profit and loss account		**(21.2)**	(2.3)
Increase/(decrease) in provisions		**1.0**	(6.8)
Working capital adjustments:			
(Increase)/decrease in inventories		**(0.9)**	0.4
(Increase)/decrease in trade and other receivables		**(1.1)**	26.9
(Decrease)/increase in trade and other payables		**(2.7)**	23.4
Interest paid		**(78.9)**	(78.1)
Interest received		**0.1**	-
Customers' contributions received		**69.6**	53.7
Income taxes paid		**(30.4)**	(31.0)
Net cash from operating activities		**338.4**	390.9
Investing activities			
Purchase of tangible fixed assets		**(339.7)**	(322.3)
Purchase of intangible assets		**(2.8)**	(1.6)
Proceeds from sale of tangible fixed assets		**1.2**	0.4
Net cash used in investing activities		**(341.3)**	(323.5)
Financing activities			
Net decrease in short-term borrowings		**-**	(60.0)
Net (decrease)/increase in loan with ultimate parent company		**(1.0)**	58.0
Payment of lease liabilities		**(0.2)**	(0.1)
Dividends or equivalent distributions paid		**-**	(67.0)
Net cash used in financing activities		**(1.2)**	(69.1)
Net decrease in cash and cash equivalents		**(4.1)**	(1.7)
Cash and cash equivalents at beginning of year		**4.6**	6.3
Cash and cash equivalents at end of year	16	**0.5**	4.6

Notes to the financial statements
For the year ended 31 March 2023

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

The financial statements of National Grid Electricity Distribution (West Midlands) plc (formerly Western Power Distribution (West Midlands) plc) ("the Company") for the year ended 31 March 2023 were authorised for issue by the Board of Directors on 30 June 2023 and the balance sheet was signed on the Board's behalf by Cordelia O'Hara and Darren Pettifer. The Company is a public limited company, limited by shares and incorporated and registered in England and Wales. The address of the Company's registered office is shown on page 118.

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

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

2. Significant accounting policies

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

Where required, equivalent disclosures are given in the group accounts of National Grid Electricity Distribution plc (formerly Western Power Distribution plc). The group accounts of National Grid Electricity Distribution plc are available to the public and can be obtained as set out in note 28.

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

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

The Company's financial statements are presented in Sterling as this is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

The Comparative financial information has been presented on the same as basis as current year financial information with exception to the presentation of right-of-use asset and lease liability in the balance sheet. As at 31 March 2022, lease liabilities and right-of-use assets were presented on the face of the balance sheet. On the basis of materiality, during the current year, lease liabilities and right-of-use assets have been reclassified to creditors and tangible fixed assets respectively. Comparatives have been reclassified and presented on the same basis as the current year.

The principal accounting policies adopted are set out below.

2. Significant accounting policies (continued)

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

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

Impact of new International Financial Reporting Standards
The following new standards are effective for accounting periods beginning on or after 1 January 2022:

- Amendments to IFRS 3 - reference to the conceptual framework, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 - amendments regarding proceeds before intended use, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 - amendments regarding onerous contracts - cost of fulfilling a contract, effective for annual periods beginning on or after 1 January 2022;
- Annual improvements to IFRS standards 2018 - 2020 cycle - effective for annual periods beginning on or after 1 January 2022.

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

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

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

2. Significant accounting policies (continued)

Revenue recognition

Distribution Use of System ("DUoS") Revenue

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

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

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

NGED measures the progress of the performance obligation using the output method. Output method recognised revenue is based on direct measurements of value transferred to the customer. Accordingly NGED records turnover on a monthly basis, based on the amount of KWh of electricity delivered.

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

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

Finance revenue

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

Engineering recharges

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

Customer contributions

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

2. Significant accounting policies (continued)

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

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

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

Financial assets at FVTPL
The Company recognises impairment on financial assets following the expected credit loss ("ECL") model in IFRS 9. Financial assets at FVTPL are carried on the balance sheet at fair value with gains or losses recognised in the profit and loss account. Short-term deposits are included in this category. Short-term deposits are highly liquid short-term investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

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

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

2. Significant accounting policies (continued)

Impairment of financial assets
The Company recognises impairment on financial assets following the expected credit loss ("ECL") model in IFRS 9.

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

This category of financial liabilities includes creditors.

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

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

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

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

2. Significant accounting policies (continued)

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

Leases

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

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

Lease liabilities are presented within creditors and right-of-use assets are presented within property plant and equipment.

2. Significant accounting policies (continued)

Leases (continued)

NGED West Midlands as a lessor

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

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

Tangible fixed assets

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

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

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

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

2. Significant accounting policies (continued)

Tangible fixed assets (continued)

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

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

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

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

Intangible assets

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

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

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

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

Computer software

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

2. Significant accounting policies (continued)

Impairment of tangible fixed assets and intangible assets

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

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

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

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

Stocks

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

Taxation

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

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

2. Significant accounting policies (continued)

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

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

Deferred tax is recognised on all temporary differences except:

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

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

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

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

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

2. Significant accounting policies (continued)

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

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

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

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

Share-based payments
Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. The fair value excludes the effect of non-market vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

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

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

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

Capitalisation of overheads - capitalisation rate
Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the profit and loss account with a portion being capitalised using an appropriate rate. The capitalisation rate is based on an analysis of total costs or total labour costs, as appropriate, split between capital and expense. The rate is reviewed in detail annually and a reasonableness test is performed in light of total capital spend during the year. The total amount of overheads capitalised to tangible fixed assets at 31 March 2023 is £30.5m (2022: £26.4m). Information on sensitivity to the rate is as below:

	2023	2022
	Profit and loss account +/- £m	Profit and loss account +/- £m
Change in rate +/- 1%	**0.5**	0.4
Change in rate +/- 5%	**2.3**	2.2

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

Key sources of estimation uncertainty (continued)

Pension obligations

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

A change in the assumptions used may have a significant effect on the amounts recognised in the profit and loss account, the statement of other comprehensive income and the net asset or liability recognised in the balance sheet. Refer to note 22 for further details and sensitivity information on key estimates.

4. Segmental reporting

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

Revenue from its five largest customers amounted to £105.2m, £103.0m, £82.1m, £56.0m and £45.2m (2022: £107.4m, £78.8m, £71.6m, £38.9m and £37.9m).

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

5. Operating expenses

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

	2023 **£m**	2022 £m
Employee costs (note 10)	**48.7**	48.3
Depreciation (note 6)	**85.5**	81.0
Amortisation of intangible assets (note 6)	**0.7**	0.6
Property taxes	**31.4**	31.4
Last Resort Supply Payment ("LRSP") claims(i)	**85.6**	3.0
Other operating expenses (ii)	**88.4**	98.2
Operating expenses	**340.3**	262.5

(i) When a supplier fails, Ofgem ensures continuity of supply to the failed supplier's customers by appointing a supplier of Last Resort ("SoLR") to supply the failed supplier's customers at short notice. the SoLR may then recover certain costs from the DNOs via a LRSP claim. These LRSP claim costs are recovered by the Company via its DUoS charges. Amount recovered during the current year amounts to £82.3m and the balancing claims will be recovered during the year ending 31 March 2024.

5. Operating expenses (continued)

(ii) Other operating expenses includes costs in relation to engineering recharges, National Grid exit charges (charges levied by National Grid Electricity Transmission for connection to the electricity transmission system), tree cutting, inspections and maintenance and wayleaves, as well as other overheads incurred.

6. Operating profit

	2023	2022
	£m	£m
Operating profit is stated after charging/(crediting):		
Employee costs	**48.7**	48.3
Depreciation (i)	**85.5**	81.0
Amortisation of intangible assets (ii)	**0.7**	0.6
Rent expense (iii):		
Plant, machinery and equipment	**1.4**	2.5
Land and buildings	**1.1**	1.2
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.4
Non audit fee	**-**	-

Auditor remuneration is included within operating expenses.

(i) Depreciation of fixed assets is stated net of depreciation capitalised of £10.0m (2022: £9.8m) in respect of equipment consumed during the construction of the electricity network. Depreciation includes depreciation on right-of-use-assets amounting to £0.1m (2022: £0.2m).

(ii) Amortisation of intangible assets is stated net of depreciation capitalised of £1.6m (2022: £1.3m) in respect of software consumed during the construction of the electricity network.

(iii) Rent expense comprises of short term and low value leases (see note 17).

Notes to the financial statements
For the year ended 31 March 2023

7. Interest

	2023 £m	2022 £m
Interest receivable		
Bank interest receivable	**(0.1)**	-
Interest payable		
Interest payable on loans from other NGED undertakings	**0.7**	-
Interest payable on loans from ultimate parent company	**2.0**	0.2
Interest payable on other loans	**82.0**	79.7
Interest payable on bank loans and overdrafts	**0.6**	0.9
Interest payable on lease liabilities	**0.1**	0.1
Unwinding of discount on provisions	**0.4**	0.3
Less: interest capitalised	**(3.3)**	(1.7)
Total interest payable	**82.5**	79.5
Net interest expense	**82.4**	79.5

Interest in 2023 was capitalised at a rate of 4.91% (2022: 2.65%), based on the yield on the Company's borrowings.

8. Tax

Tax charged to the profit and loss account:

	2023 £m	2022 £m
Current tax:		
UK corporation tax on profits for the year (see below)	**28.4**	33.6
Adjustment in respect of prior years	**1.0**	(1.2)
Deferred tax (note 20):		
Origination and reversal of temporary differences	**19.6**	13.7
Impact of tax rate change	**6.0**	79.1
Adjustment in respect of prior years	**(0.5)**	0.2
Tax expense in the profit and loss account	**54.5**	125.4

8. Tax (continued)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2022: 19%) as follows:

	2023 **£m**	2022 £m
Profit before tax	**259.9**	260.3
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	**49.3**	49.5
Effects of:		
Net expenses not deductible/(income not taxable) for tax purposes	**(0.5)**	0.7
Enhanced tax relief on capital expenditure	**(0.8)**	(0.9)
Group relief received at non-standard rates	**-**	(2.0)
Impact of tax rate change	**6.0**	79.1
Adjustments to tax charge in respect of prior years	**0.5**	(1.0)
Total tax expense reported in the profit and loss account	**54.5**	125.4

The total tax expense as a percentage of profit before tax gives an effective tax rate of 21.0% (2022: 48.2%) compared to the standard rate of 19% (2022: 19%) due to the effects of the items stated above. The increase in the rate is mainly due to the impact of the tax rate change - see "Change in corporation tax rate" section at the end of this note. Expenses not deductible and income not taxable have been netted off as individually they are not material. The enhanced tax relief relates to the 30% uplift on capital expenditure incurred in the two years to 31 March 2023 that qualifies as super-deduction expenditure. In the prior year, tax losses surrendered to the Company ("group relief") by group companies not owned by the immediate parent undertaking were not paid for. Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HMRC.

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

	2023 **£m**	2022 £m
Deferred tax:		
On cash flow hedges	**(0.2)**	(0.1)
On re-measurement of pension liabilities	**(65.0)**	87.3
Total tax (credit)/charge in the statement of other comprehensive income	**(65.2)**	87.2

8. Tax (continued)

UK corporation tax on profits for the year

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

	2023	2022
	£m	£m
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	**49.3**	49.5
Adjustments:		
Depreciation and amortisation (note i)	**(13.5)**	(11.4)
Pensions (note ii)	**(6.0)**	(1.0)
Other timing adjustments (note iii)	**0.1**	(1.3)
Other adjustments (note iv)	**(1.5)**	(0.2)
Corporation tax payable on profits before group relief	**28.4**	35.6
Group relief (note v):		
Losses received from other group companies payable at standard rate	**(2.6)**	(0.4)
Losses received from other group companies for free	**-**	(2.0)
Corporation tax payable on profits after group relief	**25.8**	33.2
The current tax charge on profits for the year is split as follows:		
Corporation tax payable to HM Revenue & Customs	**25.8**	33.2
Group relief payable to other group companies	**2.6**	0.4
	28.4	33.6

(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").

8. Tax (continued)

UK corporation tax on profits for the year (continued)

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

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

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

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

Change in corporation tax rate

The corporation tax rate increased to 25% from 1 April 2023 as enacted via Finance Act 2021. This rate as been reflected in the deferred tax balances as at 31 March 2023.

9. Dividends

	2023 **£m**	2022 £m
Dividends on equity shares:		
Interim dividends - nil pence per share (2022: 28.5 pence per share)	**-**	67.0

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

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10. Employee benefit expense

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

	2023 £m	2022 £m
Wages and salaries	**121.7**	114.0
Social security costs	**15.3**	13.7
Pension costs	**19.1**	23.6
Total employee costs	**156.1**	151.3
Less allocated to capital expenditure	**(107.4)**	(103.0)
Charged to the profit and loss account	**48.7**	48.3

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

The average number of employees in the year was 1,973 (2022: 1,959), based on monthly numbers. This includes a proportion of other NGED DNO staff who work in part for NGED West Midlands and excludes a proportion of NGED West Midlands staff who work in part for other NGED DNOs. All employees work for the network distribution business.

Employee costs in the year were capitalised at a rate of 68.9% (2022: 68.3%).

11. Directors' emoluments

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

11. Directors' emoluments (continued)

	Highest paid director		Total	
	2023	2022	**2023**	2022
NGED Group	**£000**	£000	**£000**	£000
The emoluments of the executive directors comprised:				
Base salary (note i)	**475**	463	**1,279**	1,372
Performance dependent bonus (note ii)	**681**	1,411	**1,774**	3,288
Termination benefits (note iii)	**5,453**	-	**8,703**	-
Pension compensation allowance (note iv)	**247**	271	**522**	736
Sub-total directors' remuneration	**6,857**	2,145	**12,278**	5,396
Long term incentive plan (note v)	**-**	1,285	**155**	2,739
Fees to the independent non executive directors (note vi)	**-**	-	**100**	100
	6,857	3,430	**12,534**	8,235

(i) Base salary also includes benefits in kind.

(ii) The amount of the annual bonus is based on NGED's financial performance, the reliability of the electricity network, and other factors. 2023 includes retention award payments and 2022 includes a transition incentive payment in relation to the announcement and the completion of the sale of the WPD Group to National Grid plc on 14 June 2021.

(iii) Termination benefits were made in respect of two executive directors who resigned from the business during the reporting period.

(iv) As a result of changes in tax applicable to UK pensions, the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 22), thus NGED no longer contributes for ongoing service to the ESPS in respect of the executive directors. Instead, NGED pays cash compensation to them individually equivalent to the value of NGED’s contribution in to the ESPS that would have been made had they remained active members (as determined by external actuaries).

(v) Under the previous owner's long term incentive plan, the executive directors received an annual grant of PPL Corporation shares; these shares vested on completion of the sale of NGED to National Grid on 14 June 2021. The value of the shares granted under the National Grid ownership is shown within this line.

(vi) The two independent UK non executive directors are entitled to fees as determined by the appropriate Board. The PPL non-executive directors resigned on completion of the sale on 14 June 2021; no emoluments were paid to them as they were officers of PPL in respect of their services to NGED. No emoluments are paid to National Grid non-executive directors appointed on 31 January 2022, who are officers of National Grid, in respect of their services as directors to the Group.

(vii) During the year, four executive directors (2022: four) were members of the defined benefit ESPS.

(vii) An employee share option scheme is offered by the ultimate parent to be settled in the shares of the ultimate parent. No shares were vested during the year.

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For the year ended 31 March 2023

12. Tangible fixed assets

	Non network land & buildings £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
Cost					
At 1 April 2022	22.3	5,921.6	79.2	41.6	6,064.7
Additions	3.1	330.5	16.0	4.7	354.3
Transfers from NGED Group entities	10.0	-	0.2	-	10.2
Disposals and retirements	-	(2.9)	(12.5)	(3.8)	(19.2)
At 31 March 2023	35.4	6,249.2	82.9	42.5	6,410.0
Depreciation					
At 1 April 2022	1.3	1,421.5	43.1	24.5	1,490.4
Charge for the year	0.4	80.8	11.0	3.3	95.5
Transfers	1.6	-	0.2	-	1.8
Disposals and retirements	-	-	(12.3)	(3.7)	(16.0)
At 31 March 2023	3.3	1,502.3	42.0	24.1	1,571.7
Net book value					
At 31 March 2023	**32.1**	**4,746.9**	**40.9**	**18.4**	**4,838.3**
At 31 March 2022	21.0	4,500.1	36.1	17.1	4,574.3

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

	2023 £m	2022 £m
Freehold	**324.4**	211.2
Short leasehold	**5.6**	5.7

Included within the Company's fixed assets is land at a cost of £99.5m (2022: £99.0m).

Included within the Company's distribution network and vehicles & mobile plant are assets in the course of construction amounting at 31 March 2023 to £47.9m (2022: £65.7m).

Included in additions are staff costs of £107.4m (2022: £103.0m), general overheads of £30.5m (2022: £26.4m), capitalised depreciation of £10.0m (2022: £9.8m) and interest of £3.3m (2022: £1.7m).

12. Tangible fixed assets (continued)

The table below shows the net book value of right-of-use assets included within tangible fixed assets at 31 March 2023 and 31 March 2022, split by category. The associated lease liabilities are disclosed in note 17.

	Land & building £m	Radio sites £m	Total £m
At 1 April 2021	2.2	0.1	2.3
Additions	-	-	-
Depreciation	(0.2)	-	(0.2)
At 31 March 2022	2.0	0.1	2.1
Additions	-	0.1	0.1
Depreciation	(0.1)	-	(0.1)
At 31 March 2023	**1.9**	**0.2**	**2.1**

13. Intangible assets

	Computer software £m
Cost	
At 1 April 2022	17.7
Additions	4.4
At 31 March 2023	22.1
Amortisation	
At 1 April 2022	6.2
Charge for the year	2.3
At 31 March 2023	8.5
Carrying amount	
At 31 March 2023	**13.6**
At 31 March 2022	11.5

Included in additions is capitalised amortisation cost of £1.6m (2022: £1.3m).

14. Stocks

	2023 £m	2022 £m
Raw materials and consumables	**2.9**	1.9
Work in progress	**0.1**	0.2
	3.0	2.1

The cost of stocks recognised as an expense during the year was £3.1m (2022: £2.4m).

15. Trade and other receivables

	2023 £m	2022 £m
Current receivables		
Trade receivables	**88.2**	86.9
Accrued income	**2.3**	2.0
Prepayments	**1.7**	1.7
Total current receivables	**92.2**	90.6
Non-current receivables		
Other receivables	**-**	0.5
Total trade and other receivables	**92.2**	91.1

Trade receivables includes unbilled DUoS income of £54.2m (2022: £47.8m).

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

16. Cash at bank and in hand

	2023 **£m**	2022 £m
Cash at bank	**0.3**	3.5
Short-term bank deposits	**0.2**	1.1
Cash at bank and in hand	**0.5**	4.6

Short-term bank deposits comprise cash held in a mixture of deposit accounts and sterling liquidity funds, earning interest of between 0.0% and 0.1%. They are all instant access liquidity funds.

At 31 March 2023, the Company had available £250.0m (2022: £250.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates.

Included in cash and short-term bank deposits are restricted amounts totalling £nil (2022: £3.4m) which are not readily available for the general purposes of the Company. The restrictions relate to cash balances that can only be used for Low Carbon Network Fund projects.

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

	2023 **£m**	2022 £m
Cash at bank and in hand (from above)	**0.5**	4.6

17. Creditors

	2023 **£m**	2022 £m
Amounts falling due within one year:		
Loan with ultimate parent company	**58.4**	58.0
Payments received on account	**82.4**	72.7
Trade creditors	**19.1**	12.5
Amounts owed to other NGED undertakings	**27.6**	28.2
Amounts owed to parent company	**-**	1.3
Current tax payable	**2.4**	3.3
Other taxation and social security	**26.5**	20.8
Other creditors	**3.3**	0.5
Deferred contributions	**14.2**	13.5
Deferred income	**-**	3.3
Accruals	**104.8**	104.6
Lease liabilities*	**0.2**	0.2
	338.9	318.9
Amounts falling due after more than one year:		
Deferred contributions	**806.9**	765.0
Lease liabilities*	**1.9**	2.0
Unsecured borrowings repayable:		
£250m 6.0% sterling bond 2025	**249.4**	249.2
£800m 5.75% bonds 2032	**793.9**	793.2
£400m 3.875% bonds 2024	**399.2**	398.6
£30m 0.01% indexed linked bonds 2028	**39.2**	34.6
	2,290.5	2,242.6

The current tax payable balance includes group relief payable.

The loan with ultimate parent company pertains to amounts drawn under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued on the balance at daily SONIA plus 0.25% margin.

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

Other creditors include £3.1m (2022: £0.3m) DUoS collateral deposits received from suppliers in accordance with the DCUSA.

Unsecured borrowings are stated net of unamortised issue costs of £2.6m (2022: £3.1m) and discount on issue of £5.1m (2022: £6.1m) and gross of premium on issue of £0.5m (2022: £0.4m). These costs, together with the interest expense, are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount. Interest on bonds is paid semi-annually or annually.

On 24 April 2023, the Company repurchased £115.8m of the £800m 5.75% bond due in April 2032. The bond was repurchased at a fair value of £117.2m.

17. Creditors (continued)

***Lease liabilities**

	2023	2022
	£m	£m
At 1 April 2022	**2.2**	2.3
Additions during the year	**0.1**	-
Payments during the year	**(0.2)**	(0.1)
At 31 March 2023	**2.1**	2.2
of which:		
Current	**0.2**	0.2
Non-current	**1.9**	2.0

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

Short term leases and low value leases are excluded from recognition on the balance sheet. The amount of expense charged to rent expense pertaining to short term leases amounts to £2.2m (2022: £3.3m) and pertaining to low value leases amounts to £0.3m (2022: £0.4m).

18. Net debt

	2023	2022
	£m	£m
Long-term borrowings	**1,481.7**	1,475.6
Lease liabilities	**2.1**	2.2
Loan with ultimate parent company	**58.4**	58.0
Amounts owed to other NGED undertakings	**27.6**	28.2
Less: Cash and cash equivalents (excluding restricted)	**(0.5)**	(1.2)
Net debt	**1,569.3**	1,562.8

Reconciliation of cash flows to net debt

	2023	2022
	£m	£m
Net decrease in cash and cash equivalents	**0.7**	1.5
Net decrease in short-term borrowings	**-**	(60.0)
Net (decrease)/increase in loan with ultimate parent company	**(1.0)**	58.0
Net (decrease)/increase in amounts owed to other NGED undertakings	**(0.6)**	19.6
Payment of lease liabilities	**(0.2)**	(0.1)
Change in debt resulting from cash flows	**(1.1)**	19.0
Net increase in borrowings due to indexation	**4.6**	2.5
Amortisation of premiums, discounts and issue costs	**1.5**	1.5
Interest payable balance rolled into loan with parent ultimate company	**1.4**	-
Leases acquired during the year	**0.1**	-
Movement in net debt in the year	**6.5**	23.0
Net debt at beginning of year	**1,562.8**	1,539.8
Net debt at end of year	**1,569.3**	1,562.8

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For the year ended 31 March 2023

19. Reconciliation of changes in liabilities arising from financing activities

	2023 £m	2022 £m
Borrowings	**1,481.7**	1,475.6
Loan with ultimate parent company	**58.4**	58.0
Lease liabilities	**2.1**	2.2
Gross debt	**1,542.2**	1,535.8

Change in liabilities arising from financing activities

	2023 £m	2022 £m
Net decrease in short-term borrowings	**-**	(60.0)
Proceeds from loan with ultimate parent company	**(1.0)**	58.0
Payment of lease liabilities	**(0.2)**	(0.1)
Change in liabilities arising from financing cash flows	**(1.2)**	(2.1)
Net increase in borrowings due to indexation	**4.6**	2.5
Amortisation of premiums, discounts and issue costs	**1.5**	1.5
Interest payable balance rolled into loan with ultimate parent company	**1.4**	-
Leases acquired during the year	**0.1**	-
Movement in gross debt in the year	**6.4**	1.9
Gross debt at beginning of year	**1,535.8**	1,533.9
Gross debt at end of year	**1,542.2**	1,535.8

20. Deferred tax

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

	Accelerated capital allowances £m	Retirement benefit obligations £m	Other £m	**Total £m**
At 1 April 2021	239.8	27.0	(3.1)	263.7
Charge to the profit and loss account	91.0	1.3	0.7	93.0
Charge/(credit) to equity	-	87.3	(0.1)	87.2
Transfer between categories	(2.5)	-	2.5	-
At 1 April 2022	328.3	115.6	-	443.9
Charge/(credit) to the profit and loss account	17.2	8.1	(0.2)	25.1
Credit to equity	-	(65.0)	(0.3)	(65.3)
At 31 March 2023	**345.5**	**58.7**	**(0.5)**	**403.7**

Accelerated capital allowances represents the tax deferred on profits due to the difference in timing when the deductions for expenditure on fixed assets are recognised in the income statement through depreciation and when tax deductions for that expenditure through capital allowances are included in tax returns filed with HMRC. Deferred tax arises on retirement benefit obligations as tax deductions are included in tax returns as contributions are paid to the pension schemes and not when the obligations or surpluses on the schemes are recorded in the financial statements. The other deferred tax balances relate to items such as provisions and accruals that are tax deductible when paid rather than when accrued and debt value adjustments that are taxed/deducted under tax rules at times different to when those adjustments have been recognised in the income statements.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. After offset, there is a net deferred tax liability that will reverse after more than one year. The net deferred tax liability will impact the Company’s tax payments over a very long period of time mainly due to the long expected useful lives of fixed assets and the Company’s pension schemes having no fixed maturity dates.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the deferred tax benefit through future taxable profits is probable. The Company did not recognise deferred tax assets of £59.3m (2022: £59.3m) in respect of capital losses amounting to £237.1m (2022: £237.1m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

Notes to the financial statements

For the year ended 31 March 2023

21. Provisions for liabilities

	Deferred taxation (note 20) £m	Asset retirement obligations £m	Other £m	Total £m
At 1 April 2022	443.9	10.1	1.9	455.9
Arising/(released) during the year	(40.2)	1.1	0.1	(39.0)
Net decrease due to discount rate change and unwinding of discount	-	(2.4)	-	(2.4)
Utilised during the year	-	(0.4)	(0.2)	(0.6)
At 31 March 2023	**403.7**	**8.4**	**1.8**	**413.9**

Asset retirement obligations relate to an estimate of the costs of disposing and removing wood poles, fluid filled cables, SF6 gas units and PCB contaminated units at the end of their useful lives and are expected to be settled over the next 85 years. These assets are included in distribution network within tangible fixed assets.

Other provisions at 31 March 2023 substantially relate to uninsured losses and an expected settlement of liabilities relating to the Electricity Association Technology Limited ("EATL") of £0.9m relating primarily to a pension deficit relating to that company. The liability in respect of the EATL is being settled over a period of approximately nine years; the directors expect the remaining provisions to be settled within the next two years.

22. Pension commitments

Electricity Supply Pension Scheme ("ESPS")

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

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

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

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

Past-service costs are recognised immediately in income.

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

The net defined benefit cost and net surplus or deficit of the plan have been allocated to NGED West Midlands and NGED East Midlands in accordance with pensionable salaries, currently 52.2% to NGED West Midlands (2022: 52.7%). The figures below show the proportion allocated to NGED West Midlands.

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

22. Pension commitments (continued)

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

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

	2023 **£m**	2022 £m
Present value of obligations	**1,323.3**	1,758.5
Fair value of scheme assets	**(1,559.0)**	(2,222.0)
Surplus of funded plan	**(235.7)**	(463.5)
Unfunded pension obligation (not part of ESPS)	**0.8**	1.1
Total pension asset recognised in the balance sheet	**(234.9)**	(462.4)

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:

	2023 **£m**	2022 £m
Current service cost	**14.3**	19.4
Administrative costs	**1.0**	0.9
Operating charge relating to defined benefit plans	**15.3**	20.3
Interest income on plan assets	**(52.8)**	(42.2)
Interest on plan liabilities	**41.4**	39.2
Other finance income	**(11.4)**	(3.0)

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

Analysis of the amount recognised in other comprehensive income:

	2023 **£m**	2022 £m
Loss/(gain) on plan assets excluding amounts included in interest income	**651.1**	(155.2)
(Gain)/loss from change in demographic assumptions	**(15.6)**	62.4
Gain from change in financial assumptions	**(402.1)**	(243.7)
Experience losses	**22.2**	20.1
Change in percentage allocation rate	**4.8**	1.5
Remeasurement loss/(gain) recognised in other comprehensive income	**260.4**	(314.9)

22. Pension commitments (continued)

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

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

	Year ended 31 March 2023			Year ended 31 March 2022		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	**1,758.5**	**(2,222.0)**	**(463.5)**	1,957.1	(2,100.4)	(143.3)
Current service cost	**14.3**	**-**	**14.3**	19.4	-	19.4
Administrative cost	**1.0**	**-**	**1.0**	0.9	-	0.9
Interest (income)/expense	**41.4**	**(52.8)**	**(11.4)**	39.2	(42.2)	(3.0)
	56.7	**(52.8)**	**3.9**	59.5	(42.2)	17.3
Remeasurements:						
Loss/(gain) on plan assets excluding amounts included in interest income	**-**	**651.1**	**651.1**	-	(155.2)	(155.2)
(Gain)/loss from change in demographic assumptions	**(15.6)**	**-**	**(15.6)**	62.4	-	62.4
Gain from change in financial assumptions	**(402.1)**	**-**	**(402.1)**	(243.7)	-	(243.7)
Experience losses	**22.2**	**-**	**22.2**	20.1	-	20.1
Change in percentage allocation rate	**(17.2)**	**22.0**	**4.8**	(22.7)	24.2	1.5
	(412.7)	**673.1**	**260.4**	(183.9)	(131.0)	(314.9)
Contributions:						
Employer	**-**	**(36.5)**	**(36.5)**	-	(22.6)	(22.6)
Plan participants	**3.0**	**(3.0)**	**-**	3.0	(3.0)	-
	3.0	**(39.5)**	**(36.5)**	3.0	(25.6)	(22.6)
Payments from plan:						
Benefit payments	**(81.2)**	**81.2**	**-**	(76.3)	76.3	-
Administrative costs	**(1.0)**	**1.0**	**-**	(0.9)	0.9	-
	(82.2)	**82.2**	**-**	(77.2)	77.2	-
Liability/(asset) at 31 March	**1,323.3**	**(1,559.0)**	**(235.7)**	1,758.5	(2,222.0)	(463.5)

22. Pension commitments (continued)

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

The significant actuarial assumptions made were as follows:

	2023	2022
RPI inflation	**3.15%**	3.60%
CPI inflation	**2.65%**	3.10%
Rate of general long-term salary increases	**3.10%**	3.60%
RPI linked pension increases (with 5% cap)	**2.95%**	3.10%
Post-88 GMP pension increases	**2.00%**	2.10%
Discount rate for scheme liabilities	**4.80%**	2.80%

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

	31 March 2023	31 March 2022
Mortality table adopted	Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate	Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate
Life expectancy for a male currently aged 60	**26.5**	26.9
Life expectancy for a female currently aged 60	**28.5**	28.8
Life expectancy at 60 for a male currently aged 40	**27.7**	28.1
Life expectancy at 60 for a female currently aged 40	**29.7**	30.0

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

	Change in assumption %	Impact on defined benefit obligation £m
Discount rate	-/+1%	+180.1 / -146.7
RPI inflation	+/-1%	+114.8 / -108.6
Life expectancy	+ 1 year	56.9

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

22. Pension commitments (continued)

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

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

	31 March 2023		31 March 2022	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Equities	**106.6**	**(0.7)**	361.6	(3.2)
Credit	**154.2**	**-**	185.3	-
Property	**187.0**	**187.0**	192.7	192.7
Diversified alternatives	**240.6**	**-**	420.6	-
LDI strategy	**874.4**	**805.4**	1,063.6	1,024.0
Other	**(3.8)**	**(4.6)**	(1.8)	(4.5)
Total	**1,559.0**	**987.1**	2,222.0	1,209.0

There is no self-investment in the Scheme.

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

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

22. Pension commitments (continued)

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

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

The Scheme uses Government bonds, corporate bonds and cash as matching assets in the LDI Strategy holding. The remainder of the assets are used as growth assets.

The current agreed employer contributions are 37.5% per annum of pensionable salaries plus an additional £1.2m per annum covering future benefit accruals, expenses (including PPF levies) and death in service benefits. The Company is not currently paying any deficit contributions, pending the outcome of the 31 March 2022 actuarial valuation.

Current expected employer contributions to the NGED West Midlands segment of the scheme for the year ending 31 March 2024 are £16.6m. The next triennial valuation is being negotiated with an effective date of 31 March 2022. Pending the outcome of these valuations, the contribution requirements summarised above are likely to change.

The weighted average duration of the defined benefit obligation is around 12 years.

Other scheme

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

(a) a closed section with no active members. All of the active members in this scheme have transferred to the ESPS. At 31 March 2023 there were 188 members with deferred benefits in the scheme (2022: 191) and 7 pensioners (2022: 5). Market value of the assets was £2.3m (2022: £2.4m).

(b) a new pension arrangement available to all new employees in NGED with effect from 1 April 2010. At 31 March 2023 there were 5,001 members (2022: 4,588). The market value of the assets of the open section of the scheme was £164.1m (2022: £164.0m). Employer contributions to the scheme across NGED amounted to £15.3m in the year (2022: £13.5m).

Notes to the financial statements
For the year ended 31 March 2023

23. Share capital

	2023 £m	2022 £m
Issued and fully paid:		
235,050,000 ordinary shares of £1 each	**235.1**	235.1

24. Reserves

	Share premium account £m	Non-cash capital contribution reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2021	713.6	-	0.6	884.2
Profit for the financial year	-	-	-	134.9
Net movement on cash flow hedges (net of tax)	-	-	(0.6)	-
Dividends paid	-	-	-	(67.0)
Actuarial losses on defined benefit pension plan (net of tax)	-	-	-	227.6
Share based payment	-	0.2	-	-
At 31 March 2022	713.6	0.2	-	1,179.7
Profit for the financial year	-	-	-	205.4
Net movement on cash flow hedges (net of tax)	-	-	(0.6)	-
Actuarial gains on defined benefit pension plan (net of tax)	-	-	-	(195.1)
Share based payment (net of tax)	-	0.8	-	-
At 31 March 2023	**713.6**	**1.0**	**(0.6)**	**1,190.1**

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

The hedging reserve is stated net of tax and relates to the effective portion of the value of interest rate derivatives associated with the issuance of existing long-term debt. The interest rate derivatives were settled in prior years and the net loss continues to be amortised through the profit and loss account over the term of the debt.

The non-cash capital contribution reserve pertains to the employee share option scheme offered by the parent to be settled in the shares of the parent.

25. Contingent liabilities

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

Notes to the financial statements
For the year ended 31 March 2023

26. Commitments

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

	2023	2022
	£m	£m
Tangible fixed assets	**39.0**	38.0

27. Events after the reporting period

On 3 April 2023, the £250m RCF facility expiring in May 2025 was cancelled and replaced with a new facility of £250m with a 5 year maturity expiring on 3 April 2028.

On 24 April 2023, the Company repurchased £115.8m of the £800m 5.75% bond due in April 2032. The bond was repurchased at a fair value of £117.2m.

28. Ultimate parent undertaking

The immediate parent undertaking of the Company is National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited), which is registered in England and Wales.

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

The largest group which includes the Company and for which consolidated financial statements are prepared is National Grid plc, registered in England and Wales. Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

Registered office:
National Grid Electricity Distribution (West Midlands) plc
(formerly Western Power Distribution (West Midlands) plc)
Avonbank
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BS2 0TB

Telephone: 0117 933 2000
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Registered number 03600574