Registered Number: 04066211

WPD WEM Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS
(unaudited)

For the year ended 31 March 2022

nationalgrid

Contents

Directors' report

For the year ended 31 March 2022

The directors present their annual report and the financial statements of WPD WEM Limited (the 'Company'), company number 04066211, for the year ended 31 March 2022.

The Company has taken the small company exemption available under s.415A and s.414B of the Companies Act 2006.

Ownership

The Company is a wholly-owned subsidiary of WPD WEM Holdings Limited and an indirect subsidiary of National Grid Electricity Distribution plc (formerly Western Power Distribution plc). The primary business of National Grid Electricity Distribution plc (formerly Western Power Distribution plc) and its subsidiaries (the "NGED Group" or "NGED" or the "Group") is the distribution of electricity in the South West and Midlands regions in England and South Wales.

On 14 June 2021, PPL Corporation ("PPL") completed the sale transaction of its UK investment in the NGED Group, which includes the Company, to National Grid Plc ("National Grid"). On completion of the sale the ultimate controlling parent of the NGED Group became National Grid Plc, registered in England and Wales. National Grid is an energy company operating in the UK and United States of America.

Principal activity and business review

The principal activity of the Company is that of a holding Company.

At 31 March 2022, the Company holds 595,498,920 preferred ordinary shares in National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited) ("DNH") and 2 ordinary shares in DNH. DNH is an intermediate holding company in the NGED Group and owns the NGED Group's operating companies.

The Company's financial key performance indicators during the year were as follows:

	2022	2021
	£m	£m
Profit for the financial year	**112.8**	106.8
Investments	**2,868.8**	2,592.8

Profit for the financial year increased by £6.0m, mainly due to a reduction in interest expense. The interest expense during the year has decreased due to a reduction in the amounts due from NGED Group undertakings (refer to note 11).

The increase of £276.0m in investments from £2,592.8m in 2021 to £2,868.8m in 2022 is attributable to a revaluation gain on the investment in the preferred ordinary shares of DNH. The increase is due to movements in the fair value of investments. See note 9 for more details.

Dividend

Dividends of £65.4m were paid in the year (2021: £6.1m).

Principal risks and uncertainties

Investment in DNH

The principal risk is in respect of adverse movements in the fair value of the Company's investment in DNH, or that it will no longer be able to distribute dividends. DNH is controlled by the Company's indirect parent undertaking National Grid Electricity Distribution plc (formerly Western Power Distribution plc), which also controls the Company. The directors consider this common control helps mitigate the risk of adverse movements in the fair value of the Company. The principal risks and uncertainties for these businesses are included within the Strategic report of National Grid Electricity Distribution plc (formerly Western Power Distribution plc).

Directors' report (continued)
For the year ended 31 March 2022

Future developments
There are no plans to change the principal activity of the Company in the foreseeable future.

Going concern
The directors have considered the appropriateness of adopting the going concern principle. The Company has net current assets of £339.0m, comprising of amounts due from NGED Group undertakings. The Company does not have any liabilities. The Company earns preference dividends from its investment in DNH, which is a stable source of income.

After consideration, 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 at least for a period of 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the overall position of the balance sheet and its consistent source of income from its preference shareholding.

Subsequent events
Subsequent to the year end, on 15 June 2022, the Company paid a dividend of £26.9m to WPD WEM Holdings Limited. The dividend per share was £2.56.

Directors and their interests
The directors who served during the year and subsequently were:

GR Halladay (appointed on 14 October 2022)
AJ Sleightholm (appointed on 14 June 2021)
IR Williams (resigned on 31 July 2022)
AW Elmore (resigned on 14 June 2021)

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

Approved by the board of directors and signed on its behalf by:

GR Halladay
Director
12 December 2022

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.

The Company is exempt from audit requirements under section 479A and all the conditions under Section 479A have been complied with. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476. Accordingly, these financial statements have not been audited.

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 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:

GR Halladay
Director

12 December 2022

Profit and loss account

For the year ended 31 March 2022

	Note	**2022 £m**	2021 £m
Income from investments	4	**98.4**	98.4
Other operating income		**0.2**	-
Operating profit		**98.6**	**98.4**
Profit before interest and tax		**98.6**	98.4
Interest receivable and similar income	6	**14.6**	18.2
Interest payable and similar charges	6	**(0.4)**	(9.8)
Profit before tax		**112.8**	106.8
Tax	7	-	-
Profit for the financial year		**112.8**	106.8

All operations are continuing.

The accompanying notes 1 to 15 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Profit for the financial year		**112.8**	106.8
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of financial asset through other comprehensive income	9	**276.0**	647.7
Other comprehensive income for the year, net of tax		**276.0**	647.7
Total comprehensive income for the year		**388.8**	754.5

There is no tax impact of the other comprehensive gain in the Statement of comprehensive income.

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

Balance sheet
As at 31 March 2022

	Note	2022 £m	2021 £m
Fixed assets			
Investments	9	**2,868.8**	2,592.8
Current assets			
Debtors: amounts falling due within one year	10	**339.0**	413.4
Creditors: amounts falling due within one year	11	-	(121.8)
Net current assets		**339.0**	291.6
Total assets less current liabilities		**3,207.8**	**2,884.4**
Net assets		**3,207.8**	2,884.4
Capital and reserves			
Share capital	12	**1,050.1**	1,050.1
Revaluation reserves	13	**1,845.7**	1,569.7
Profit and loss account		**312.0**	264.6
Equity shareholder's funds		**3,207.8**	2,884.4

For the year ended 31 March 2022, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 ("the Act") relating to subsidiary companies. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476. Accordingly, these financial statements have not been audited. The directors acknowledge their responsibilities for complying with requirements of the Act with respect to accounting records and the preparation of accounts.

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

The financial statements of the Company (registered number 04066211) on pages 4 to 17 were approved and authorised for issue by the Board of Directors on 12 December 2022 and were signed on its behalf by:

GR Halladay
Director

Statement of changes in equity

For the year ended 31 March 2022

	Note	Share capital £m	Financial asset at FVOCI reserve £m	Profit and loss account £m	Total £m
At 1 April 2020		**1,050.1**	**922.0**	**163.9**	**2,136.0**
Profit for the financial year		-	-	106.8	106.8
Other comprehensive income	13	-	647.7	-	647.7
Total comprehensive income for the year		**-**	**647.7**	**106.8**	**754.5**
Dividend paid	8	-	-	(6.1)	(6.1)
At 31 March 2021		**1,050.1**	**1,569.7**	**264.6**	**2,884.4**
Profit for the financial year		-	-	112.8	112.8
Other comprehensive income	13	-	276.0	-	276.0
Total comprehensive income for the year		**-**	**276.0**	**112.8**	**388.8**
Dividend paid	8	-	-	(65.4)	(65.4)
At 31 March 2022		**1,050.1**	**1,845.7**	**312.0**	**3,207.8**

Notes to the financial statements
For the year ended 31 March 2022

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

The financial statements of WPD WEM Limited (the 'Company') for the year ended 31 March 2022 were authorised for issue by the board of directors on 12 December 2022 and the balance sheet was signed on the board's behalf by GR Halladay. WPD WEM Limited is a private company limited by shares, incorporated and registered in England and Wales.

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

These financial statements were prepared in accordance with FRS 101 "Reduced Disclosure Framework" and in accordance with applicable accounting standards.

2. Significant accounting policies

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

Where required, equivalent disclosures are given in the group accounts of National Grid Electricity Distribution plc (formerly Western Power Distribution plc). Theses group accounts are available to the public and can be obtained as set out in Note 15.

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 principal accounting policies adopted are set out below.

Going concern
The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This is discussed further within the Directors' report.

2. Significant accounting policies (continued)

Impact of New Financial Reporting Standards
The following new standards are effective for accounting periods beginning on or after 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - amendments in relation to Interest Rate Benchmark Reform, Phase 2. These amendments are effective for annual periods beginning on or after 1 January 2021;
- Amendments to IFRS 16 - amendments regarding COVID-19 related rent concessions, effective for annual periods beginning on or after 1 June 2020 and further extension effective for annual periods beginning on or after 1 April 2021.

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

Investment income
Investment income is received from equity instruments at fair value through other comprehensive income ("FVOCI") and is recognised in the profit and loss account when the right to receive payment is established.

Interest income
Interest income comprises interest receivable on financial assets at amortised cost and is recognised in the profit and loss account as it accrues, on an effective rate basis.

Interest expense
Interest expense comprises interest payable on financial liabilities at amortised cost and is recognised in the profit and loss account as it accrues, on an effective rate basis.

Financial assets
Financial assets are classified as debt instruments at amortised cost; debt instruments at FVOCI; financial assets at fair value through profit and loss ("FVTPL"); derivatives designated as hedging instruments in an effective hedge; or as equity instruments designated at FVOCI, as appropriate. Financial assets include investments and debtors. 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, 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 debtors.

Equity instruments at FVOCI
All equity investments are measured at fair value. For equity investments that are not held for trading, entities can make an irrevocable election at initial recognition to classify the instruments as at FVOCI, with all subsequent changes in fair value being recognised in other comprehensive income and dividends recognised in the profit and loss account. This category of financial assets includes investments. On disposal of this investment, the cumulative change in fair value is required to remain in other comprehensive income and is not recycled to profit or loss.

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.

2. Significant accounting policies (continued)

Derecognition of financial assets (continued)
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.

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. NGED constitutes the following as an event of default:
(i) Borrower is past due more than 90 days on any material credit obligation to the Company; or
(ii) Borrower is unlikely to pay its credit obligation to the Company in full.

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

Debtors
Debtors consists solely of amounts due from NGED undertakings and therefore are considered to be low risk, and the probability on default is assumed as close to zero.

Financial liabilities
Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortised cost, as appropriate. The Company's financial liabilities include creditors. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities measured at amortised cost
Financial liabilities measured at amortised cost 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, financial liabilities are subsequently measured at amortised cost using the effective interest method. 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 assets 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.

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

Notes to the financial statements
For the year ended 31 March 2022

2. Significant accounting policies (continued)

Fair value measurement (continued)
The fair value of DNH is determined in accordance with IFRS 13 'Fair value measurement', with reference to the companies in which the business holds investments.

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.

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

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

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

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

Deferred tax is recognised on all temporary differences except:

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

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

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

Notes to the financial statements

For the year ended 31 March 2022

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.

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.

Revaluation of investments

The revaluation of investments is performed annually. The fair value is based upon discounted future cash flows of the operating companies. The key assumptions underlying the fair value calculations are those regarding the discount rate, key future price control assumptions including the cost of equity allowance and incentive revenues, and the terminal value multiple applied to the Regulatory Asset Value ("RAV") at the end of the period to calculate a terminal value. All these assumptions are sources of estimations. See note 9 for further detail.

There are no critical accounting judgements.

4. Income from investments

Income from investments is solely in respect of cash dividends received from the Company's investment in National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited).

5. Employees and directors

The directors did not receive remuneration in either the current or prior year for their services as directors of the Company as they are incidental to their roles elsewhere in the Group.

The Company had no employees during either financial year.

6. Interest

	2022 **£m**	2021 £m
Interest receivable and similar income:		
On loans from Group undertakings	**14.6**	18.2
Interest payable and similar charges:		
On loans to Group undertakings	**(0.4)**	(9.8)
Net interest income	**14.2**	8.4

Notes to the financial statements
For the year ended 31 March 2022

7. Tax

a) Analysis of charge in the year:

There was no tax charged in the profit and loss account in the year.

b) Reconciliation of the total tax charge:
The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 **£m**	2021 £m
Profit before tax	**112.8**	106.8
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	**21.4**	20.3
Effects of:		
Income not taxable for tax purposes	**(18.7)**	(18.7)
Group relief received at non-standard rates	**(2.7)**	(1.6)
Tax charge	-	-

c) Change in corporation tax rate:
In the Spring Budget 2021, the UK government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021 and will only affect tax expense in future years as a provision for deferred tax is not needed in these financial statements.

8. Dividends

	2022 **£m**	2021 £m
Dividends paid on equity shares - £6.23 (2021: 0.58p) per £1 share	**65.4**	6.1

9. Investments

	£m
Fair value at 31 March 2021	2,592.8
Fair value adjustments recognised in other comprehensive income	276.0
Fair value at 31 March 2022	**2,868.8**

Notes to the financial statements
For the year ended 31 March 2022

9. Investments (continued)

Investments held at 31 March 2022 are:

Name of company	Country of incorporation	Holding	No of shares	Nature of business
National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited)	England & Wales	Ordinary shares	2	Investment company
National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited)	England & Wales	Preferred Ordinary shares	595,498,920	Investment company

The registered office of National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited) is the same as the Company as set out on page 17.

The shares included within the investment above represent an investment in unlisted equities. The cost of the investments on acquisition was £1,023.1m. At 31 March 2019, the Company held 595,498,922 ordinary shares in DNH. This represented 32.9% interest in the ordinary share capital A share redesignation was affected on 27 November 2019, whereby 595,498,920 ordinary shares held by the Company were redesignated as preferred ordinary shares.

The Company has indefinitely waived all distribution rights in connection with the 2 ordinary shares held in DNH and these shares are carried at nil fair value as at 31 March 2022 and 31 March 2021.

The preferred ordinary shares have at least 10% of voting rights.

The preferred ordinary shares, subject to approval of the directors, are entitled to a preferred ordinary dividend of £0.1653 per share.

On liquidation or other distribution of assets, after payment of all liabilities, the preferred ordinary shares are entitled to an amount equal to £2.8749 on each preferred ordinary share.

Fair value of the preferred ordinary shares is estimated using an income approach. The income approach uses a discounted cash flow model for the distribution businesses, which includes some assumptions that are not supportable by observable market prices or rates. The key assumptions for the fair value calculations are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the forecast period, and the multiple applied to the RAV at the end of the period to determine the terminal value.

CGU cash flows are derived from the corporate business plan approved by management. In determining the value in use, cash flows for a period of 23 years (until 2045) have been discounted and aggregated with a terminal value, which is calculated by applying a multiple to the RAV at the end of the period.

Typical industry practice to estimate the value of a UK utility is based on a multiple of the entity's RAV. Based on our experience, and the general principle that the RAV broadly represents the basis upon which future returns to a business are determined, we consider a RAV based multiple at the terminal year to be the best estimate of terminal value. The terminal value multiple applied to the RAV at the end of the cash flow period i.e. 31 March 2045, is 37.5%.

Notes to the financial statements

Investments held at 31 March 2022 are:

9. Investments (continued)

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

Assumptions beyond this period are based on the approved budget which takes into consideration key RIIO-ED2 assumptions in relation to the cost of equity allowances, incentive revenues and totex. The budger incorporates the Government's and Ofgem's latest views on net-zero carbon targets, electric vehicle rollout and the DSO strategy.

The post-tax cashflows are discounted using the NGED Group's post-tax weighted average cost of capital ("WACC"), which is calculated to be 4.31%.

Reasonable possible changes in key assumptions:

	Reduction in fair value £m
0.5% increase in the discount rate from 4.31% to 4.81%	(571.9)
5.0% decrease in terminal value multiple on the RAV from 37.5% to 32.5%	(202.1)

Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2022 and 2021, the Company held the following financial instruments measured at fair value:

2022	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets measured at fair value				
Investments	-	-	**2,868.8**	-

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value				
Investments	-	2,592.8	-	2,592.8

Notes to the financial statements
For the year ended 31 March 2022

9. Investments (continued)

During the year ended 31 March 2022, the fair value of investment transferred from Level 2 to Level 3. As at 31 March 2022, the fair value was based on the income approach under IFRS 13 'Fair value measurement', which involved various assumptions and sources of estimation uncertainty in relation to cash flows, discount rate and terminal value multiple. As at 31 March 2021, the fair value of the investment was determined based on the market approach under IFRS 13 'Fair value measurement'. This was due to the recent sale of the NGED Group from PPL to National Grid. Thus the fair value was based on directly observable inputs and fell within level 2 of the fair value hierarchy. An observable market rate that is used in measuring an asset or liability is not itself a subjective or complex assumption about the future or other source of estimation uncertainty and therefore as at 31 March 2021 there was no subjectivity in relation to any assumptions.

There were no transfers between Level 1 and Level 2 fair value measurements

10. Debtors

	2022 **£m**	2021 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	**339.0**	413.4

Amounts owed by Group undertakings comprise an intercompany note of £334.8m (2021: £408.3m) due from National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited) together with accrued interest of £4.2m (2021: £5.3m) thereon. The note accrues interest at a fixed rate of 4.25% per annum and is unsecured and repayable on demand. An expected credit loss of £nil (2021: £0.2m) is provided for on amounts owed by Group undertakings.

11. Creditors

	2022 **£m**	2021 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	-	121.8

The intercompany note payable to National Grid Electricity Distribution plc (formerly Western Power Distribution plc) was fully repaid during the year.

12. Share capital

	2022 **£m**	2021 £m
Issued and fully paid:		
1,050,051,000 (2021: 1,050,051,000) ordinary shares of £1 each	**1,050.1**	1,050.1

13. Revaluation reserves

	2022 £m	2021 £m
At 1 April	**1,569.7**	922.0
Fair value gain on investments	**276.0**	647.7
At 31 March	**1,845.7**	1,569.7

The balance held in the revaluation reserve relates to the changes in the fair value of investments.

14. Events after the reporting period

Subsequent to the year end, on 15 June 2022, the Company paid a dividend of £26.9m to WPD WEM Holdings Limited. The dividend per share was £2.56.

15. Ultimate parent undertaking

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

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

Until 13 June 2021, the largest group in which the results of the Company were consolidated was that headed by PPL Corporation, incorporated in the United States of America, which was the ultimate parent undertaking and controlling party. Copies of its accounts may be obtained from its registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US. On 14 June 2021, PPL completed the sale transaction of its UK investment in the Group to National Grid Plc On completion of the sale, the ultimate controlling parent of the Company is National Grid Plc, registered in England and Wales.

As at 31 March 2022, 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.

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