Registered Number: 9223384

WESTERN POWER DISTRIBUTION PLC
AND SUBSIDIARY UNDERTAKINGS

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2019

WESTERN POWER DISTRIBUTION

Serving the Midlands, South West and Wales

Western Power Distribution plc

Contents

Strategic report
For the year ended 31 March 2019

The Directors present their annual report and the audited financial statements of Western Power Distribution plc and its subsidiary undertakings (the "WPD Group" or "WPD") for the year ended 31 March 2019. These are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Group background
WPD Group mainly comprises of the four Distribution Network Operators ("DNOs"): Western Power Distribution (South West) plc ("WPD South West"), Western Power Distribution (South Wales) plc ("WPD South Wales"), Western Power Distribution (East Midlands) plc ("WPD East Midlands"), and Western Power Distribution (West Midlands) plc ("WPD West Midlands").

In addition to the DNOs, the Group also consists of other smaller subsidiaries including WPD Smart Metering Limited, WPD Telecoms Limited and South Western Helicopters Limited. The primary purpose of these businesses is to support the DNO 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.

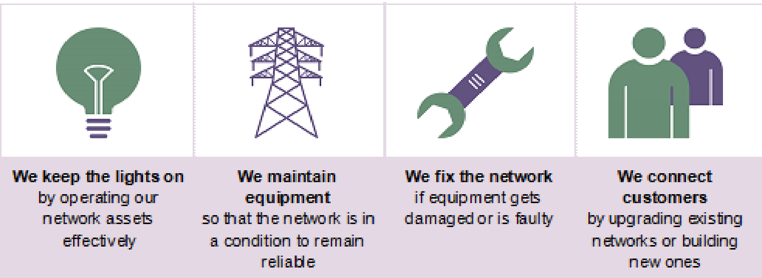
Ownership
The WPD Group is owned by Western Power Distribution Plc, which is a public limited company owned by one shareholder, PPL Corporation. PPL Corporation is an electricity utility based in Allentown, Pennsylvania, United States of America.

Business model
WPD is the electricity Distribution Network Operator for the Midlands, South West and South Wales. Our combined network is the largest in the UK, with our four DNOs delivering electricity to approximately 7.9 million customers and employing over 6,600 staff.

	Customers (million)	**Area (sq km)**
WPD South West	1.6	14,400
WPD South Wales	1.1	11,800
WPD East Midlands	2.7	16,000
WPD West Midlands	2.5	13,300
	7.9	55,500

The 7.9 million customers are registered with licensed electricity suppliers, who in turn pay the WPD Group for use of the network. Our costs make up around 17% of a domestic customer's bill.

What we do comprises four key tasks:



The Group's network comprises approximately 90,000 km of overhead lines, 135,000 km of underground cable and 188,000 transformers.

Regulation
The DNOs are monopolies regulated by the Gas and Electricity Markets Authority, which operates through Ofgem.

The regulatory framework is based on sustainable network regulation, known as the **"RIIO" model** where **Revenues=Incentives+Innovation+Outputs**. From 1 April 2015 Ofgem set an eight year electricity price control (known as RIIO-ED1). Under the RIIO model there is an emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers. A key feature of the RIIO model is that the setting of outputs that network companies are expected to deliver is much more extensive with the outputs embedded within an overall Business Plan that was influenced through engagement with our stakeholders. Progress against our business plan is published annually on our website at the link below:
https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1

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

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

WPD submitted an outputs based Business Plan for the RIIO-ED1 period (2015-2023), which was accepted by Ofgem as "well justified" and could therefore "fast-track" all four WPD licensed areas, ahead of the other five licensed distributor groups. WPD's modified licences took effect from 1 April 2015.

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

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

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

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

- Adapting to change
Adapting to change is an integral part of what we do; we are used to adopting technological innovation to create a more cost effective electricity network. The transition to a Distribution System Operator ("DSO") will help WPD to be ready for future challenges. Through implementation of our DSO Transition Programme, we plan to build on our Future Networks Programme and invest approximately £73m up to 2023 to ensure that our network, and our business, has the capacity to deliver all the emerging system requirements our customers have, both now and in the future.

On flexibility our Flexible Power product has transitioned to business as usual with two tender rounds per annum. Our last round contracted with 28 megawatts of flexibility. Our next (third) round is seeking 93.4 megawatts of flexibility required to operate over the summer and winter of 2019 and affects over £25m of reinforcements.

WPD leads on the Electricity Networks Association (ENA's) open networks project, which is helping to coordinate DSO transition at an industry level. Following consultation with stakeholders, the project is focusing on:

- Processes to develop flexibility services;
- Whole electricity system planning;
- Visibility of information to stakeholders;
- Implementation of short term customer service improvement such as queries management.

- Investing in technology and innovation
Innovation is core to our business strategy. Developing better ways of doing things is encouraged throughout the business. Innovative ideas are captured, tested and rolled-out into the business on a regular basis. We look for innovative developments across the following broad areas:

- Network performance and efficiency – developing better processes, searching out equipment and technology developments that ensure we continue to be efficient and effective;
- Customer service – developing smarter ways of delivering outstanding levels of customer service;
- Environment – reducing our business impact on the environment;
- Low carbon networks – supporting future electricity demand and generation requirements.

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

Key goals (continued)

Safety
Safety is the most important priority at WPD. WPD continuously promotes safety, both within the business and externally to groups such as school children, land owners and construction operators through activities such as safety awareness and education sessions as well as distributing safety related information.

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

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

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

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

Network performance & security
WPD is committed to providing a secure, reliable and continuous network connection to its customers. We look at the physical security aspects of our network and at preventing any cyber breach incidents. WPD recognises that our information systems and electricity networks are critical and valuable assets that must be protected and thus is focused on maintaining a robust system of cyber security that enables business continuity, minimises operational risk and preserves individual data privacy.

Financial stability
Delivering solid financial results to ensure long term viability and stability is another of the key goals of WPD. Our revenue is largely fixed across a price review period and is set at a level that should meet our efficient operating costs and expenses over that period, as well as funding efficient investment, interest on necessary borrowings and the payment of all applicable taxes. In order to encourage investment, our allowed revenue also allows for a return to shareholders.

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

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

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

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

Stakeholder value and engagement
The success of our business is critically dependent on the way we work with our key stakeholders. We aim to create value for our existing stakeholders every day and look towards future stakeholders. We regularly engage with key stakeholders to ensure that our goals and objectives are in line with their expectations. Our key stakeholders being:

- Customers
WPD strongly believes that customer satisfaction is the key to the future success of the business.

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

Key goals (continued)

Stakeholder value and engagement (continued)

- Customers (continued)
WPD's commitment to customer satisfaction is demonstrated by its continued accreditation to the Customer Service Excellence ("CSE") Standard. WPD has held the charter mark of best practice since 1992 - the only energy company in the UK to do so. The CSE assessor visits a number of locations across WPD every year and stringently assesses WPD's engagement activities, including delivery, timeliness, information, professionalism and staff attitudes, every year.

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

- Employees
Our business is built by our people and WPD is fully committed to keeping its employees motivated and actively involved.

Equality of opportunity is key to WPD's approach to hiring, training and promoting employees. WPD acknowledges the value that a diverse workforce brings to the organisation. We have an established Equality and Diversity policy demonstrating the equal treatment of all existing and future employees.

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

In addition WPD provides an ethics helpline that employees can use to report any concerns.

- Suppliers
We rely on quality, value for money goods and services from reputable suppliers and contractors in order to maintain the highest standards in network reliability and customer service. WPD maintains open and positive communication with all suppliers and contractors and treats them fairly, evenly and with honesty.

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

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

In order to help inform a range of stakeholders on how WPD earns and spends its allowed revenue, WPD became the first DNO to voluntarily publish its RIIO accounts in 2018. The aim of the accounts is to demonstrate where WPD is investing in its networks and clearly shows the returns our investors receive. Our work on RIIO accounts has been extremely useful on discussions, about the level of returns made by DNOs, with the likes of Citizen's Advice and other Government bodies. The RIIO accounts work underpins Ofgem's latest RIIO reporting framework, Regulatory Financial Performance Reporting ("RFPR") due for publication later this year.

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

- WPD's CEO and Senior Managers attend national groups such as National Health & Safety Committee ("HESAC"), of which the HSE is a member;
- WPD's CEO and Senior Managers meet with key HSE staff throughout the year to discuss matters and where appropriate collaborate on strategic Health and Safety issues and initiatives;
- WPD aligns its internal safety campaigns to the HSE ‘Helping Great Britain Work Well’ safety message and separately the HSE supported, National HESAC led ‘Powering Improvement’ H&S programme.

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

Strategic report (continued)
For the year ended 31 March 2019

Key goals (continued)

Stakeholder value and engagement (continued)

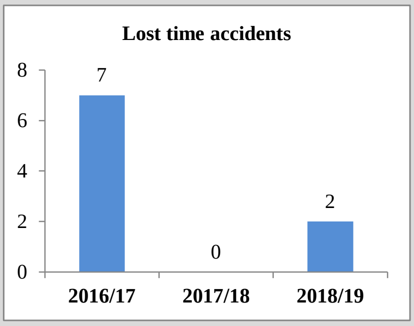
- Shareholder
The WPD Group is ultimately owned by PPL Corporation. WPD is committed to providing its shareholder with long term, sustainable value.

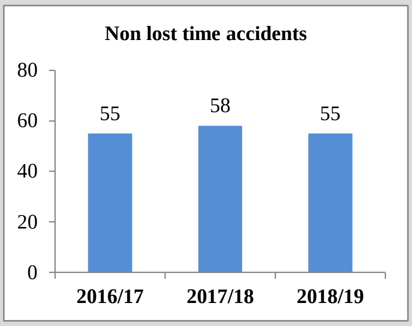
Key performance indicators (KPIs)
WPD utilises KPIs to assess progress against the overall strategy and key goals.

KPI | **Performance and comments**

Safety

Accident rate

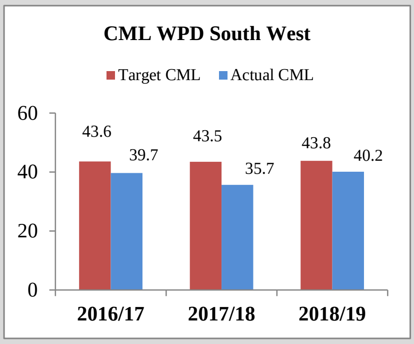


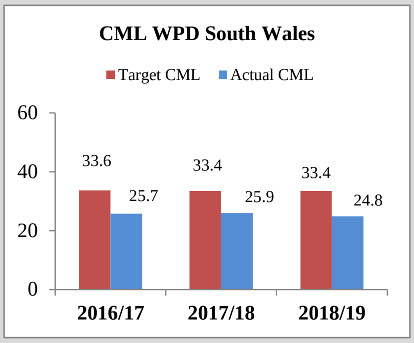


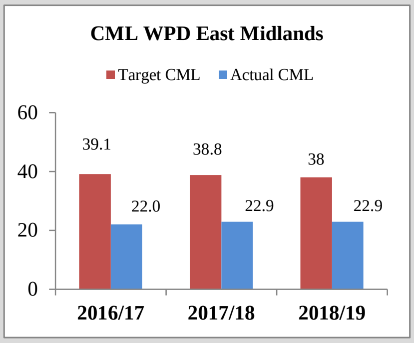
The total number of accidents to staff across the WPD Group decreased from 58 in 2017/18 to 57 in 2018/19. Electricity distribution carries inherent safety risks and the WPD directors are committed to the highest levels of safety in all areas. All accidents are investigated and we ensure that all our planned inspection and maintenance programmes are completed during the year.
In addition WPD monitors the overall rate of accident per 100 employees (as reported to Ofgem). The accident rate for WPD Group for 2018/19 is 0.86 (2017/18: 0.87), which is better than the RIIO-ED1 target of 1.6 (a reduction of 10% over price control prior to RIIO-ED1). Further details on our performance reporting to Ofgem regarding safety can be found at the link below:
https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1/safety

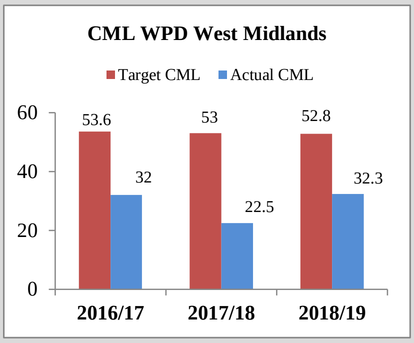
Network Performance & Security

Customer minutes lost ("CML")









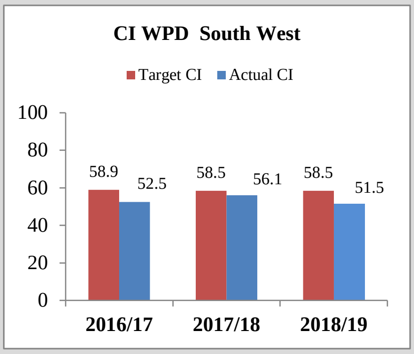
CML represents the average time a customer is without power during the year. It is calculated by taking the sum of customer minutes lost for all incidents, excluding the allowed exceptional events, divided by customers connected. The targets are defined by Ofgem at each DNO level. Year on year WPD is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

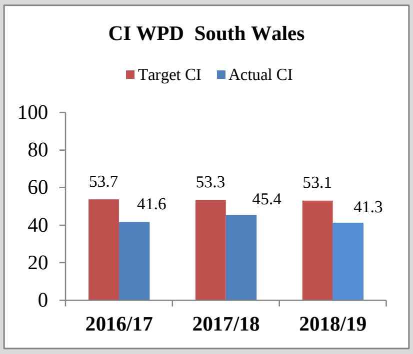
Key performance indicators (KPIs) (continued)

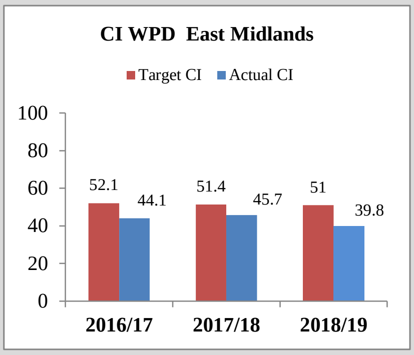
KPI	Performance and comments

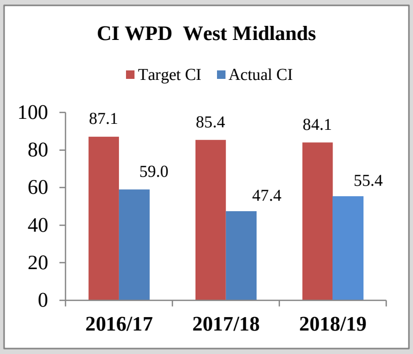
Network Performance & Security

Number of customer interruptions ("CI")









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

Other measures

- In 2018/19 88.01% (2017/18: 88.5%) of customers had their power restored within an hour of a high voltage fault, the target being 87.5% (2017/18: 85%).
- One of the guaranteed standards of performance (GSOPs) set by Ofgem is a reduction in the number of customers left without electricity for more than 12 hours. The number of customers without electricity for more than 12 hours was 26 (2017/18: 52), an improvement of over 99% on our 2012/13 benchmark performance. Customers received a set payment where we failed to achieve the GSOP.

Financial Stability

KPI	2018/19 (£m)	2017/18 (£m)	Comments
Revenue	1,685.6	1,620.9	The majority of WPD's revenue is fixed across the current price control period. Ofgem sets the revenues at a level that covers reasonable costs and allows a reasonable rate of return. In addition to the base level of fixed revenue that a DNO can earn, there are incentive measures including customer service outputs, network outputs and innovation, which constitute allowed revenue.
Profit before taxation ("PBT")	733.2	705.3	As part of regulatory process, Ofgem sets the allowed rate of return within each price control, which for RIIO-ED1 is set at 6.4%. As evident from the level of capital expenditure below, WPD invests a significant proportion of its profits back into the networks to ensure that we continue to provide an efficient, reliable and secure service to our customers.

Key Performance Indicators (KPIs) (continued)

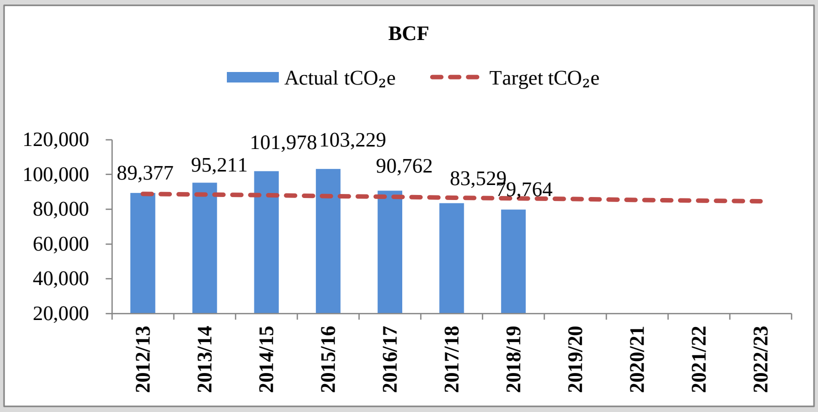
Financial Stability

KPI	2018/19 (£m)	2017/18 (£m)	Performance and comments
Fixed asset additions			WPD operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure, as evident from the extent of our capital expenditure. Due to the age of the network and technological advancements significant investment is required in capital related activities. During the RIIO-ED1 period to date we have invested £3.9bn in capital related activities.
Tangible fixed asset additions	882.4	990.9	
Regulatory asset value ("RAV")	7,698.1	7,354.8	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. It is not possible to perform a reconciliation between RAV and IFRS measures as RAV is a regulatory measure. The differences between IFRS and regulatory rules have built up over many years and cannot be reconciled.
Gearing ratio			Gearing for WPD is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the rolling credit facility covenants for several of the WPD companies and is used as a key internal measure. To comply with bank covenants as well the internal KPI, the gearing ratio for the WPD Group does not exceed 85%.
Net debt*	5,955.1	5,727.3	
RAV	7,698.1	7,354.8	
	77%	78%	
* Refer to note 21 on page 69 for calculation of net debt			
Interest cover			A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for several of the WPD companies. It is also used as a key internal indicator of the financial health of the DNOs. In order to comply with bank covenants, the interest cover ratio can not fall below 3:1; our interest cover ratio is at an acceptable level and shows a sufficient level of earnings to cover interest payments.
PBT	733.2	705.3	
Finance cost	282.6	290.6	
Depreciation	227.7	220.5	
Amortisation - intangible assets	5.4	3.4	
Amortisation - customer contributions	(45.3)	(44.3)	
Earnings before interest, taxation, depreciation, and amortisation ("EBITDA")	1,203.60	1,175.50	
Interest payable	282.6	290.6	
Interest cover	4.30	4.00	

Key performance indicators (KPIs) (continued)

	KPI	Performance and comments
Environment	**Business carbon footprint ("BCF")**	See below
	SF6 emissions (emissions as % of SF6 bank)	See below

Business carbon footprint ("BCF")



Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO2") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO_2e"). For calculations WPD follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") reporting protocol and ISO14064-1.

WPD's current target is a 5% reduction over the RIIO-ED1 period based on the baseline year of 2012/13. At 2018/19 we are outperforming our target.

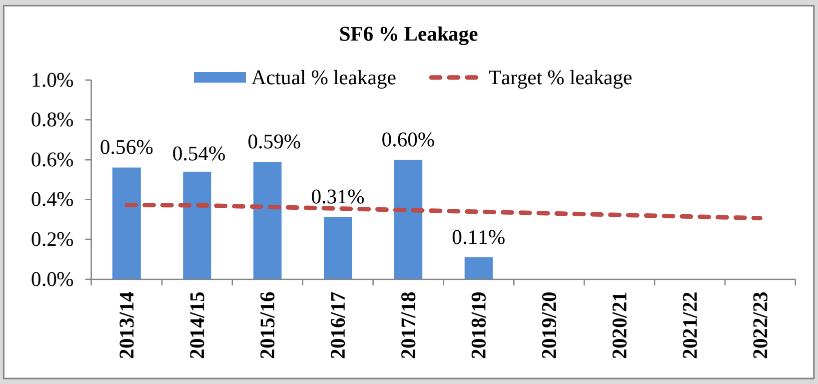
For further details on various elements that make up our BCF refer to our detailed environment report at the below link:

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

SF6 emissions (emissions as % of SF6 bank)

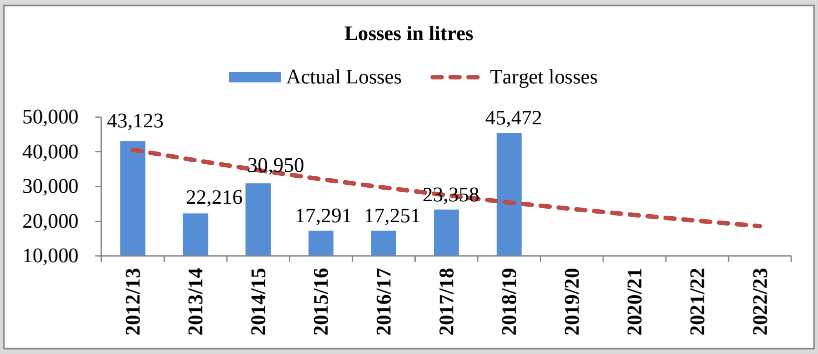
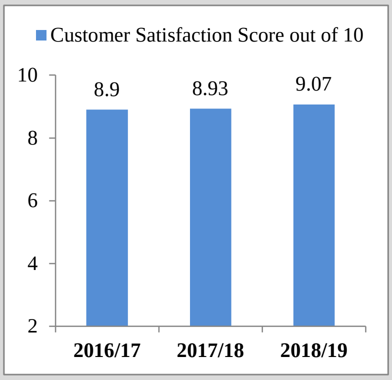
SF6 gas is used throughout our industry as an insulating medium in switchgear. Although it provides many benefits, it is a potent greenhouse gas. There are currently no viable alternatives to SF6. We continue to monitor our SF6 emissions.

The amount of SF6 emitted is expressed as a percentage of the overall 'bank' of switchgear containing SF6, as this will vary over the period of RIIO-ED1. The target is based on an average of emissions between 2009/10 and 2010/11.



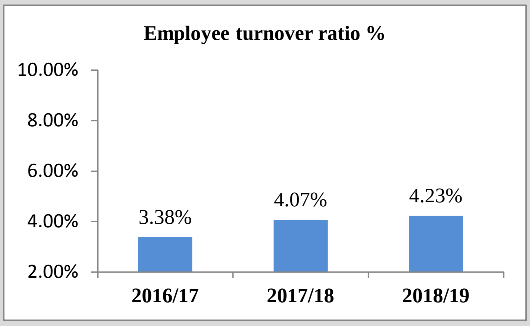
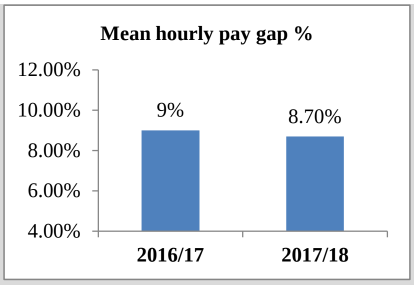
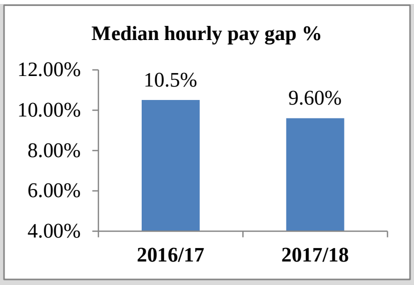
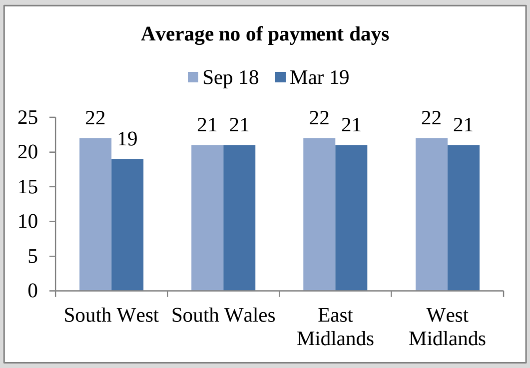
Overall the level of leakage is reducing over time as older units are replaced with new units which also contain lower levels of SF6. When replacing switchgear, we give priority to the switchgear with the highest leak rates. Within RIIO-ED1, we have committed to replacing any 11kV distribution assets that show signs of leakage and any higher voltage assets that have leaked three times. When a leak becomes apparent, we locate its source so that a strategy can be developed to manage the situation, taking into account the potential for repairs and the lead times for replacement switchgear.

Key performance indicators (KPIs) (continued)

	KPI	Performance and comments
Environment	**Fluid cable losses**	The design of very high voltage underground cables has evolved over many years and our new cables all use a solid plastic like insulation. Old designs of 33kV and higher voltage cables used an insulating oil in ducts inside the cable. Whilst these cables are normally very reliable, in the event of a fault, or damage by third parties, this oil may leak out. In common with other DNOs, WPD 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 WPD Group owns.  WPD's current target is a 75% reduction over the RIIO-ED1 period based on the baseline year of 2012/13. The losses from WPD's fluid filled cables can vary from year to year dependent on the number of small leaks at disparate locations rather than high volume single events, often caused by third parties. In the current year WPD has improved its technique for detection of losses as well as introduced a better system for loss reporting. This has resulted in higher losses detected and reported in the current year as compared to previous years. In addition, an increase in losses is also attributed to prolonged hot dry spells in May to August 2018 which affected the ground conditions and compromised the cable integrity.
	Other measures	*<u>- Environmental management standard</u>* In May 2017, all four DNOs gained certification to the new ISO14001:2015 environmental management standard. The latest six monthly surveillance audits were undertaken in April and November 2018 with no major non-conformances raised.
Stakeholder Value & Engagement	***Customers***	
	Overall customer satisfaction	 As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connection quotations and delivery, interruptions and general enquiries. The customer satisfaction score is given out of 10. For WPD's four licence areas around 22,000 customers are surveyed per year. For the regulatory year 2018/19, WPD has been rated the number one DNO for customer satisfaction for the eighth consecutive year. Ofgem also compared the speed of response that a DNO call centre provides and WPD is consistently identified as the top performer with an average speed of response below 1.58 seconds.

Key performance indicators (KPIs) (continued)

Stakeholder Value & Engagement

KPI	Performance and comments
Customers (continued)	
Stakeholder Engagement Incentive	WPD has maintained its position as the top performing DNO group in the Stakeholder Engagement Incentive Award Scheme (a key element of Ofgem's Broad Measure of Customer Satisfaction), held since its introduction in 2011/12. Most recently in 2017/18 WPD was again rated first place in the industry (outperforming every DNO, gas and transmission network) with a score of 8.75 out of 10. This was worth £6.72m (2017/18 prices) and will be applied to 2019/20 revenues across the four DNOs. WPD entered three written submissions, hosted a one-day audit of the Consumer Vulnerability part of the submission and this was then followed by a question and answer session with an Ofgem-appointed judging panel of experts.
Employees	
Employee turnover ratio	 The turnover ratio includes retirements and the reason for the slight increase year on year is due to more employees reaching the retirement stage. On an overall basis, WPD has a very low employee turnover ratio, indicating high levels of satisfaction and motivation of staff.
Gender pay gap	  WPD's median gender pay gap for the year ended 31 March 2018 is 8.3% below the national gender gap and 17.9% below its industry gender pay gap. Therefore, in relative terms, WPD's gender pay gap is positioned positively compared to its UK-wide industry segment. This is based on the latest available data. Further information about the WPD gender pay gap could be found at: https://www.westernpower.co.uk/useful-documents
Other measures	*- Employee satisfaction* WPD's 2018 staff survey was distributed to all staff. 84% of those who participated believe WPD is a good place to work.
Suppliers	
Payment performance	 WPD at a DNO level reports on its supplier payment performance every six months. One of the key measures is the average days within which WPD makes a payment. The average number of days within which WPD makes payments is 22 or less. This is based on the latest available data.

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

Transition to DSO
In recent years the energy sector has seen significant change, including the rapid growth of intermittent renewable generation, new technologies connecting to the distribution network and changes in the energy demands of consumers. To accommodate these changes cost effectively, our network needs to become smarter and more flexible. Thus in 2017 we published our strategy for transition from the passive role of DNO to an active role as DSO using innovative solutions in order to mitigate the need for higher cost network reinforcement. A DSO securely operates and develops an active distribution system comprising networks, demand generation and other flexible distributed energy resources. It is basically a smarter approach to a DNO. A DSO has greater visibility and control of assets on its distribution systems, enabling it to get the most from its existing electrical infrastructure by contracting services from distribution energy resources. In this way, a costly network reinforcement and traditional redundancy-based model of energy systems can be avoided.

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

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

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

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

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

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

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

WPD has registered 40 projects under NIA covering a broad range of topics. Further details of innovation activities can be found at the link below:
www.westernpower.co.uk/innovation

Future developments (continued)

RIIO-ED2

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

- Giving consumers a stronger voice in setting outputs by introducing a new enhanced engagement model for RIIO-2. This involves the establishment of Customer Engagement and User Groups at company level and establishing an Ofgem-led central RIIO-2 Challenge Group;
- Allowing DNOs to earn returns that are fair and represent good value for consumers, properly reflecting the risks faced in these businesses, and prevailing financial market conditions;
- Setting the default length of the price control to five years;
- Using the regulatory framework, or competition where appropriate, to drive innovation and efficiency;
- Simplifying the price controls by focusing on items of greatest value to consumers.

In the current year, WPD has set up the required customer engagement group ("CEG"), which will scrutinise our business plan for RIIO-ED2 and the process by which it is built. The CEG is independent and has the ability to challenge us on various areas such as our priorities, proposed outputs and expenditure; our approach to sustainability, resilience and innovation; our transition to DSO; stakeholder engagement process; and vulnerable customer strategies. Through its independent report to Ofgem, CEG will assist Ofgem and our stakeholders to understand whether our plans reflect and will meet the needs of our customers today and in the future.

The consultation for RIIO-ED2 strategy will be launched in mid 2020, with Ofgem's decision expected to be published in early 2022 and late 2022 for fast track and slow track respectively.

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

Other political developments

As a result of the Labour Party's publication "Bringing energy home", the WPD Group has given serious consideration to the prospect of renationalisation of DNOs, should the Labour Party win a majority at the next UK general election. We do not believe that the proposed renationalisation of the DNOs is in the best interests of UK consumers. Specifically, Labour's proposal would be extremely costly for consumers while adding risk and unnecessary complexity at a time when significant additional investment is required to achieve the UK's low carbon targets.

The board believes that since privatisation in 1990, WPD has created significant value for customers and society in many ways. The Group is investing £7.1billion into the WPD network in the current RIIO-ED1 period and has already made significant investment to support the UK government in delivering a low carbon environment. WPD is leading the industry in the development of new ways of working and using innovative technologies. WPD has also led the industry for the last seven years in its level of customer service, with independent assessment demonstrating satisfaction levels over 90%, and we continue to look at ways to further improve this score.

Costs to customers are 17% lower than pre-privatisation on a like-for-like basis. WPD's costs account for around 17% of an average customer's yearly domestic electricity bill despite the huge increases in investment and tremendous improvements in both network reliability and customer service, with customers receiving a 60% improvement in reliability since then.

Risk management and controls

WPD is exposed to various risks in the ordinary course of business that may have an adverse impact on the Group's operations and financial position, thus all such risks require appropriate management. The WPD Board oversees risk management and internal control systems, and monitors the Group's risk appetite in pursuing its strategic goals. It is the responsibility of the Board to ensure alignment of strategy and risk. The emerging risk register, containing the main risks currently facing the Group, is reported to the Directors monthly.

WPD's processes and systems are continually evolving alongside the needs of the business and all Group policies are reviewed by the business owners, on a maximum 3 year cycle, to ensure that they are relevant to the changing landscape of the business and industry practice.

In addition to appropriate policies and processes, WPD considers involvement of qualified and competent employees with the appropriate level of expertise throughout the business, a key factor for implementing an effective internal control environment.

Risk management and controls (continued)

The system of internal controls is assessed with regard to effective design and operation by the independent Internal Audit function. The Internal Audit Charter, defining the purpose, mission and responsibilities of the Internal Audit function, has been approved by the Board and the Board is responsible for:

- Approving the annual audit plan;
- Reviewing the audit results; and
- Ensuring implementation of Internal Audit recommendations.

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

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

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

Goal	Risk	Mitigating actions
Safety	**On site accidents:** Due to the nature of the business there is an inherent safety risk associated with unsafe working practices.	- WPD has robust safety policies and procedures in place to ensure a safe working environment. There is a system for reporting near misses and incidents and policies are reviewed and amended accordingly to avoid any future recurrence. - The safety team actively supports managers with their safety responsibilities and provides assistance to enable them to maintain a clear focus on safety. During the Autumn of 2018 the Safety Team provided a package of presentations to support managers throughout WPD as part of the '2018 WPD Safety Week' programme. The package included an update for staff on the Group's health and safety statistics, a review of near miss and risk assessment procedures, planning emergency arrangements, vehicle condition checks, and site and office housekeeping. - Regular safety site visits are undertaken to ensure that all safety policies and procedures are being followed and implemented. Site safety visits undertaken during the year were 24,208 versus a target of 20,918.
Network Performance & Security	**Network disruptions:** Events such as weather conditions, third party damage etc. may cause disruptions, which in turn can impact results both directly through the timing of recovery relating to lower units delivered on which income is charged, and also through the system of penalties and rewards that Ofgem has in place relating to customer service levels.	- WPD has comprehensive emergency plans for network emergencies such as Black Start. Black Start is the recovery from a partial or country wide loss of electricity supply. WPD sits on a number of nationwide industry groups, along with Government Departments ("BEIS") and Ofgem to prepare for such events. These groups facilitate a consistent approach to resilience and response to network emergencies across the industry. WPD has regular training sessions with its Network Control Centre Engineers to exercise a response to a Black Start. - Established restoration plans are in place and reviewed with the National Grid and contracted Power Stations. - Area operational teams undertake desktop exercises to ensure local resilience plans are appropriate. - Considerable sums are spent on routine maintenance for network assets including tree cutting costs. Assets are managed to an accredited asset management standard, ISO55001 to support the right decision making with respect to asset maintenance and replacement. - In addition to normal equipment stocks, WPD also keeps a small number of additional strategic spares and is part of the National Grid strategic spares group. - WPD has a resilient IT infrastructure with multi-site running with fault tolerant/mirrored systems. - Flood plans are in place for major substations. - There are reciprocal arrangements in place with other network operators for backup support through NEWSAC (North East West South Area Consortium).

Risk management and controls (continued)

Goal	Risk	Mitigating actions
Network Performance & Security	**Cyber breach threat:** Unauthorised access to our key networks and systems.	- Stringent policies and procedures are in place to provide controls around network security, proactive threat intelligence gathering, asset management, data backups and incident response. - A dedicated and qualified team is in place, that continually reviews and monitors our cyber security position and reporting capabilities. - WPD limits direct connection of WPD's corporate network to the internet, direct cloud based services and personal devices. - All data considered to be 'in transit' is secured using a variety of methods and techniques including Hypertext Transfer Protocol Secure ("HTTPS"), Secure File Transfer Protocol ("SFTP") and Lightweight Directory Access Protocol ("LDAP"). - Regular security drills are performed involving the Information Resources department and business teams. - All servers are backed up for both operational and disaster recovery purposes and the data is secured off-site. This facilitates full recovery of each system, once the appropriate replacement hardware, or hosting capacity, has been sourced. Disaster recovery testing is performed on a regular basis.
Financial Stability	**Interest rate risk:** WPD has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, which exposes it to interest rate risk.	- WPD's interest rate risk management policy seeks to achieve the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows. - An element of the long-term debt is index linked which creates a natural hedge against WPD's regulated income, which is also index linked. - WPD also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for any future planned issuance of debt.
	Credit rate risk: A customer or counterparty to a financial instrument will fail to perform and pay the amount due causing financial loss to the WPD Group.	- WPD is exposed to credit risk on its billed and unbilled portion of customer contributions in relation to any capital work undertaken. WPD maintains credit policies and procedures with respect to counterparties. Depending on the creditworthiness of the counterparty, WPD may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees. - WPD has minimal credit risk in relation to debtors pertaining to revenue from providing distribution use of system services ("DUoS"). DUoS debtors are protected by Ofgem regulations, provided credit management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the Distribution and Connection Use of System Agreement ("DCUSA").
	Exchange rate risk: Negative currency fluctuations on foreign currency denominated debt.	Where long-term debt is denominated in a currency which is not sterling, the WPD Group's policy is to hedge exposure to fluctuations in exchange rates through cross-currency swaps.
	Inflation risk: The WPD Group's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI.	WPD Group's regulated assets ("RAV") are linked to RPI due to the price setting mechanism imposed by the regulator, and also the allowed revenue is linked to RPI. By matching liabilities to assets, index-linked debt naturally 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.

Risk management and controls (continued)

Goal	Risk	Mitigating actions
Financial Stability	**Impact of Brexit:** The European Union referendum vote on 23 June 2016 has resulted in considerable uncertainty for UK businesses.	- WPD has evaluated the impact of Brexit on its operations, including review of all technical notices issued by the UK Government offering advice to businesses on a 'no deal' Brexit. - Potential inventory shortage due to restrictions between UK & EU borders has been identified as one of the key operational risks for WPD. In response to this risk, management has identified, and ordered in bulk, critical stocks that merit stockpiling and has taken steps to secure additional supply for storage on site or at UK based suppliers. - Uncertainty around Brexit has resulted in the weakening of sterling; however WPD's revenues and assets are principally sterling denominated, thus minimising any foreign currency risk for WPD. Any foreign currency debt is fully hedged by cross currency swaps.
Environment	**Regulatory changes:** Changes in legislation relating to environmental and other matters are not adopted by WPD.	- WPD has a dedicated regulation and compliance department with skilled personnel that track any regulatory changes and provides advice in relation to interpretation and compliance of those changes. - There is regular engagement with the WPD Board on political and regulatory developments which may impact the Group. The Board monitors management's progress in ensuring compliance with changes to legislation.
	Negative impact of network assets on the environment: Due to the nature of equipment used in the industry, network assets may have a harmful impact on the environment.	- Use of best technology to minimise the impact of network assets on the environment, such as the use of Perfluorocarbon Trace ("PFT") technology within WPD, reduces the effect on the total annual fluid losses. - Frequent assessment and careful monitoring of all its network assets, specifically assets like SF6 equipment, which produce SF6 gas linked to potential global warming. WPD carefully monitors its SF6 equipment and employs the external ENA Engineering Recommendations for the reporting of SF6 banks, emissions and recoveries. - Following best practices and complying with various guidelines in connection with environmental practices such as: a) G92/1 Guidelines for best practice in relation to Electric and Magnetic Fields ("EMFs") in the Design and Management of Low Voltage Distribution Network, b) BEIS Code of Practice on the Optimal Phasing of High Voltage Double Circuit Power, c) WPD complies with the public exposure recommendations contained within the 1989 ICNIRP (International Commission on Non-ionising Radiation Protection) Guidelines on Extremely Low Frequency Electromagnetic Fields, d) Occupational exposure requirements specified within the Control of Electromagnetic Fields of Work Regulations 2016.
Stakeholder Value & Engagement	**Customer dissatisfaction:** Failure to meet the required level of customer satisfaction performance	- WPD has a customer panel that meets four times a year and members, who represent a wide range of customers and other key stakeholder groups, help us keep up to speed with the issues affecting our customers. Through the panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. It plays an important role in helping WPD develop its key priorities. The panel is attended by WPD's Chief Executive and other directors, demonstrating the commitment at every level to proactively engage with customers. - Ofgem requires us to design, establish and resource a new Customer Engagement Group ("CEG") as part of RIIO-ED2's enhanced engagement. The WPD Group was the first to set up a new CEG - a group of 15 members who will scrutinise our Business Plan and provide assurance to Ofgem that the Plan and the engagement used to create it are robust.

Risk management and controls (continued)

Goal	Risk	Mitigating actions
Stakeholder Value & Engagement	**Customer dissatisfaction (continued):**	- Annually WPD hosts workshops to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. This year a record 330 stakeholders from a range of different backgrounds (including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors) attended six workshops. Improvement actions are identified as a result of the workshops and are subsequently addressed and delivered by WPD. A new online portal in place this year means even stakeholders who cannot attend can view content and videos and take part in the consultations.
	Lack of skilled employees: Failure to attract, retain and to develop our employees.	- WPD maintains good practices and safe working conditions. - WPD's employees have access to pension schemes (Contribution schemes for the new members). - WPD has benchmarked terms and conditions for all employees. - Employees are kept informed of WPD's goals, objectives, performance and plans, and their effect on them as employees, through monthly business updates, regular team briefings, as well as through WPD's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. - A series of roadshow presentations by the Directors is conducted each year to ensure that all staff are aware of, and can contribute to, WPD's goals. - Various training programmes are offered under the Trainee Development Scheme and Technical Apprentice Scheme. - Succession plans are in place for key roles within the organisation.
	Reliance on suppliers: WPD relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery.	- There are sufficient alternative suppliers for cable laying, tree cutting etc. such that, should an existing supplier be unable to continue to make supplies, there will be no significant long-term impact on WPD's ability to operate the network. - Most of the electricity which enters WPD's network is carried on the National Grid's grid supply points and thus WPD is dependent on National Grid. National Grid is regulated by Ofgem and thus the risk of a major failure is considered very remote. - All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity.
	Regulatory risk : WPD's revenue is regulated and is subject to a review at the end of each price control period. Thus WPD is subject to a high degree of political, regulatory & legislative intervention, which can impact both the current RIIO-ED1 period, and the next RIIO-ED2.	- WPD deploys significant resources in engaging with Ofgem on all new publications. - WPD is actively involved in the RIIO-ED2 consultations. - WPD is evolving plans for development of RIIO-ED2 modelling, building on RIIO-ED1 work and the current annual forecasting process. - WPD engages with its shareholder on all changes and encourages investor dialogue between PPL, its shareholders and Ofgem.

Corporate and social responsibility

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

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

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

Corporate and social responsibility (continued)

While maintaining these core themes, we have also continued to tailor our support to align, where appropriate, with the feedback from our stakeholders and customer opinion research from our customer awareness activity. With regard to its customer groups WPD has launched the following activities:

Social and community

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

WPD has established a dedicated team of people to proactively contact customers and check the detail held about them. This is a process that will be repeated every two years to ensure that the register remains up to date. WPD is also developing processes to share data with other service centred organisations that hold information about vulnerable customers, in line with data protection laws.

Links have been established with many organisations such as the British Red Cross to improve the understanding of the needs of vulnerable customers. These partners work with WPD to improve the services that are provided and we will continue to work with them.

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

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

In 2018/19, these projects supported over 16,000 fuel poor customers across WPD, leading to estimated annual savings of £6m for these customers.

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

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

Taxation
WPD is committed to comply fully with the UK tax legislation and endeavours to pay the right amount of tax at the right time, taking a prudent approach where there is any uncertainty. WPD is risk averse and thus does not engage in any aggressive or artificial tax planning to reduce its tax liabilities.

WPD values an open working relationship with HM Revenue & Customs and keeps them aware of any major business developments. The WPD Board takes ultimate responsibility for the management of taxation affairs in the UK, including the management of risk, the compliance process and the control environment in which the tax department works.

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

Corporate and social responsibility (continued)

Human rights
WPD is dedicated to conducting its business with honesty, integrity and fairness. In support of these principles, it is WPD'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. Annual 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 Act 2015 statements refer to the link below:
https://www.westernpower.co.uk/modern-slavery-act

Anti corruption and Anti bribery
WPD 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.

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

- Business model
Refer to page 1.

- Environment
Refer to page 3 for details on our policy regarding the environment.
Refer to pages 8 and 9 for details of impact of our activities on the environment and our performance in this area.
Refer to page 15 for our principal risks in relation to the environment and our actions to mitigate those risks.

- Employees
Refer to page 4 for details on our policies regarding employees.
Refer to page 10 for our performance in relation to employee satisfaction.
Refer to page 16 for our principal risk in relation to employees and our actions to mitigate that risk.

- Social matters
Refer to pages 16 and 17 in relation to details on our policies and activities in relation to our social responsibilities.

- Human rights
Refer above.

- Anti corruption and anti bribery matters
Refer above.

By Order of the Board

P Swift
Chief Executive Officer

18 July 2019

Western Power Distribution plc
Avonbank
Feeder Road
Bristol BS2 0TB

Directors' report
For the year ended 31 March 2019

The Directors present their annual report on the affairs of the WPD group, together with financial statements and auditors' report, for the year ended 31 March 2019.

Results and dividends
The WPD Group reports a profit for the financial year of £604.5m (2018: £586.0m). Profit before tax is £745.0m (2018: £705.3m).

The WPD Group also reports other comprehensive gains, which were posted directly to capital and reserves, of £104.7m (2018: £26.2m loss). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

Dividends of £300.2m have been paid during the year (2018: £92.7m).

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

Financial risk management objectives and policies
WPD does not undertake transactions in financial derivative instruments for speculative purposes.

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

Liquidity and going concern
The following credit facilities were in place at 31 March 2019, in respect of which all conditions present had been met at that date.

	Expiration date	Capacity £m	Borrowed £m	Letters of credit issued £m	Unused Capacity £m
WPD plc - Syndicated Credit Facility	**Jan. 2023**	**210.0**	**153.4**	**-**	**56.6**
WPD South West - Syndicated Credit Facility	**July 2021**	**245.0**	**-**	**-**	**245.0**
WPD East Midlands - Syndicated Credit Facility	**July 2021**	**300.0**	**90.5**	**-**	**209.5**
WPD West Midlands - Syndicated Credit Facility	**July 2021**	**300.0**	**-**	**-**	**300.0**
Uncommitted Credit Facilities		**100.0**	**-**	**3.5**	**96.5**
Total Credit Facilities		**1,155.0**	**243.9**	**3.5**	**907.6**

As at 31 March 2019 and 2018 the WPD Group had the following debt:

	External debt outstanding				Cash and short term deposits	
	Long-term		Short-term			
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
WPD South West	**1,010.90**	1,002.50	**19.5**	25.3	**62.2**	93.6
WPD South Wales	**659.3**	660.0	**-**	-	**4.6**	33.2
WPD East Midlands	**1,404.5**	1,397.2	**90.5**	130.0	**2.5**	1.6
WPD West Midlands	**1,472.2**	1,440.3	**-**	19.0	**12.8**	6.9
Western Power Distribution plc	**1,372.6**	988.1	**153.4**	272.7	**28.4**	10.3
Other subsidiaries	**-**	-	**-**	-	**32.2**	31.7
	5,919.5	5,488.1	**263.4**	447.0	**142.7**	177.3

Short-term debt includes bank overdrafts of £19.5m (2018: £25.2m). In addition the WPD Group's parent, Western Power Distribution plc, had made a loan to its parent of £154.9m (2018: £144.7m).

The Group has net current liabilities of £420.6m (2018: £530.7m). The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing facilities, and issuances of long-term debt.

After consideration, the directors of the WPD Group have concluded that the WPD Group 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 availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, and the anticipated ability of the WPD Group to be able to raise additional long term debt in the future.

Financial risk management objectives and policies (continued)

Dividend policy
The WPD Group is structured such that a proportion of the WPD Group's debt is issued by the holding company Western Power Distribution plc. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands.

Strategic report
The following information required in the Directors' report has been included in the Strategic report:
- an indication of future developments in the business - see page 11 and 12;
- an indication of activities of the Company in the field of research and development - see pages 11 and 12;
- a statement on the policy for disabled employees - see page 4;
- employee policies - see page 4; and
- Business carbon footprint (greenhouse gas emissions) - see page 8.

Subsequent events
Subsequent to the year-end, on 17 June 2019, the Company paid an interim dividend of £125.0m to PPL WPD Investments Limited. In addition, the Company took out a £50.0m five year loan facility which was fully drawn down on 7 June 2019.

Directors and their interests
The directors who served during the year and subsequently, unless otherwise stated, were as follows:

RA Symons, Chief Executive (deceased 7 November 2018)
P Swift, Chief Executive (appointed 7 November 2018)
GR Halladay, Operations Director (appointed 14 January 2019)
IR Williams, Finance Director
AJ Sleightholm, Resources and External Affairs Director (appointed 1 April 2018)
V Sorgi
AJ Torok
GN Dudkin
JH Raphael
JP Bergstein Jr (appointed 1 July 2019)

During and at the end of the financial year, no director was interested in any contract of significance in relation to the WPD Group's business other than service contracts.

Insurance in respect of directors and officers is third party qualifying insurance and is maintained by the WPD Group's ultimate parent, PPL Corporation. 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.

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 Annual General Meeting.

Approved by the Board and signed on its behalf by:

P Swift
Chief Executive

18 July 2019

Western Power Distribution plc Registered Number: 9223384
Avonbank
Feeder Road
Bristol BS2 0TB

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and Financial Statements, including the WPD Group financial statements and the Company financial statements, the Strategic report and the Directors’ report 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 WPD Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent company 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 Group and the parent Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies and 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 on a consolidated and individual basis, and to enable them to ensure that the individual and consolidated financial statements comply with the Companies Act 2006 and with regard to the Group financial statements, article 4 of the IAS regulation. They are also responsible for the system of internal control, for safeguarding the assets of the Company and its subsidiaries 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. Information published on the Company's website is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report
to the members of Western Power Distribution plc

Report on the audit of the financial statements

Opinion
In our opinion:

- **the financial statements of Western Power Distribution Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 March 2019 and of the group’s profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements of Western Power Distribution plc (the ‘parent Company’) and its subsidiaries (the ‘Group’) which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated balance sheet;
- the consolidated cash flow statement;
- the related notes 1 to 30 to the group financial statements;
- the company balance sheet;
- the company statement of changes in equity; and
- the related notes 1 to 9 to the company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

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 Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the group or the parent company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Impairment of goodwill and • Capitalisation of overheads.
Materiality	The materiality that we used for the Group financial statements was £36.7m (2018: £35m) which was determined on the basis of 5% (2018: 5%) of profit before tax.
Scoping	Based on our assessment, we focused our Group audit work on one component which was subject to a full scope audit of its financial information. Our full scope audit covered substantially all of the group’s revenue and profit before tax.
Significant changes in our approach	Uncertain tax positions were presented as a key audit matter in the prior year but have not been included in the current year as we no longer consider this to meet the criteria. The remaining key audit matters are consistent with the prior year.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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.

Impairment of goodwill

Key audit matter description

Management is required to assess the carrying value of goodwill and acquired intangibles, and perform an impairment review under IAS 36 Impairment of Assets on an annual basis and whenever an indication of impairment exists. Goodwill was acquired through business combinations.

We have identified a key audit matter around key assumptions applied in management's impairment model which require a significant degree of judgement, specifically the discount rate and the premium applied to the Regulatory Asset Value ("RAV") at the end of the cash flow period within the value in use model in respect of the East Midlands, West Midlands and South Wales cash generating units model and the current premium being applied to the RAV at the period end for the fair value less costs of disposal model.

As disclosed in note 14 of the financial statements the carrying value of goodwill in relation to East Midlands is £518.8m (2018: £518.8m), West Midlands £614.4m (2018: £614.4m) and South Wales £120.9m (2018: £120.9m).

Refer to note 1 'significant accounting policies', note 3 'critical accounting judgements and key sources of estimation uncertainty' and note 14 'intangible fixed assets' in the financial statements for further discussion of the Group's policy and judgements in the goodwill impairment review.

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

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

- Evaluated the design and implementation of key controls around determining the discount rate and RAV premiums.
- Obtained management's impairment model and tested its mechanical accuracy.
- Used internal valuation specialists to challenge the reasonableness of the discount rate and RAV assumptions used by management, using market data.
- Recalculated management's sensitivity analysis on the key assumptions.
- Challenged management's position using key assumptions developed independently based on external market data.
- We have considered the adequacy of the Group's disclosure of sensitivity of the East Midlands, West Midlands and South Wales cash generating units to changes in the key assumptions.

Key observations

Based on our work performed, we concur with management's assessment that no impairment is required at 31 March 2019.

Capitalisation of overheads

Key audit matter description

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

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

Key audit matters (continued)

Capitalisation of overheads (continued)

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

Due to the estimation required in assessing the value to be capitalised, we have determined that there was a potential for fraud through possible manipulation.

Total engineering indirect costs and corporate overheads are £426.0m in the year (2018: £430.1m), of which £299.2m (2018: £295.9m) has been capitalised to fixed assets.

Refer to note 1 ‘significant accounting policies’, note 3 'critical accounting judgements and key sources of estimation uncertainty' and note 12 ‘property plant and equipment’ in the financial statements for further discussion of the Group’s policy and judgements in capitalisation of overheads.

<u>How the scope of our audit responded to the key audit matter</u>
We have performed the following procedures around this key audit matter:

- Evaluated the design and implementation and tested the effectiveness of key controls related to the classification of overheads as capital expenditure and the appropriate percentage of costs to capitalise.
- Evaluated the appropriateness of the accounting treatment for capitalising overheads by reference to the requirements of IAS 16 Property, Plant and Equipment.
- We have tested an audit sample of costs capitalised. We have tested the percentage of costs capitalised through testing the inputs into management’s assessment of the capitalisation rate and have tested the allocation of the individual cost categories capitalised on a line by line basis.

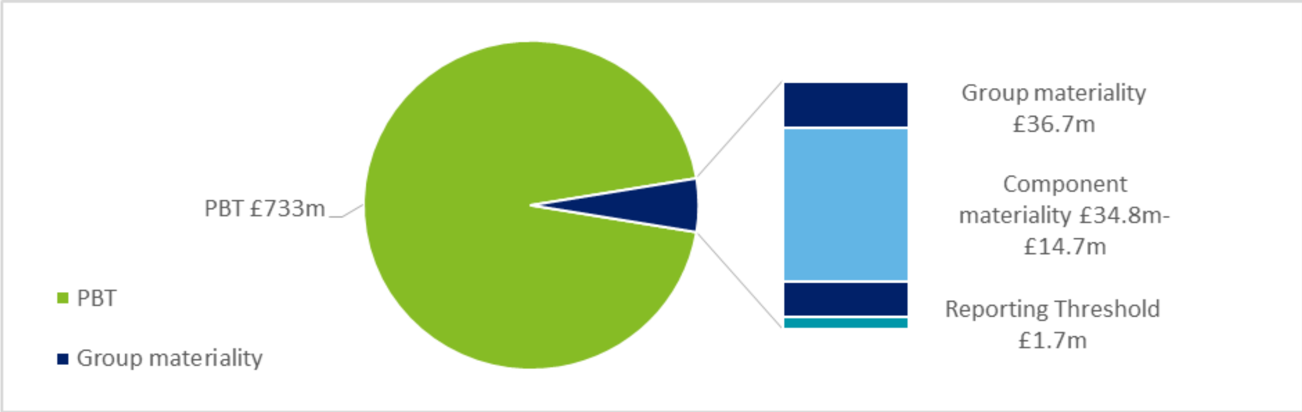
<u>Key observations</u>
Based on the work performed we conclude that the capital expenditure recorded is appropriate.

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

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

	Group financial statements	**Parent Company financial statements**
Materiality	£36.7m (2018: £35m)	£14.7m (2018: £14m)
Basis for determining materiality	5% of profit before tax. This is consistent with the methodology applied in 2018.	Parent Company equates to less than 1% of net assets. The materiality is capped at 40% of Group materiality. This is consistent with the methodology applied in 2018.
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.	We have determined materiality based on a percentage of assets as it holds the investments for its subsidiary companies. Therefore a balance sheet basis is deemed to be appropriate.

Our application of materiality (continued)



We agreed with the Board of Directors that we would report all audit differences in excess of £1.7m (2018: £1.8m) for the Group, 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.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment we focused our Group audit scope primarily on the audit work at one component, which was subject to a full scope audit. Analytical procedures were performed on the remaining non-significant components. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The one component represents the principal business unit within the Group and accounts for over 99% of revenue, profit before tax and net assets. It was also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at this location was executed at a level of materiality applicable to the individual component and was lower than Group materiality. Component materiality ranged from £34.8m-£14.6m (2018: £33.3m-£14m).

The parent Company is located in Bristol and audited directly by the group audit team.

Other information

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

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

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

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

We have nothing to report in respect of these matters.

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 Group's and the parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

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, our procedures included the following:

- enquiring of management and internal audit, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: capitalisation of corporate overheads.
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group company. The key laws and regulations we considered in this context included the relevant laws and regulations applicable to the Group (including its components) and the sector it operates in such as UK Companies Act, Listing Rules, pensions legislation, tax legislation. In addition, compliance with terms of the Group's operating licence as set out by the energy regulator, Ofgem, were fundamental to the group's ability to continue as a going concern.

Audit response to risks identified
As a result of performing the above, we identified capitalisation of overheads and impairment of goodwill as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee 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, the energy regulator.

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

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

Audit response to risks identified (continued)

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

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

Report on other legal and regulatory requirements

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 Group and of the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception
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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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.

Other matters
Auditor tenure
Following the recommendation of the Board of Directors, we were appointed by the shareholders on 16 June 2017 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 March 2017 to 31 March 2019.

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

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

Delyth Jones

Delyth Jones (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
19 July 2019

Western Power Distribution plc consolidated income statement

For the year ended 31 March 2019

	Note	**2019 £m**	2018 £m
Revenue	3	**1,685.6**	1,620.9
Operating costs	5	**(680.9)**	(632.8)
Other operating income	6	**6.2**	3.6
Other operating expense	6	**(1.0)**	(1.0)
Operating profit	3	**1,009.9**	990.7
Finance income	7	**10.2**	9.6
Finance costs	7	**(282.6)**	(290.6)
Net finance expense relating to pensions and other post-retirement benefits	24	**(4.3)**	(4.4)
Profit before income tax		**733.2**	705.3
Income tax expense	10	**(128.7)**	(119.3)
Profit for the year attributable to equity holders of the parent		**604.5**	586.0

All operations are continuing.

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

Western Power Distribution plc consolidated statement of comprehensive income
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Profit for the year		**604.5**	586.0
Other comprehensive income/(loss):			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Profit/(losses) arising on cash flow hedges during the year		**59.4**	(69.1)
Reclassification adjustments for (losses)/gains on cash flow hedges included in profit or loss (finance costs)		**(44.2)**	61.2
Income tax effect	10	**(2.5)**	1.3
		12.7	(6.6)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains/(losses) on defined benefit pension plan	24	**117.4**	(25.1)
Income tax effect	10	**(25.4)**	5.5
		92.0	(19.6)
Other comprehensive income/(loss) for the year, net of tax		**104.7**	(26.2)
Total comprehensive income for the year, net of tax, attributable to equity holders of the parent		**709.2**	559.8

Western Power Distribution plc consolidated statement of changes in equity
For the year ended 31 March 2019

	Note	Share capital £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2017		1,657.6	(963.1)	(11.3)	3,153.9	3,837.1
Profit for the year		-	-	-	586.0	586.0
Other comprehensive loss		-	-	(6.6)	(19.6)	(26.2)
Total comprehensive (loss)/income for the year		-	-	(6.6)	566.4	559.8
Equity dividends paid	11	-	-	-	(92.7)	(92.7)
At 31 March 2018		1,657.6	(963.1)	(17.9)	3,627.6	4,304.2
Change in accounting policy - IFRS 9		-	-	-	(0.5)	(0.5)
1 April 2018		1,657.6	(963.1)	(17.9)	3,627.1	4,303.7
Profit for the year		-	-	-	604.5	604.5
Other comprehensive income		-	-	12.7	92.0	104.7
Total comprehensive income for the year		-	-	12.7	696.5	709.2
Equity dividends paid	11	-	-	-	(300.2)	(300.2)
At 31 March 2019		**1,657.6**	**(963.1)**	**(5.2)**	**4,023.4**	**4,712.7**

Western Power Distribution plc consolidated balance sheet

As at 31 March 2019

	Note	**2019 £m**	2018 £m
ASSETS			
Property, plant and equipment	12	**12,587.7**	11,974.3
Investment property	13	**32.5**	35.0
Intangible assets	14	**1,292.9**	1,281.8
Investments	15	**154.9**	144.7
Trade and other receivables	17	**6.0**	2.4
Derivative financial instruments	22	**97.4**	46.3
Retirement benefit assets	24	**105.5**	-
Non-current assets		**14,276.9**	13,484.5
Inventories	16	**24.2**	24.7
Trade and other receivables	17	**292.8**	324.4
Derivative financial instruments	22	**5.5**	3.3
Cash at bank and in hand	18	**142.7**	177.3
Current assets		**465.2**	529.7
Total assets	3	**14,742.1**	14,014.2
LIABILITIES			
Loans and other borrowings	20	**263.5**	447.0
Trade and other payables	19	**580.3**	564.7
Current tax liabilities		**28.2**	39.0
Derivative financial instruments	22	**2.8**	-
Provisions	25	**11.0**	9.7
Current liabilities		**885.8**	1,060.4
Net current liabilities		**(420.6)**	(530.7)
Loans and other borrowings	20	**5,919.5**	5,488.1
Deferred income tax liabilities	23	**592.2**	498.8
Retirement benefit obligations	24	**-**	170.6
Trade and other payables	19	**2,481.6**	2,369.7
Provisions	25	**150.3**	122.4
Non-current liabilities		**9,143.6**	8,649.6
Total liabilities	3	**10,029.4**	9,710.0
Net assets		**4,712.7**	4,304.2
EQUITY			
Share capital	26	**1,657.6**	1,657.6
Merger reserve	27	**(963.1)**	(963.1)
Hedging reserve	27	**(5.2)**	(17.9)
Retained earnings	27	**4,023.4**	3,627.6
Total equity		**4,712.7**	4,304.2

The financial statements on pages 28 to 88 were approved and authorised for issue by the Board of Directors on 18 July 2019 and signed on its behalf by:

P Swift
Chief Executive

I R Williams
Finance Director

Western Power Distribution plc consolidated cash flow statement
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Operating activities - continuing operations			
Profit for the year		**604.5**	586.0
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax expense		**128.7**	119.3
Finance costs		**286.9**	295.0
Finance revenue		**(10.2)**	(9.6)
Depreciation of property, plant and equipment		**227.7**	220.5
Amortisation of customers' contributions		**(45.3)**	(44.3)
Amortisation of intangible assets		**5.4**	3.4
Gain on disposal of property, plant and equipment		**(4.8)**	(1.6)
Gain on disposal of investment properties		**(0.3)**	(0.2)
Fair value gains on investment properties		**(1.5)**	(1.8)
Fair value losses on investment properties		**1.0**	1.0
Difference between pension contributions paid and amounts recognised in the income statement		**(139.4)**	67.1
Increase/(decrease) in provisions		**5.6**	(3.7)
Working capital adjustments:			
Decrease/(increase) in inventories		**0.5**	(1.5)
Decrease/(increase) in trade and other receivables		**27.6**	(27.6)
Increase/(decrease) in trade and other payables		**22.4**	(9.9)
Interest paid		**(252.1)**	(247.5)
Interest received		**10.7**	10.8
Income taxes paid		**(74.0)**	(37.5)
Net cash from operating activities		**793.4**	917.9
Investing activities			
Purchase of property, plant and equipment		**(851.5)**	(952.2)
Customers' contributions received		**150.1**	167.3
Proceeds from sale of property, plant and equipment		**6.2**	2.1
Proceeds from sale of investment properties		**3.3**	2.8
Purchase of intangible assets		**(16.5)**	(13.7)
Net cash used in investing activities		**(708.4)**	(793.7)
Financing activities			
Net decrease in short-term borrowings		**(189.1)**	(154.4)
Proceeds from long-term borrowings		**377.9**	279.6
Issue costs of long-term borrowings		**(2.5)**	(1.7)
Repayment of long-term borrowings (net of cross currency swap settlements)		**-**	(75.1)
Dividends paid		**(300.2)**	(92.7)
Net cash used in financing activities		**(113.9)**	(44.3)
Net (decrease)/increase in cash and cash equivalents		**(28.9)**	79.9
Cash at bank and in hand at beginning of year	18	**152.1**	72.2
Cash at bank and in hand at end of year	18	**123.2**	152.1

1. Significant accounting policies

The financial statements of Western Power Distribution plc (the "Company") and its subsidiaries (the "WPD Group" or "WPD") for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 18 July 2019 and the balance sheet was signed on the Board's behalf by P Swift and IR Williams. The Company is a public limited company, limited by shares and incorporated and registered in England and Wales. The address of the Company's registered office is stated on Page 97.

Basis of preparation
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and in accordance with the provisions of the UK Companies Act 2006. The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the WPD Group financial statements comply with Article 4 of the EU IAS regulation. The accounting policies that follow have been consistently applied to all years presented.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and 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 WPD Group 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 consolidated 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 IAS 17, 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.

These consolidated financial statements are presented in sterling as this is the currency of the primary economic environment in which the WPD Group operates. All values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

The significant accounting policies and critical accounting judgements, estimates and assumptions of the WPD Group 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 WPD Group has adequate resources to continue in operational existence for the foreseeable future. This is discussed further under 'financial risk management objectives and policies' within the Directors’ report.

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

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

Impact of new International Financial Reporting Standards
This note explains the impact of the adoption of IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases" on WPD's financial statements.

1. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

IFRS 9

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

(i) Classification and measurement

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

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

* These reclassifications have no impact on the measurement categories.
** This impacts the measurement of short term deposits. Short term deposits comprise low-volatility net asset value ("LVNAV") money market funds which are now being recorded at fair value instead of cost. The impact on retained earnings is immaterial.

(ii) Impairment of Financial Instruments

a) Trade and other receivables

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

b) Investments at amortised cost

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

(iii) Hedge Accounting

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

(iv) Total IFRS 9 impact

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

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

1. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

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

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

The EU has adopted both IFRS 9 and IFRS 15.

Not yet adopted
The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the WPD Group.

IFRS 16
IFRS 16 "Lease" will supersede the current lease guidance including IAS 17 "Leases" and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019.

IFRS 16 provides comprehensive guidance for the identification of lease arrangements for both lessee and lessor and a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset and unwinding of lease liability using an appropriate discount rate over the lease term.

The presentation and timing of recognition of lease costs in the income statement will change, as the operating lease expense under IAS 17, currently recognised on a straight-line basis, will be replaced by depreciation of the right-to-use asset and interest on the lease liability. Furthermore, the classifications of cash flows would also change, as operating lease payments currently under IAS 17 are presented as operating cash flow; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively. In addition extensive lease disclosures will be required by IFRS 16.

WPD will adopt IFRS 16 on 1 April 2019 and has decided to apply the modified transition approach which does not result in any impact on the retained earnings on transition. WPD has estimated that the implementation of the standard will result in recognition of a lease liability and a right-to-use asset in the range £10m to £11m on the balance sheet as at 1 April 2019. The impact on the profit for the year ended 31 March 2020 is expected to be immaterial.

The EU has adopted IFRS 16 with effect from 1 January 2019.

IFRIC 23
IFRIC 23 "Uncertainty over Income Tax Treatments" is effective for annual periods beginning on or after 1 January 2019 and aims to clarify the accounting for uncertainties in income taxes. IFRIC 23 is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 "Income Taxes".

WPD is in process of assessing the impact of IFRIC 23 on the Group's financial statements.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

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

1. Significant accounting policies (continued)

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

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

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

Revenue recognition

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

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

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

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

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

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised as such an adjustment 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 income
Finance revenue comprises interest receivable on funds invested. Interest income is recognised in the income statement as it accrues, on an effective rate basis.

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

1. Significant accounting policies (continued)

Customer contributions

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

Other operating income and expense

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

Finance costs

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

WPD Group as a lessee

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

WPD Group as a lessor

With the exception of investment properties, assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the term of the lease.

Property, plant and equipment

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

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

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

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

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

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

1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

Intangible assets 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.

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

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

Impairment of property, plant and equipment, intangible assets, and goodwill
The WPD Group assesses goodwill and intangibles with indefinite useful life 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 group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

1. Significant accounting policies (continued)

Impairment of property, plant and equipment, intangible assets, and goodwill (continued)

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

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

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

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

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

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

Inventories

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

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

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

1. Significant accounting policies (continued)

Taxation (continued)
Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the WPD Group to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Pension benefits
The WPD Group operates four defined benefit pension plans, all of which require contributions to be made to separately administered funds. The larger plans are the two unitised sections of the industry-wide 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 final two plans, which are also closed to new members and have no active employees, are the Western Power Utilities Pension Scheme ("WPUPS") and the much smaller Infralec 1992 Scheme. WPD also has an unfunded obligation which relates to previous executives of WPD East Midlands and WPD West Midlands.

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

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

Remeasurements of the net 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 retirement benefit obligation/asset recognised in the balance sheet represents the deficit or surplus in the WPD Group's defined benefit pension plan. Surplus or deficit comprises the total of the present value of the 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 form of a reduction in future contributions to the schemes.

Contributions to defined contribution schemes are recognised in the income statement or capital expenditure as appropriate in the year in which they become payable.

Share-based payments
The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established at each balance sheet date from grant date until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the year.

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

1. Significant accounting policies (continued)

Dividend distribution

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

Financial assets

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

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

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

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

Financial assets at FVOCI

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

Derivatives designated as hedging instruments in an effective hedge

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

Impairment of financial assets

WPD 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. WPD 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

WPD has the following financial assets not measured at FVTPL that are subject to ECL.

Trade and other receivables including accrued income

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

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

1. Significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

Investments at amortised cost

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

Cash at bank and in hand

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

Cash and cash equivalents

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

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 WPD Group determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

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

Financial liabilities measured at amortised cost

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

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

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

Derivative financial instruments and hedging activities

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

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

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

1. Significant accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected at inception to be highly effective in achieving offsetting changes in fair value or cash flows. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Cash flow hedges

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

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

Fair value hedges

The WPD Group did not have any fair value hedges during the years presented in these financial statements.

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 group categorises assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or the WPD Group's assumptions about pricing by market participants.

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

Borrowing costs

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

Critical judgements in applying the Group'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 Group'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. Nature of costs to be included for capitalisation is a key judgement and is based on an analysis of the activities directly attributable to capital work.

Uncertain tax positions

The Group’s current tax charge and corporation tax liability reflects management’s best estimate and judgement regarding the amount of tax payable for the current and previous tax returns that remain to be agreed with HM Revenue & Customs. The UK tax legislation contains detailed and complex rules which are regularly updated. Management monitors any changes to the UK tax legislation and assesses their impact on the Group’s tax position. In particular, the OECD Base Erosion and Profit Shifting ("BEPS") project has resulted in the Government recently enacting complex legislation relating to the amount of finance costs that may be deducted from taxable profits, such as the Corporate Interest Restriction rules and the Hybrid and other mismatches rules, for both of which HM Revenue & Customs guidance and practical experience is still developing. Some of these rules may not directly apply to the Group, but apply to finance costs of PPL affiliate companies which may impact the amount of group loss relief available to the Group. Management has assessed the impact of this new legislation on the Group’s tax position and has taken necessary actions to ensure that the Group is compliant with the rules.

Management evaluates uncertain tax items which are subject to interpretation and agreement of the position with HM Revenue & Customs which, due to the complexity of the matters, may not be reached for a number of years. Management uses its judgement to determine the expected amount of finance costs that may be deducted, taking into account any progress in discussions with HM Revenue & Customs, together with in-house and third party advice on the potential outcome and recent developments in case law, tax authority practices and previous experience. The amount that may ultimately be deducted upon agreement with HM Revenue & Customs may differ to that recorded in the financial statements, but management does not expect that any adjustments would have a material impact on the Group’s financial results and positions.

Key sources of estimation uncertainty

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

Capitalisation of overheads - capitalisation rate

Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the income statement with a portion being capitalised using an appropriate rate. The capitalisation rate is based on analysis of total labour cost, 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. Information on sensitivity to the rate is as below:

	2019	2018
	Income statement (before tax) +/- £m	Income statement (before tax) +/- £m
Change in rate +/- 1%	**1.2**	1.0

Pension obligations

The WPD Group has a commitment, mainly through the Electricity Supply Pension Scheme ("ESPS"), to pay pension benefits. The cost of these benefits and the present value of the WPD Group's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees and the discount rate at which the future pension payments are discounted. Based on advice from external actuaries, WPD 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. See Note 24 for information on sensitivities.

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

Goodwill
The WPD Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. Following the assessment of the recoverable amount of goodwill allocated to the East Midlands, West Midlands and South Wales, to which goodwill of £518.8m, £614.4m and £120.9m have been allocated respectively, the directors consider the recoverable amount of goodwill allocated to these CGUs to be most sensitive to the post-tax discount rate of 4.05% (2018: 4.24%) and the assumed premium of 25% (2018: 25%) applied to the RAV on the assumed exit date at 31 March 2028. The discount rate reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Whilst the Group has some certainty over the future cash flows generated by the asset in the current price control period there is less certainty over the cash flows generated on activities such as incentive revenues and future price control periods which need to be factored in to the discount rate calculation.

In order to calculate the terminal value the premium applied to the RAV at the end of the cash flow period is estimated based upon recent comparable market transactions adjusted for future uncertainty and latest available market information. Whilst the Group has certainty over comparable transactions, the interpretation of current market information and the impact of future price controls is inherently uncertain due to the ongoing pressure from stakeholders and ongoing consultations regarding the future price control period. The sensitivity analysis in respect of the recoverable amounts of the CGUs allocated goodwill is presented in note 14.

3. Operating segment information

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

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

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

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

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

a) Revenues	**Total revenue**		**Inter-segment revenue**		**External revenue**	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Distribution network systems						
South West	**372.2**	364.5	**(0.8)**	(1.0)	**371.4**	363.5
South Wales	**259.2**	245.9	**(0.2)**	(0.1)	**259.0**	245.8
East Midlands	**506.2**	491.0	**(0.1)**	(0.1)	**506.1**	490.9
West Midlands	**524.7**	496.7	**(0.2)**	(0.1)	**524.5**	496.6
	1,662.3	1,598.1	**(1.3)**	(1.3)	**1,661.0**	1,596.8
Other businesses	**58.1**	58.3	**(33.5)**	(34.2)	**24.6**	24.1
	1,720.4	1,656.4	**(34.8)**	(35.5)	**1,685.6**	1,620.9

Information about major customers
Revenues from the WPD Group's largest five customers amounted to £266.8m, £231.4m, £227.2m, £226.9m and £219.3m (2018: £251.0m, £250.7m, £243.2m, £237.2m and £227.0m) arising from sales reported across the South West, South Wales, East Midlands and West Midlands segments.

3. Operating segment information (continued)

b) Segment profit

	2019	2018
	£m	£m
Distribution network systems		
South West	**403.3**	231.2
South Wales	**154.6**	150.7
East Midlands	**319.6**	307.4
West Midlands	**329.2**	311.8
	1,206.7	1,001.1
Other businesses	**(174.8)**	12.0
Corporate and unallocated*	**(22.0)**	(22.4)
Operating profit	**1,009.9**	990.7
Finance revenue	**10.2**	9.6
Finance costs	**(282.6)**	(290.6)
Net finance expense relating to pensions and other post-retirement benefits	**(4.3)**	(4.4)
Profit before tax	**733.2**	705.3
Taxation		
South West	**(29.1)**	(29.2)
South Wales	**(18.4)**	(18.7)
East Midlands	**(40.8)**	(37.2)
West Midlands	**(40.3)**	(37.5)
Other Businesses	**(0.1)**	3.3
	(128.7)	(119.3)
Profit for the year attributable to equity holders of the parent	**604.5**	586.0

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

c) Assets, liabilities, and capital expenditure

	Segment assets (i)		**Segment liabilities (ii)**		**Capital expenditure (iii)**	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Distribution network systems						
South West	**2,895.8**	2,762.0	**655.4**	630.4	**219.5**	247.7
South Wales	**2,076.6**	1,967.5	**433.6**	413.2	**148.7**	153.5
East Midlands	**4,712.6**	4,517.2	**1,112.5**	1,062.4	**279.2**	310.1
West Midlands	**4,426.7**	4,260.1	**772.7**	748.4	**247.7**	290.2
	14,111.7	13,506.8	**2,974.2**	2,854.4	**895.1**	1,001.5
Other businesses	**213.8**	197.8	**272.3**	268.1	**7.7**	7.0
Corporate and unallocated	**416.6**	309.6	**6,782.9**	6,587.5	**(3.9)**	(3.9)
	14,742.1	14,014.2	**10,029.4**	9,710.0	**898.9**	1,004.6

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

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

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

3. Operating segment information (continued)

d) Depreciation and amortisation	**Depreciation on property, plant and equipment (Note 12)**		**Amortisation of intangible assets (Note 14)**	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Distribution network systems				
South West	**59.5**	56.9	**2.4**	1.5
South Wales	**40.0**	37.7	**0.4**	0.2
East Midlands	**83.0**	80.9	**1.0**	0.6
West Midlands	**74.8**	71.7	**0.9**	0.5
	257.3	247.2	**4.7**	2.8
Other businesses	**7.5**	7.3	**0.7**	0.6
	264.8	254.5	**5.4**	3.4
Less: recapitalised to property, plant and equipment	**(37.1)**	(34.0)	**-**	-
Charged to consolidated income statement	**227.7**	220.5	**5.4**	3.4

4. Revenues

	2019	2018
	£m	£m
Revenue from customer contracts	**1,706.2**	1,641.6
Other	**14.2**	14.8
	1,720.4	1,656.4

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

	2019	2018
	£m	£m
Licensed energy suppliers - DNO	1,598.0	1,542.8
Other customers - DNO	64.3	55.3
Other businesses customers	43.9	43.5
	1,706.2	1,641.6

The licensed energy supplier revenue forms the majority of the external revenue of Distribution network systems as disclosed in the Note 3 (a).

Network assets with net book value of £12.2m (2018: £11.6m) are used to fulfil the contract with customers.

5. Operating costs

WPD Group operating costs can be analysed as follows:	**2019**	2018
	£m	£m
Employee benefit expense (Note 8)	**144.6**	139.0
Depreciation of property, plant and equipment	**227.7**	220.5
Property taxes	**99.5**	98.0
Other operating charges	**209.1**	175.3
	680.9	632.8

5. Operating costs (continued)

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

	2019	2018
	£m	£m
Employee benefit expense (Note 8)	**144.6**	139.0
Depreciation of property, plant and equipment *	**227.7**	220.5
Amortisation of intangibles	**5.4**	3.4
Operating lease rentals:		
Plant, machinery and equipment	**7.1**	9.6
Land and buildings	**0.6**	3.0
Amortisation of customer contributions	**(45.3)**	(44.3)
Research and development expenditure **	**0.1**	0.2

* Depreciation of property, plant and equipment is stated net of depreciation capitalised of £37.1m (2018: £34.0m) in respect of equipment consumed during the construction of the electricity network.

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

Services provided by the WPD Group's auditor

During the year the WPD Group obtained the following services from the Company's auditor and its associates:

	2019	2018
	£m	£m
Fees payable to Company's auditor for the audit of parent Company and consolidated financial statements	**0.1**	0.1
Fees payable to Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.4
- Other services pursuant to legislation	**0.1**	0.1
- All other services	**0.3**	0.5
	1.0	1.1

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

7. Net finance costs	**2019 £m**	2018 £m
Finance revenue		
Interest on bank deposits	**1.0**	0.5
Interest on loans to PPL affiliates (Note 30)	**9.2**	9.1
Total finance revenue	**10.2**	9.6
Finance costs		
Interest payable on bank loans and overdrafts	**(3.6)**	(4.6)
Interest payable on other loans	**(285.0)**	(288.0)
Foreign exchange (loss)/gain on US$ denominated financial assets and liabilities	**(43.8)**	59.9
Transfers from the hedging reserve in relation to cash flow hedges	**44.2**	(61.2)
Less: interest capitalised	**5.6**	3.3
Total finance costs	**(282.6)**	(290.6)
Net finance costs	**(272.4)**	(281.0)

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

8. Employee benefit expense

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

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

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

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

	2019 Number	2018 Number
Electricity distribution	**6,484**	6,493
Other activities	**159**	153
	6,643	6,646

9. Directors' emoluments

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

9. Directors' emoluments (continued)

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

(i) Base salary also includes benefits in kind.

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

(iii) As a result of changes in tax applicable to UK pensions, two of the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 24). Thus WPD no longer contributes for ongoing service to the ESPS in respect of these executive directors. Instead and subject to their service contract, WPD pays cash compensation to them individually equivalent to the value of WPD’s contribution into the ESPS that would have been made had they remained active members (as determined by external actuaries). The remaining two executive directors are accruing ESPS service and WPD is contributing for ongoing service.

(iv) Under a long term incentive plan, the executive directors were granted phantom stock options. The option price is set at the quoted share price of WPD's parent in the US, PPL Corporation, at the date the phantom options were granted. Options outstanding may be exercised during fixed periods and the gain is payable through the payroll. The values above include any payments made to the executive directors in respect of gains in value of phantom options exercised in the year. None of the executive directors were granted new options in either year; two executive directors exercised options (2018: none). In addition, the executive directors receive annually a grant of PPL Corporation shares which cannot generally be accessed for three years; a number of these shares is dependent on the achievement of certain criteria at PPL. The value of the shares granted in the year is shown within this line.

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

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

(vii) Following the passing of WPD's previous Chief Executive officer in November 2018, based on contractual obligations, an accrual of £9.4m has been booked in relation to death in service benefit.

10. Income tax expense

The major components of income tax expense are:	2019 £m	2018 £m
Current tax		
Current income tax expense (see below)	**65.2**	92.8
Adjustments in respect of prior years	**(1.8)**	(4.4)
Deferred tax (Note 23)		
Origination and reversal of temporary differences	**66.3**	31.6
Impact of tax rate change	**(1.6)**	(0.8)
Adjustments in respect of prior years	**0.6**	0.1
	128.7	119.3

10. Income tax expense (continued)

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

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

The total taxation expense as a percentage of profit before income tax gives an effective tax rate of 17.6% (2018: 16.9%) compared to the standard rate of 19% (2018: 19%) due to the effects of the items stated above. Expenses not deductible and income not taxable have been netted off as individually they are not material. Currently tax losses surrendered by PPL affiliates to the Group ("group relief") are not paid for and therefore the Group benefits by the tax value of these losses. The impact of the tax rate change is due to the tax rate applicable to the future years when the majority of deferred taxation temporary differences are expected to reverse being lower than the tax rate applicable to the current year. Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HMRC and additional group relief received from PPL affiliates for no payment.

Tax relating to items (charged) or credited to other comprehensive income	**2019**	2018
	£m	£m
Deferred tax:		
Revaluation of cash flow hedges	**(2.5)**	1.3
Re-measurement of pension liabilities	**(25.4)**	5.5
	(27.9)	6.8

Current income tax expense

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

10. Income tax expense (continued)

Current income tax expense (continued)

	2019 **£m**	2018 £m
Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	**139.3**	134.0
Adjustments:		
Depreciation and amortisation (note i)	**(22.8)**	(22.7)
Pensions (note ii)	**(38.0)**	(4.9)
Other timing adjustments (note iii)	**(1.6)**	(1.2)
Other adjustments (note iv)	**(2.7)**	(2.6)
Corporation tax payable on profits before group relief	**74.2**	102.6
Group relief (note v):		
Losses received from other group companies payable at standard rate	**-**	-
Losses received from other group companies for free	**(9.0)**	(9.8)
Corporation tax payable on profits after group relief	**65.2**	92.8

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

Corporation tax payable to HM Revenue & Customs	**65.2**	92.8
Group relief payable to other group companies	**-**	-
	65.2	92.8

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

(ii) The expense of providing pensions to employees is deductible from taxable profits at the time when contributions are paid into the pension schemes and not when the expense is charged to the income statement. As a proportion of the pension expense is capitalised (see note 8), the deduction for contributions paid in the year is greater than the expense in the income statement.

(iii) Adjustments are required for the timing of other deductions. These include interest capitalised (see note 7) and employee benefit expense (see note 8). A proportion of interest expense is included in tangible fixed asset additions, but the tax legislation provides for this expense to be deducted against profits for the year. Contrary to this, a deduction for employee benefit expense must be deferred until the year of payment if the payment is not made within nine months of the year end.

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

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

Change in corporation tax rate
From 1 April 2017 the standard rate of corporation tax was reduced from 20% to 19%. In addition the Finance Act 2016 reduced the standard rate of corporation tax to 17% from 1 April 2020. This future change has been enacted and included in the calculation of deferred tax with respect to any temporary differences that are expected to reverse after the effective date.

11. Dividends

	2019 £m	2018 £m
Equity dividends - 18.11 pence (2018: 5.59 pence) per £1 share	**300.2**	**92.7**

12. Property, plant and equipment

	Generation £m	**Distribution network £m**	**Non-network land & buildings £m**	**Fixtures & equipment £m**	**Vehicles & mobile plant £m**	**Total £m**
Cost						
At 1 April 2017	0.4	13,043.3	138.7	251.6	125.1	13,559.1
Additions	0.1	916.8	16.3	49.7	8.0	990.9
Disposals and retirements	-	(1.8)	(0.1)	(25.5)	(6.0)	(33.4)
At 1 April 2018	0.5	13,958.3	154.9	275.8	127.1	14,516.6
Additions	-	828.4	5.6	37.1	11.3	882.4
Disposals and retirements	-	(1.7)	(3.8)	(23.7)	(5.2)	(34.4)
At 31 March 2019	**0.5**	**14,785.0**	**156.7**	**289.2**	**133.2**	**15,364.6**
Accumulated depreciation						
At 1 April 2017	0.1	2,140.9	13.4	119.5	46.3	2,320.2
Depreciation charge for the year	-	203.0	2.1	36.5	12.9	254.5
Disposals and retirements	-	(1.8)	-	(25.5)	(5.1)	(32.4)
At 1 April 2018	0.1	2,342.1	15.5	130.5	54.1	2,542.3
Depreciation charge for the year	-	210.7	2.3	38.3	13.5	264.8
Disposals and retirements	-	(1.7)	(0.3)	(23.7)	(4.5)	(30.2)
At 31 March 2019	**0.1**	**2,551.1**	**17.5**	**145.1**	**63.1**	**2,776.9**
Net book value						
At 31 March 2019	**0.4**	**12,233.9**	**139.2**	**144.1**	**70.1**	**12,587.7**
At 31 Mach 2018	0.4	11,616.2	139.4	145.3	73.0	11,974.3
At 31 March 2017	0.3	10,902.4	125.3	132.1	78.8	11,238.9

Included in distribution network at 31 March 2019 was an amount of £86.5m (2018: £131.5m) relating to expenditure on assets in the course of construction.

The carrying amount of the WPD Group's distribution network and non-network land and buildings includes amounts of £5.5m (2018: £5.7m) and £1.4m (2018: £1.4m), respectively, in respect of long leasehold properties.

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

13. Investment property

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

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

The WPD Group's current use of the properties as investment properties is considered to be their highest and best use.

The amounts recognised in the income statement for rental income from investment property are £2.6m (2018: £2.8m).

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

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

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

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

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

All of the valuations fall within Level 3 of the fair value hierarchy (see Note 21). The table below provides details by class of property of the fair value ascribed to each class of asset, an indication of the key inputs used in deriving the valuation, together with other key features which inform the valuation process. In light of the immaterial nature of the other assets below to the financial statements as a whole, the directors have elected not to provide the equivalent detailed information in respect of these valuations.

13. Investment property (continued)

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

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

13. Investment property (continued)

Class of property	Carrying amount/Fair value 2018 £m	Valuation technique	Unobservable and observable inputs used in determination of fair values: Input	Range (weighted average) 2018	Other key information	Range 2018
Retail Level 3	16.7	Income capitalisation	> Length of leases in place (in years) > Yield > Passing rent (per sqm p.a) > Long term vacancy rate	11y 5.4% £201.4 0%	> Age of building > Remaining useful life of building > Square metres	24y 20+ 5,308
Other retail Level 3	3.9	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£93 - £204 (£155) 3y - 7y (4.4y) 7.25% - 8.0% 0%	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	50+ 18y - 20y 2,175 0%
Office Level 3	6.1	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£50 - £165 (£107) 0y - 5y (0.9y) 7% - 14% 0% - 97% (50%)	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	20y - 35y 20y - 46y 8,918 0% - 97%
Industrial Level 3	1.4	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£59 - £60 (£59.77) 4y - 24y (16y) 14% 0%	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	62y 16y 3,106 0%
Total	**28.1**					
Other assets	6.9					
Total fair value	**35.0**					

14. Intangible assets

Cost:	**Goodwill £m**	**Computer software £m**	**Customer contracts £m**	**Total £m**
At 1 April 2017	1,574.5	22.9	6.2	1,603.6
Additions	-	13.7	-	13.7
At 1 April 2018	1,574.5	36.6	6.2	1,617.3
Additions	-	16.5	-	16.5
At 31 March 2019	**1,574.5**	**53.1**	**6.2**	**1,633.8**
Aggregate amortisation and impairment:				
At 1 April 2017	320.4	8.1	3.6	332.1
Charge for the year	-	2.8	0.6	3.4
At 1 April 2018	320.4	10.9	4.2	335.5
Charge for the year	-	4.8	0.6	5.4
At 31 March 2019	**320.4**	**15.7**	**4.8**	**340.9**
Carrying amount				
At 31 March 2019	**1,254.1**	**37.4**	**1.4**	**1,292.9**
At 31 March 2018	1,254.1	25.7	2.0	1,281.8
At 31 March 2017	1,254.1	14.8	2.6	1,271.5

Goodwill acquired through business combinations has been allocated for impairment testing purposes to three cash-generating units ("CGUs"), East Midlands, West Midlands, and South Wales, which are also operating segments. These represent the lowest level within the WPD Group at which goodwill is monitored for internal management purposes. At 31 March 2014, an impairment loss of £186.2m and £62.2m was recognised in East Midlands and West Midlands, respectively. A further impairment loss of £72.0m was recognised at 31 March 2015 in West Midlands.

Carrying amount of goodwill allocated to cash-generating units ("CGUs")	**2019 £m**	2018 £m
East Midlands	**518.8**	518.8
West Midlands	**614.4**	614.4
South Wales	**120.9**	120.9
Carrying amount of goodwill	**1,254.1**	1,254.1

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

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

14. Intangible assets (continued)

CGU cash flows are derived from the corporate business plan approved by the Board. For determining the value in use, cash flows for a period of 9 years have been discounted and aggregated with a terminal value, which is calculated by applying a premium to the RAV at the end of the period. A period of greater than five years has been used as the period is covered by the corporate business plan and more accurately reflects the timing of cash outflows associated with major capital replacement cycles and their subsequent recovery under regulation. This period covers the remainder of RIIO-ED1 where the business plan has been agreed with Ofgem and a forecast for RIIO-ED2, which is yet to be agreed with Ofgem.

The future cash flows are discounted using a pre-tax rate adjusted for risks specific to the CGU. The pre-tax discount rate is derived from the WPD Group's post-tax weighted average cost of capital ("WACC") and is adjusted where applicable to take into account any specific risks relating to the CGU. 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. Assumptions beyond this period are based on the Board approved budget and Board's expectation of the outcome of a future price control review.

The corporate business plan has been updated from the prior year to take account of management's current forecast. The view for the remainder of RIIO-ED1 has been updated to reflect our current performance in the price control and our view for the remainder of the period to 31 March 2023. Our current forecast for RIIO-ED2 has been updated to incorporate Government and Ofgem latest views on electric vehicle rollout and DSO strategy. DNOs have a significant role to play in delivering Government targets resulting in increased future cash flows.

The RAV for East Midlands, West Midlands and South Wales is £2,459.9m (2018: £2,359.7m), £2,464.2m (2018: £2,365.3m) and £1,134.0m (2018: 1,059.4m) respectively. The premium applied to the RAV at the end of the cash flow period i.e. 31 March 2028, is 25%. The premium is based on management's estimation of the premium to RAV that may be realised at the end of the period taking into account past experience, current market conditions, industry prospects, WPD Group's current performance and future plans.

The pre-tax cash flows reflect an implied growth of 3.1%-4.1%. The implied growth rate from management's discounted cash flow model and premium applied to the terminal RAV value, slightly exceeds the long term average targeted growth rate for the U.K. Management support this long term growth rate because the RIIO regulatory regime incentivises the Company to realise real growth above RPI when it reaches target performance measures which the Company has a historic track record of achieving and forecasts will continue to achieve at a consistent level in the future.

The pre-tax rate used to discount the forecast cash flows is 4.84% (2018: 5.11%). This has been derived from post-tax WACC of 4.01% (2018: 4.24%).

At 31 March 2019, the East Midlands, West Midlands, and South Wales recoverable amounts exceeded their carrying amounts by £43.3m, £80.1m, and £46.9m (2018: £175.8m, £213.5m and £142.8m), respectively.

Reasonable possible changes in key assumptions:	East Midlands	West Midlands	South Wales	Total
	Reduction in recoverable amounts			
	£m	£m	£m	£m
0.5% increase in the pre-tax discount rate to 5.3%	128.2	129.4	60.9	318.5
5.0% decrease in the premium on the RAV to 20% at 31 March 2028	123.2	122.7	60.7	306.6
	Change in assumption required to give rise to an impairment			
Increase in the pre-tax discount rate	by 0.2% to 5.04%	by 0.3% to 5.14%	0.4% to 5.24%	
Decrease in the premium on the RAV	by 2.0% to 23.0%	by 4.0% to 21.0%	by 4.0% to 21.0%	

14. Intangible assets (continued)

The discounted pre-tax cash flows of East Midlands, West Midlands and South Wales reflect an implied premium on current RAV of 48%, 51.5% and 47.3%, respectively. Sensitivity analysis to current implied premium to RAV is as follows:

	East Midlands	West Midlands	South Wales	Total
	(Decrease) / increase in goodwill surplus			
Implied premium to current RAV at 30%	(441.9)	(529.6)	(196.3)	(1,167.7)
Implied premium to current RAV at 40%	(195.9)	(283.2)	(82.9)	(561.9)
Implied premium to current RAV at 50% *	50.1	(36.8)	30.5	43.9

* For West Midlands an implied premium to RAV at 50% would result in a reduction in the recoverable amount by £36.8m but no impairment as the recoverable amount currently exceeds the carrying value by £80.1m.

15. Investments

(a) Investment at amortised cost	**2019 £m**	2018 £m
Investment in PPL affiliate debt	**154.9**	144.7

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

The expected credit loss on investments at amortised cost as at 31 March is as follows:

	2019 £m	2018 £m
At 1 April - IAS 39	**-**	-
Amount restated through opening retained earnings	**0.1**	-
Restated at 1 April - IFRS 9	**0.1**	
Provision for impairment	**0.0**	-
At 31 March	**0.1**	-

(b) Details of WPD Group undertakings
A list of investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest, is given in Note 4 to the Company's separate financial statements.

16. Inventories

	2019 £m	2018 £m
Raw materials	**23.1**	23.3
Work in progress	**1.1**	1.4
	24.2	24.7

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

17. Trade and other receivables

	2019	2018
	£m	£m
Current receivables		
Trade receivables	**261.2**	262.8
Other receivables	**2.8**	21.0
Accrued income	**9.9**	17.7
Prepayments	**18.9**	22.9
Total current receivables	**292.8**	324.4
Non-current receivables		
Other receivables	**5.0**	1.4
Prepayments	**1.0**	1.0
Total non-current receivables	**6.0**	2.4
Total trade and other receivables	**298.8**	326.8

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

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

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

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

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

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

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
	£m	£m	£m	£m	£m	£m	£m
2019	**261.2**	**252.1**	**3.3**	**1.9**	**2.1**	**1.4**	**0.4**
2018	262.8	257.1	3.0	0.9	0.1	0.3	1.4

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

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

17. Trade and other receivables (continued)

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

18. Cash at bank and in hand	**2019**	2018
	£m	£m
Cash at bank	**52.8**	65.0
Short-term bank deposits	**89.9**	112.3
Cash at bank and in hand	**142.7**	177.3

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

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

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

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

	2019	2018
	£m	£m
Cash at bank and in hand (from above)	**142.7**	177.3
Bank overdrafts (Note 20)	**(19.5)**	(25.2)
Cash at bank and in hand in the cash flow statement	**123.2**	152.1

Bank overdrafts comprise principally unpresented cheques at the year end.

19. Trade and other payables

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

19. Trade and other payables (continued)

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

20. Borrowings

	2019	2018
	£m	£m
Current		
Bank overdrafts (Note 18)	**19.5**	25.2
Syndicated credit facilities (i)	**244.0**	291.8
Term loan facility (ii)	**-**	130.0
	263.5	447.0

(i) The syndicated credit facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortisation and total net debt not in excess of 85% of RAV, calculated in accordance with the credit facility. At 31 March 2019, £90.6m (2018: £149.1m) of syndicated credit facilities were denominated in Sterling and £153.4m (2018: £142.7m) were denominated in US dollars.

(ii) On 19 March 2018, the Company entered into a £130.0m nine month term facility agreement with HSBC Bank and Mizuho Bank. On 22 March 2018, the Company borrowed the full loan amount under the facility. Proceeds of the borrowing were used for general corporate purposes. At 31 March 2018 interest on the facility accrued at a rate of 1.77%, being Libor plus a margin of between 0.9% and 2.0% based on the Company's credit rating. The loan was repaid in full in October 2018.

	2019	2018
	£m	£m
Non-current		
5.875% GB£250m bonds due 2027 (iv)	**248.7**	248.6
5.75% GB£200m bonds due 2040 (iv)	**197.5**	197.4
2.375% GB£250m bonds due 2029	**246.7**	246.4
9.250% GB£150m bonds due 2020 (iv)	**154.0**	156.5
4.804% GB£225m bonds due 2037 (i) (iv)	**220.7**	220.5
5.75% GB£200m bonds due 2040 (iv)	**197.5**	197.4
6.25% GB£250m bonds due 2040 (iv)	**257.7**	258.1
5.25% GB£700m bonds due 2023 (iv)	**701.1**	701.4
6.00% GB£250m bonds due 2025 (iv)	**253.0**	253.4
5.75% GB£800m bonds due 2032 (iv)	**791.2**	790.5
3.875% GB£400m bonds due 2024 (iv)	**396.9**	396.4
3.625% GB£500m bonds due 2023	**496.9**	496.2
5.375% US$500m bonds due 2021	**383.0**	355.9
7.375% US$202m bonds due 2028	**147.6**	136.0
3.5% GB£350m bonds due 2026	**345.1**	-
1.541% + RPI GB£105m index linked bonds 2053 (ii) (iii)	**148.4**	144.7
1.541% + RPI GB£120m index linked bonds 2056 (ii) (iii)	**169.6**	165.4
0.010% + RPI GB£50m index linked bonds 2029 (iii)	**55.4**	54.5
0.010% + RPI GB£30m index linked bonds 2036 (iii)	**31.7**	31.1
2.671% + RPI GB£140m (2016: £100m) index linked bonds 2043 (iii)	**203.9**	201.1
1.676% + RPI GB£105m index linked bonds 2052 (iii)	**133.4**	130.9
0.4975% + RPI GB£100m index linked bonds 2026 (iii)	**108.4**	105.7
1.25% + RPI GB£30m index linked bonds due 2028 (iii)	**31.1**	-
	5,919.5	5,488.1
Total borrowings	**6,183.0**	5,935.1

20. Borrowings (continued)

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

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

(iii) The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts in 2019 was an increase of approximately £20.0m resulting from inflation.

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

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

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

	2019	2018
	£m	£m
UK pound	**5,499.0**	5,300.5
US dollar	**684.0**	634.6
	6,183.0	5,935.1

21. Financial instruments

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

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

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

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

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

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

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

21. Financial instruments (continued)

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

Interest bearing/earning assets and liabilities:	**2019 Carrying amount £m**	2018 Carrying amount £m
Fixed	**4,782.5**	4,460.4
Floating	**120.8**	269.7
Index-linked	**881.9**	833.4
	5,785.2	5,563.5

Represented by:	**2019 Carrying amount £m**	2018 Carrying amount £m
Cash and cash equivalents	**(142.7)**	(177.3)
Investment in parent company debt	**(154.9)**	(144.7)
Derivative financial assets/liabilities	**(100.2)**	(49.6)
Loans and borrowings	**6,183.0**	5,935.1
	5,785.2	5,563.5

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

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

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

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

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

	2019		2018	
	Income statement (before tax) +/- £m	**Equity +/- £m**	Income statement (before tax) +/- £m	Equity +/- £m
Interest Rate +/- 100bp	**1.2**	**-**	(2.7)	-

21. Financial instruments (continued)

Inflation risk
The WPD Group's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI. This form of liability is a good match to the WPD Group's 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.

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

	2019 **£m**	2018 £m
Index-linked debt	**881.9**	833.4

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

	2019		2018	
	Income statement (before tax) +/- £m	**Equity +/- £m**	Income statement (before tax) +/- £m	Equity +/- £m
UK Retail Prices Index +/- 1.00%	**8.8**	**(7.1)**	8.3	(6.6)

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

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

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

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

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

21. Financial instruments (continued)

Foreign currency sensitivity

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

	2019		2018	
	Income statement (before tax) £m	**Equity £m**	Income statement (before tax) £m	Equity £m
10% increase in exchange rates	**(0.1)**	**(7.6)**	(0.2)	(7.6)
10% decrease in exchange rates	**0.2**	**9.4**	0.2	9.3

Credit risk (see also Note 17)

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

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

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

	2019 £m	2018 £m
Cash and short-term deposits	**142.7**	177.3
Trade receivables	**261.2**	262.8
Other receivables	**7.8**	22.4
Accrued income	**9.9**	17.7
Investment at amortised cost	**154.9**	144.7
Derivative financial instruments	**102.9**	49.6
	679.4	674.5

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

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

21. Financial instruments (continued)

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

2019	**12 Month ECL £m**	**Lifetime ECL £m**	**FVTPL £m**	**FVOCI £m**	**Total £m**
AAA to A (Low to Fair Risk)	**52.8**	**-**	**89.9**	**103.0**	**245.7**
BBB+ to B (Monitoring)	-	-	-	-	-
CCC and below (Substandard)	**154.8**	**-**	**-**	**-**	**154.8**
Others monitored on ageing matrix	**-**	**282.2**	**-**	**-**	**282.2**
Total gross carrying value	**207.6**	**282.2**	**89.9**	**103.0**	**682.7**
Loss allowance	**0.1**	**(3.3)**	**-**	**-**	**(3.2)**
Net carrying value	**207.7**	**278.9**	**89.9**	**103.0**	**679.5**

2018	12 Month ECL £m	Lifetime ECL £m	FVTPL £m	FVOCI £m	Total £m
AAA to A (Low to Fair Risk)	65.0	-	112.3	49.6	226.9
BBB+ to B (Monitoring)	0.0	-	-	-	0.0
CCC and below (Substandard)	144.7	-	-	-	144.7
Others monitored on ageing matrix	-	304.6	-	-	304.6
Total Gross Carrying Value	209.7	304.6	112.3	49.6	676.2
Loss Allowance	-	(1.7)	-	-	(1.7)
Net Carrying Value	209.7	302.9	112.3	49.60	674.5

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

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

The following credit facilities were in place at 31 March 2019:

	Expiration Date	**Capacity £m**	**Borrowed £m**	**Letters of Credit issued £m**	**Unused Capacity £m**
WPD plc - Syndicated Credit Facility	**Jan. 2023**	**210.0**	**153.4**	**-**	**56.6**
WPD South West - Syndicated Credit Facility	**July 2021**	**245.0**	**-**	**-**	**245.0**
WPD East Midlands - Syndicated Credit Facility	**July 2021**	**300.0**	**90.5**	**-**	**209.5**
WPD West Midlands - Syndicated Credit Facility	**July 2021**	**300.0**	**-**	**-**	**300.0**
Uncommitted Credit Facilities		**100.0**	**-**	**3.5**	**96.5**
Total Credit Facilities		**1,155.0**	**243.9**	**3.5**	**907.6**

21. Financial instruments (continued)

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

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

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

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

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

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

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

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

21. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)

2019

	Amortised cost £m	**Fair value through profit & loss £m**	**Fair value through OCI £m**	**Total book value £m**	**Fair value £m**
Financial assets					
Cash	**52.8**	**89.9**	**-**	**142.7**	**142.7**
Investment at amortised cost	**154.9**	**-**	**-**	**154.9**	**184.5**
Derivative financial instruments	**-**	**-**	**103.0**	**103.0**	**103.0**
Trade and other receivables	**278.9**	**-**	**-**	**278.9**	**278.9**
Financial liabilities					
Bank overdraft	**(19.5)**	**-**	**-**	**(19.5)**	**(19.5)**
Interest-bearing loans and borrowings:					
- Floating rate borrowings	**(263.5)**	**-**	**-**	**(263.5)**	**(263.5)**
- Fixed rate borrowings	**(5,037.6)**	**-**	**-**	**(5,037.6)**	**(5,706.3)**
- Index linked	**(881.9)**	**-**	**-**	**(881.9)**	**(1,262.3)**
Trade and other payables	**(340.3)**	**-**	**-**	**(340.3)**	**(340.3)**
	(6,056.2)	**89.9**	**103.0**	**(5,863.3)**	**(6,882.8)**

2018

	Amortised cost £m	Fair value though profit & loss £m	Derivatives designated in hedge accounting relationships £m	Total book value £m	Fair value £m
Financial assets					
Cash	65.0	112.3	-	177.3	177.3
Investment at amortised cost	144.7	-	-	144.7	146.3
Derivative financial instruments	-	-	49.6	49.6	49.6
Trade and other receivables	302.9	-	-	302.9	302.9
Financial liabilities					
Bank overdraft	(25.2)	-	-	(25.2)	(25.2)
Interest-bearing loans and borrowings:					
- Floating rate borrowings	(447.0)	-	-	(447.0)	(447.0)
- Fixed rate borrowings	(4,654.7)	-	-	(4,654.7)	(5,667.6)
- Index linked	(833.4)	-	-	(833.4)	(1,238.0)
Trade and other payables	(323.9)	-	-	(323.9)	(323.9)
-	(5,771.6)	112.3	49.6	(5,609.7)	(7,025.6)

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

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

21. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)
The carrying value of short term receivables and payables are assumed to approximate their fair values where discounting is not material.

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

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

As at 31 March 2019, the WPD Group held the following financial instruments measured at fair value:

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

2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Assets measured at fair value				
Derivatives financial instruments	-	49.6	-	49.6
Short term deposits	112.3	-	-	112.3

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

During the reporting period ending 31 March 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

Hedge counterparties are major banks of high quality credit standing.

In addition to the above financial instruments, the fair value of long-term debt disclosed under financial liabilities is classified as level 2.

WPD uses observable market data from Bloomberg to arrive at the fair value of long term debt.

21. Financial instruments (continued)

Capital risk management
The primary objective of the WPD Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The WPD Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the WPD Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2019 and 31 March 2018.

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

	2019 **£m**	2018 £m
Short term borrowings	**263.5**	447.0
Long term borrowings	**5,919.5**	5,488.1
Letters of Credit	**3.5**	3.8
Cross currency swaps	**(102.9)**	(49.6)
Cash at bank and in hand (excluding restricted cash)	**(128.5)**	(162.0)
Net debt	**5,955.1**	5,727.3
Regulatory Asset Value	**7,698.1**	7,354.8
Gearing ratio	**77%**	78%

Reconciliation of cash flows to net debt

	2019 **£m**	2018 £m
Net decrease/(increase) in cash at hand in bank	**33.5**	(81.5)
Net decrease in short term borrowings	**(195.1)**	(229.5)
Net increase in long term borrowings	**375.4**	277.9
Change in debt resulting from cash flows	**213.8**	(33.1)
Net (increase)/decrease in derivatives	**(53.3)**	91.3
Foreign exchange loss/(gain) on borrowings	**48.9**	(84.7)
Net increase in borrowings due to indexation	**20.0**	28.8
Amortisation of premiums, discounts and issue costs	**(1.6)**	(1.7)
Movement in net debt in the year	**227.8**	0.6
Net debt at beginning of year	**5,727.3**	5,726.7
Net debt at end of year	**5,955.1**	5,727.3

22. Derivative financial instruments

Cross-currency swaps

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

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

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

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

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

Forward-starting interest rate swaps

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

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

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

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

22. Derivative financial instruments (continued)

Hedging instruments

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

	2019				
	Nominal amount £m	**Carrying amount (assets) £m**	**Carrying amount (liabilities) £m**	**Line item in balance sheet £m**	**Change in fair value relevant to ineffective hedge £m**
Foreign currency risk					
Cross-currency swaps - cash flow hedges	**428.8**	**102.9**	**-**	Derivative financial instruments	-
Interest rate risk					
Interest rate swaps - cash flow hedges	**300.0**	**0.1**	**2.8**	Derivative financial instruments	-
	728.8	**103.0**	**2.8**	-	-

	2018				
	Nominal Amount £m	Carrying amount (assets) £m	Carrying amount (liabilities) £m	Line item in balance sheet £m	Change in fair value relevant to ineffective hedge £m
Foreign currency risk					
Cross-currency swaps - cash flow hedges	428.8	49.6	-	Derivative financial instruments	-
Interest rate risk					
Interest rate swaps - cash flow hedges	-	-	-	-	-
	428.8	49.6	-	-	-

Timing profile for hedge instruments' nominal amounts

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

	2018				
	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross-currency swaps - cash flow hedge	-	306.9	121.9	-	**428.8**
Interest rate swaps - cash flow hedge	-	-	-	-	**-**

22. Derivative financial instruments (continued)

Hedging instruments (continued)

The average rate of the hedging instruments is as follows:

	Average rate	
	2019	2018
Foreign currency risk		
Cross-currency swaps	**6.13%**	6.13%
Interest rate risk		
Interest rate swaps	**1.48%**	-

Hedged items

	2019		2018	
	Value change in hedged item relating to hedge ineffectiveness £m	**Cash flow hedge reserve balance £m**	Value change in hedged item relating to hedge ineffectiveness £m	Cash flow hedge reserve balance £m
Foreign currency risk				
Foreign currency borrowings	-	**4.6**	-	19.0
Interest currency risk				
Borrowings	-	**0.6**	-	(1.1)

Hedge effectiveness

	2019					
	Hedging gain in OCI £m	**Ineffective hedge portion recognised in income statement £m**	**Line item in income statement including ineffective hedge portion**	**Amount reclassified because cash flows no longer expected £m**	**Amount reclassified because hedged item affected P&L £m**	**Line item in income statement including reclass adjustment**
Foreign currency risk	**(13.5)**	-	-	-	-	-
Interest rate risk	**0.6**	-	-	-	-	-

	2018					
	Hedging gain / (loss) in OCI £m	Ineffective hedge portion recognised in income statement £m	Line item in income statement including ineffective hedge portion	Amount reclassified because cash flows no longer expected £m	Amount reclassified because hedged item affected P&L £m	Line item in income statement including reclass adjustment
Foreign currency risk	7.7	-	-	-	-	-
Interest rate risk	(1.1)	-	-	-	-	-

22. Derivative financial instruments (continued)

Reconciliation of cash flow hedge reserve

	2019 **£m**	2018 £m
Opening balance	**17.9**	11.3
Hedging gain or loss	**(12.9)**	6.6
Amount reclassified to income statement because Cash flows no longer expected	**-**	-
Amount reclassified to income statement because hedged item affected P&L	**0.2**	-
Closing balance	**5.2**	**17.9**

23. Deferred tax

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

	Accelerated capital allowances £m	Retirement benefit obligations £m	Other £m	**Total £m**
At 1 April 2017	520.4	(15.0)	(30.7)	474.7
Charge/(credit) to the income statement	34.2	(13.3)	10.0	30.9
Credit to equity	-	(5.5)	(1.3)	(6.8)
At 1 April 2018	554.6	(33.8)	(22.0)	498.8
Charge/(credit) to the income statement	35.2	25.3	5.0	65.5
Credit to equity	-	25.4	2.5	27.9
At 31 March 2019	**589.8**	**16.9**	**(14.5)**	**592.2**

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

	2019 **£m**	2018 £m
Deferred tax liabilities	**681.6**	637.2
Deferred tax assets	**(89.4)**	(138.4)
Net deferred tax liabilities	**592.2**	498.8

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

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

24. Retirement benefit obligations

Introduction

The WPD Group operates four defined benefit pension schemes:

- two segments of the Electricity Supply Pension Scheme ("ESPS"),
  - the segment covering WPD South West and WPD South Wales ("ESPS WPD"), and
  - the segment covering WPD East Midlands and WPD West Midlands ("ESPS CN")
- the Western Power Utilities Pension Scheme ("WPUPS")
- the Infralec 1992 Pension Scheme ("Infralec 92")

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

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

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, as PPL WPD Limited, the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Note 25) and matches the gross asset/liability recorded under IAS 19 below.

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

WPUPS and Infralec 92 are closed to active members.

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

Other scheme

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

(a) a closed section with no active members. At 31 March 2019 there were 199 members with deferred benefits in the scheme (2018: 204) and 5 pensioners (2018: 3). Market value of the assets was £2.1m (2018: £2.2m).

(b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2019 there were 3,767 members (2018: 3,544). The market value of the assets of the open section of the scheme was £89.2m (2018: £73.9m). Employer contributions to the scheme amounted to £8.6m in the year (2018: £7.6m).

Defined benefit schemes

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

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

Past-service costs are recognised immediately in income.

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

24. Retirement benefit obligations (continued)

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

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

	2018					
	ESPS WPD	ESPS CN	WPUPS	Infralec 92	Unfunded	Total
	£m	£m	£m	£m	£m	£m
Present value of obligations	2,416.6	3,463.5	530.3	13.1	4.9	6,428.4
Fair value of scheme assets	(2,253.6)	(3,384.4)	(604.5)	(15.3)	-	(6,257.8)
Deficit/(surplus) of funded plan and liability/ (asset) recognised in the balance sheet	163.0	79.1	(74.2)	(2.2)	4.9	170.6
Represented by:						
Retirement benefit obligations	163.0	79.1	-	-	4.9	247.0
Retirement benefit assets	-	-	(74.2)	(2.2)	-	(76.4)
	163.0	79.1	(74.2)	(2.2)	4.9	170.6

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

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

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

24. Retirement benefit obligations (continued)

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

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

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

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

Analysis of the amount recognized in other comprehensive income:

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

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

24. Retirement benefit obligations (continued)

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

ESPS WPD	**Year ended 31 March 2019**			Year ended 31 March 2018		
	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	**2,416.6**	**(2,253.6)**	**163.0**	2,426.5	(2,314.4)	112.1
Current service cost	**29.6**	**-**	**29.6**	30.7	-	30.7
Administrative costs	**1.3**	**-**	**1.3**	1.7	-	1.7
Interest expense/(income)	**61.4**	**(58.3)**	**3.1**	60.1	(56.9)	3.2
Past service cost and gains and losses on settlements	**2.5**	**-**	**2.5**			
	94.8	**(58.3)**	**36.5**	92.5	(56.9)	35.6
Remeasurements:						
Return on plan assets excluding amounts included in interest expense/(income)	**-**	**(91.5)**	**(91.5)**	-	19.0	19.0
Gain from change in demographic assumptions	**(94.4)**	**-**	**(94.4)**	-	-	-
Loss/(gain) from change in financial assumptions	**136.1**	**-**	**136.1**	(29.9)	-	(29.9)
Experience losses	**13.3**	**-**	**13.3**	26.2	-	26.2
	55.0	**(91.5)**	**(36.5)**	(3.7)	19.0	15.3
Contributions:						
Employers	**-**	**(111.5)**	**(111.5)**	-	-	-
Plan participants	**4.2**	**(4.2)**	**-**	4.3	(4.3)	-
	4.2	**(115.7)**	**(111.5)**	4.3	(4.3)	-
Payments from plan:						
Benefit payments	**(105.5)**	**105.5**	**-**	(101.3)	101.3	-
Administrative costs	**(1.3)**	**1.3**	**-**	(1.7)	1.7	-
Acquired in a business combination*	**10.4**	**(10.2)**	**0.2**	-	-	-
	(96.4)	**96.6**	**0.2**	(103.0)	103.0	-
Liability/(asset) at 31 March	**2,474.2**	**(2,422.5)**	**51.7**	2,416.6	(2,253.6)	163.0

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

24. Retirement benefit obligations (continued)

ESPS CN	**Year ended 31 March 2019**			Year ended 31 March 2018		
	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	**3,463.5**	**(3,384.4)**	**79.1**	3,488.5	(3,455.3)	33.2
Current service cost	**31.7**	**-**	**31.7**	32.6	-	32.6
Administrative costs	**1.7**	**-**	**1.7**	2.2	-	2.2
Interest expense/(income)	**87.9**	**(86.7)**	**1.2**	86.2	(85.0)	1.2
Past service cost and gains and losses on settlement	**7.0**	**-**	**7.0**	-	-	-
	128.3	**(86.7)**	**41.6**	121.0	(85.0)	36.0
Remeasurements:						
Return on plan assets excluding amounts included in interest (income)/expense	**-**	**(157.6)**	**(157.6)**	-	17.5	17.5
Gain from change in demographic assumptions	**(131.2)**		**(131.2)**	-	-	-
Loss/(gain) from change in financial assumptions	**193.2**	**-**	**193.2**	(41.2)	-	(41.2)
Experience losses	**15.2**	**-**	**15.2**	33.6	-	33.6
	77.2	**(157.6)**	**(80.4)**	(7.6)	17.5	9.9
Contributions:						
Employers	**-**	**(101.6)**	**(101.6)**	-	-	-
Plan participants	**5.5**	**(5.5)**	**-**	5.4	(5.4)	-
	5.5	**(107.1)**	**(101.6)**	5.4	(5.4)	-
Payments from plan:						
Benefit payments	**(149.5)**	**149.5**	**-**	(141.6)	141.6	-
Administrative costs	**(1.7)**	**1.7**	**-**	(2.2)	2.2	-
	(151.2)	**151.2**	**-**	(143.8)	143.8	-
Liability/(asset) at 31 March	**3,523.3**	**(3,584.6)**	**(61.3)**	3,463.5	(3,384.4)	79.1

24. Retirement benefit obligations (continued)

WPUPS	**Year ended 31 March 2019**			Year ended 31 March 2018		
	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	**530.3**	**(604.5)**	**(74.2)**	540.9	(617.8)	(76.9)
Administrative costs	**0.4**	**-**	**0.4**	0.4	-	0.4
Interest expense/(income)	**13.3**	**(15.2)**	**(1.9)**	13.3	(15.2)	(1.9)
Past service cost and gains and losses on settlement	**4.2**	**-**	**4.2**	-	-	-
	17.9	**(15.2)**	**2.7**	13.7	(15.2)	(1.5)
Remeasurements:						
Return on plan assets excluding amounts included in interest expense/(income)	**-**	**(33.6)**	**(33.6)**	-	1.9	1.9
(Gain)/loss from change in demographic assumptions	**(18.6)**	**-**	**(18.6)**	2.7	-	2.7
Loss/(gain) from change in financial assumptions	**26.6**	**-**	**26.6**	(5.4)	-	(5.4)
Experience (gains)/losses	**(0.8)**	**-**	**(0.8)**	5.0	-	5.0
	7.2	**(33.6)**	**(26.4)**	2.3	1.9	4.2
Contributions:						
Employers	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	-	-	-
Payments from plan:						
Benefit payments	**(29.6)**	**29.6**	**-**	(26.2)	26.2	-
Administrative costs	**(0.4)**	**0.4**	**-**	(0.4)	0.4	-
	(30.0)	**30.0**	**-**	(26.6)	26.6	-
Liability/(asset) at 31 March	**525.4**	**(623.3)**	**(97.9)**	530.3	(604.5)	(74.2)

24. Retirement benefit obligations (continued)

Infralec 92	**Year ended 31 March 2019**			Year ended 31 March 2018		
	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	**13.1**	**(15.3)**	**(2.2)**	13.3	(15.3)	(2.0)
Interest expense/(income)	**0.3**	**(0.4)**	**(0.1)**	0.3	(0.4)	(0.1)
Past service cost and gains and losses on settlement	**0.2**	**-**	**0.2**			
	0.5	**(0.4)**	**0.1**	0.3	(0.4)	(0.1)
Remeasurements:						
Return on plan assets excluding amounts included in interest income	**-**	**(0.8)**	**(0.8)**	-	(0.2)	(0.2)
(Gain)/loss from change in demographic assumptions	**(0.5)**	**-**	**(0.5)**	0.1	-	0.1
Loss/(gain) from change in financial assumptions	**0.7**	**-**	**0.7**	(0.1)	-	(0.1)
Experience losses	**0.1**	**-**	**0.1**	0.1	-	0.1
	0.3	**(0.8)**	**(0.5)**	0.1	(0.2)	(0.1)
Contributions:						
Employers	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	-	-	-
Payments from plan:						
Benefit payments	**(0.6)**	**0.6**	**-**	(0.6)	0.6	-
	(0.6)	**0.6**	**-**	(0.6)	0.6	-
Liability/(asset) at 31 March	**13.3**	**(15.9)**	**(2.6)**	13.1	(15.3)	(2.2)

The significant actuarial assumptions made were as follows:	**2019**			
	ESPS WPD %	**ESPS CN %**	**WPUPS %**	**Infralec 92 %**
RPI Inflation	**3.15**	**3.15**	**3.15**	**3.15**
CPI Inflation	**2.05**	**2.05**	**2.05**	**2.05**
Rate of general long-term salary increases	**3.65**	**3.65**	**N/a**	**N/a**
RPI-linked pension increases	**3.10**	**3.10**	**3.15**	**3.15**
CPI-linked pension increases	**N/a**	**N/a**	**2.05**	**N/a**
Post-88 GMP pension increases	**1.90**	**1.90**	**1.90**	**1.90**
Discount rate for scheme liabilities	**2.36**	**2.36**	**2.36**	**2.36**

24. Retirement benefit obligations (continued)

The significant actuarial assumptions made were as follows:	2018			
	ESPS WPD	ESPS CN	WPUPS	Infralec 92
	%	%	%	%
RPI Inflation	3.00	3.00	3.00	3.00
CPI Inflation	1.90	1.90	1.90	1.90
Rate of general long-term salary increases	3.75	3.75	N/a	N/a
RPI-linked pension increases	2.95	2.95	3.00	3.00
CPI-linked pension increases	N/a	N/a	1.95	N/a
Post-88 GMP pension increases	1.80	1.80	1.80	1.80
Discount rate for scheme liabilities	2.58	2.58	2.58	2.58

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

ESPS WPD

	31 March 2019	31 March 2018
Mortality table adopted	Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	Based on S1PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.8	26.7
Life expectancy for a female currently aged 60	27.9	28.8
Life expectancy at 60 for a male currently aged 40	27	28.1
Life expectancy at 60 for a female currently aged 40	29.1	30.4

ESPS CN

	31 March 2019	31 March 2018
Mortality table adopted	Based on S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	Based on S1PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.8	26.7
Life expectancy for a female currently aged 60	27.9	28.8
Life expectancy at 60 for a male currently aged 40	26.6	27.7
Life expectancy at 60 for a female currently aged 40	28.8	30

24. Retirement benefit obligations (continued)

WPUPS

	31 March 2019	31 March 2018
Mortality table adopted	Pensions <£24,000 pa at 31/03/13: 111% (else 78%) of S2NXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	Pensions <£24,000 pa at 31/03/13: 111% (else 78%) of S1NXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.3	26.1
Life expectancy for a female currently aged 60	27.9	28.4
Life expectancy at 60 for a male currently aged 40	26.4	27.5
Life expectancy at 60 for a female currently aged 40	28.7	29.9

Infralec 92

	31 March 2019	31 March 2018
Mortality table adopted	100% of S2PXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	100% of S1PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.8	26.7
Life expectancy for a female currently aged 60	27.9	28.8
Life expectancy at 60 for a male currently aged 40	27.0	28.1
Life expectancy at 60 for a female currently aged 40	29.1	30.4

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

	Change in assumption %	Impact on defined benefit obligation ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m
Discount rate	+/-0.50%	+235.8/-206.0	+322.6/-283.9	+40.8/-36.5	+1.0/-0.9
RPI Inflation	+/-0.50%	+223.6/-197.2	+285.2/-256.4	+35.0/-31.7	+0.8/-0.8
Life expectancy	+ 1 year	116.1	157.4	25.3	0.6

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

24. Retirement benefit obligations (continued)

ESPS WPD scheme assets are comprised as follows:	**31 March 2019**		31 March 2018	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Equities	**532.3**	**-**	450.7	-
Absolute return	**784.8**	**-**	787.2	-
Government bonds	**888.4**	**-**	791.1	-
Property	**166.9**	**166.9**	164.7	164.7
Other	**50.1**	**-**	59.8	-
Total	**2,422.5**	**166.9**	2,253.5	164.7

ESPS CN scheme assets are comprised as follows:	**31 March 2019**		31 March 2018	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Global equities	**662.6**	**-**	608.5	-
Global credit	**101.7**	**-**	100.7	-
Property	**125.8**	**125.8**	205.0	205.0
Macro-orientated	**383.6**	**383.6**	356.3	356.3
Multi strategy	**679.8**	**-**	749.3	-
LDI strategy	**1,526.8**	**-**	1,374.8	-
Other	**104.3**	**-**	(10.1)	-
Total	**3,584.6**	**509.4**	3,384.5	561.3

WPUPS scheme assets are comprised as follows:	**31 March 2019**		31 March 2018	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Equities	**226.5**	**-**	351.1	-
Government bonds	**395.6**	**-**	252.4	-
Other	**1.2**	**-**	1.0	-
Total	**623.3**	**-**	604.5	-

Infralec 92 scheme assets are comprised as follows:	**31 March 2019**		31 March 2018	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Equities	**6.4**	**-**	9.6	-
Government bonds	**5.6**	**-**	3.1	-
Corporate bonds	**3.7**	**-**	2.0	-
Other	**0.1**	**-**	0.6	-
Total	**15.8**	**-**	15.3	-

24. Retirement benefit obligations (continued)

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

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

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

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

The employer has agreed that, for all of the schemes, it will aim to eliminate the actuarial deficits (as assessed on the ongoing funding basis) by 31 March 2026.

The current agreed employer contributions for the WPD segment of the ESPS are 31.2% per annum of pensionable salaries in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits plus an additional £1.4m per annum in respect of expenses. Company deficit contributions are £86.6m per annum payable from 1 April 2018 to 31 March 2021 and £20.9m per annum payable from 1 April 2021 to 31 March 2026.

The current agreed employer contributions for the CN segment of the ESPS are 27.9% per annum of pensionable salaries in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits plus an additional £2.0m per annum in respect of expenses. Company deficit contributions are £80.0m per annum payable from 1 April 2018 to 31 March 2021 and £48.0m per annum payable from 1 April 2021 to 31 March 2026.

During 2016/17 the Company made an £80.0m prepayment of deficit contributions to WPUPS, covering the period 31 January 2017 to 1 April 2020. From 1 April 2020 WPD will pay £7.0m per annum for 6 years, payable in monthly instalments and indexed annually at RPI (with the first increase being due on 1 April 2021).

The employer contribution to Infralec 92 during 2016/17 was £2.5m which was a prepayment of deficit contributions covering the period up to 31 March 2021. From 1 April 2021 to 31 March 2026 (inclusive) WPD will pay £0.235m per annum.

Funding levels are monitored on a regular basis and the next triennial valuation is due to be completed as at 31 March 2019.

Current expected total employer contributions for the year ending 31 March 2020 are £111.2m for the WPD segment of the ESPS, £105.4m for the CN segment of the ESPS and £nil for both WPUPS and Infralec 92. For the year 1 April 2018 to 31 March 2019 contributions payable have been offset to allow for the overpayment of contributions as a result of the lump sum prepayment made on 30 March 2017.

Please note the results of the actuarial funding valuation as at 31 March 2019 may give rise to a revised schedule of contributions and as such the quantities in the paragraph above may be liable to change.

The weighted average duration of the defined benefit obligation is around 18 years for the WPD segment of the ESPS, 17 years for the CN segment of the ESPS, and around 15 years for WPUPS and Infralec 92.

25. Provisions

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

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

Current	**-**	**1.2**	**6.7**	**0.6**	**2.5**	**11.0**
Non-current	**97.9**	**36.4**	**11.6**	**3.6**	**0.8**	**150.3**
At 31 March 2019	**97.9**	**37.6**	**18.3**	**4.2**	**3.3**	**161.3**
Current	-	1.2	6.9	0.7	0.9	9.7
Non-current	74.3	35.2	7.8	4.2	0.9	122.4
At 31 March 2018	74.3	36.4	14.7	4.9	1.8	132.1

(i) WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, as PPL WPD Limited, the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet as a provision above, and matches the gross asset recorded under IAS 19 (Note 24).

(ii) Asset retirement obligations relate to an estimate of the costs of dismantling and removing wood poles and fluid filled cables at the end of their useful life and are expected to be settled over the next 70 years. Wood poles and fluid filled cables are included in distribution network within property, plant and equipment.

(iii) Insurance provisions relate to claims covered by the WPD Group's wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey, and claims covered by external insurers. This includes third party motor claims, employers' liability, public and product liability, and professional indemnity and includes claims that are reported but not yet paid and anticipated cost of claims incurred but not yet reported. The directors expect the provision to be settled in the next 5 years.

(iv) Pension provisions relate to expected settlements of liabilities relating to the pension liability relating to the Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately 9 years.

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

26. Called-up share capital

	2019 **£m**	2018 £m
Allotted, called up and fully paid		
1,657,592,372 (2018: 1,657,592,372) ordinary shares of £1 each	**1,657.6**	1,657.6

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

27. Capital and reserves

	2019	2018
	£m	£m
Share capital	**1,657.6**	1,657.6
Merger reserve	**(963.1)**	(963.1)
Hedging reserve	**(5.2)**	(17.9)
Retained earnings	**4,023.4**	3,627.6
	4,712.7	4,304.2

The **share capital** represents the nominal value of the authorised ordinary shares in the Company in issue which carry a right to participate in the distribution of dividends or capital of the Company.

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

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

28. Contingent liabilities

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

29. Commitments

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

	2019	2018
	£m	£m
Property, plant and equipment	**35.1**	55.5

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

Future minimum rentals payable under non-cancellable operating leases at 31 March are as follows:

	2019	2018
	£m	£m
Within one year	**1.5**	1.9
In the second to fifth years inclusive	**4.8**	5.2
After five years	**12.0**	9.4
	18.3	16.5

29. Commitments (continued)

Operating lease commitments - WPD Group as lessor
The WPD Group has entered into commercial property leases on its investment property portfolio, consisting of the WPD Group's surplus offices, shops remaining from a discontinued business, and surplus land, and also on its operational radio sites. The leases have various terms, escalation clauses and renewable rights. Leases include a clause to enable upward revision of rental charge on a review cycle set on lease inception according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases at 31 March are as follows:

	2019	2018
	£m	£m
Within one year	**3.3**	8.5
In the second to fifth years inclusive	**9.5**	22.7
After five years	**9.5**	27.3
	22.3	58.5

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

30. Related party transactions

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

The smallest and largest group in which the results of the Company are consolidated is that headed by PPL Corporation incorporated in the United States of America, which is the ultimate parent undertaking and controlling party. Copies of its accounts may be obtained from its registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the WPD Group. Details of directors' compensation are set out in Note 9.

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

The investment has the following terms and conditions:

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

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

WPUPS reimbursement agreement
WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the actuarial deficit. However, PPL WPD Limited, the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Notes 25) and matches the gross asset/liability recorded under IAS 19 (Note 24).

Parent Company financial statements of Western Power Distribution plc

Company balance sheet

As at 31 March 2019

	Note	**2019 £m**	2018 £m
Non-current assets			
Investments:			
Shares in subsidiary undertakings	4	**2,876.0**	2,876.0
Loans to group undertakings	4	**155.5**	145.5
Derivative financial instruments		**97.4**	46.3
		3,128.9	3,067.8
Current assets			
Derivative financial instruments:		**5.5**	3.3
Debtors	5	**396.8**	527.3
Cash at bank		**28.4**	10.3
		430.7	540.9
Creditors - amounts falling due within one year	6	**(179.8)**	(292.7)
Net current assets		**250.9**	248.2
Total assets less current liabilities		**3,379.8**	3,316.0
Creditors - amounts falling due after more than one year	6	**(1,453.8)**	(1,073.5)
Net assets		**1,926.0**	2,242.5
Capital and reserves			
Called up share capital	7	**1,657.6**	1,657.6
Hedging reserve	8	**(0.5)**	(4.0)
Profit and loss account		**268.9**	588.9
Equity shareholders' funds		**1,926.0**	2,242.5

The Company reported a loss for the financial year ended 31 March 2019 of £19.6m (2018: £12.6m profit) and other comprehensive income of £3.5m (2018: £0.9m).

The financial statements of the Company on pages 89 to 98 were approved by the Board of Directors and authorised for issue on 18 July 2019 and signed on its behalf by:

P Swift
Chief Executive

I R Williams
Finance Director

Company statement of changes in equity
For the year ended 31 March 2019

	Share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2017	**1,657.6**	**(4.9)**	**669.0**	**2,321.7**
Profit for the year	-	-	12.6	12.6
Other comprehensive income	-	0.9	-	0.9
Total comprehensive income for the year	-	0.9	12.6	13.5
Equity dividends paid	-	-	(92.7)	(92.7)
At 31 March 2018	**1,657.6**	**(4.0)**	**588.9**	**2,242.5**
Change in accounting policy - IFRS 9	-	-	(0.2)	(0.2)
At 1 April 2018	**1,657.6**	**(4.0)**	**588.7**	**2,242.3**
Loss for the year	-	-	(19.6)	(19.6)
Other comprehensive income	-	3.5	-	3.5
Total comprehensive income/(loss) for the year	-	3.5	(19.6)	(16.1)
Equity dividends paid	-	-	(300.2)	(300.2)
At 31 March 2019	**1,657.6**	**(0.5)**	**268.9**	**1,926.0**

Notes to the Company financial statements

For the year ended 31 March 2019

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

The parent company financial statements of Western Power Distribution plc (the "Company") for the year ended 31 March 2019 were authorised for issue by the board of directors on 18 July 2019 and the balance sheet was signed on the board's behalf by P Swift and I R Williams. Western Power Distribution plc is a public limited company incorporated and registered in England and Wales.

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

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.

2. Significant accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") and in accordance with applicable accounting standards.

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, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc which are included on pages to 1 to 87.

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments that are measured at fair value, 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.

The principal accounting policies adopted are set out below.

Going concern

The directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The current financial position of the Company shows net current assets of £250.9m. Having assessed the Company's investment portfolio, its consistent dividend inflow and the ability to raise finance externally as well as internally through WPD Group undertakings , the Directors have concluded that the going concern basis of preparation remains appropriate.

Impact of new International Financial Reporting Standards

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Company's financial statements.

<u>IFRS 9</u>

IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement". The adoption of IFRS 9 Financial Instruments from 1 April 2018, resulted in changes in accounting policies and adjustments to amounts recognised in the financial statements. In accordance with the transition provisions in IFRS, comparative figures have not been restated.

(i) Impairment of Financial Instruments

a) Debtors

Debtors mainly comprise of amounts owed by group undertakings and are considered to be low risk. Therefore the impairment provision is determined as 12 months expected credit loss. This resulted in an increase of the loss allowance on 1 April 2018 by £0.1m.

2. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

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

(ii) Total IFRS 9 impact

	2018
	£m
Closing retained earnings 31 March 2018 - IAS 39	**588.9**
Impairment provision - Debtors	**(0.1)**
Impairment provision - Investments	**(0.1)**
Adjustments to retained earnings from adoption of IFRS 9 on 1 April 2018	**(0.2)**
Opening retained earnings 1 April 2018 - IFRS 9	**588.7**

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

The Company has assessed the impact of this standard and concluded that there will be no material change to the Group'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 profit and loss.

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.

Taxation
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

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

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

2. Significant accounting policies (continued)

Taxation (continued)
Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss.

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

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, debtors and investments.

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

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

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

Debtors
Debtors mainly comprise of amounts owed by group undertakings and are considered to be low risk. Therefore the impairment provision is determined as 12 months expected credit loss. 12 month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

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

Cash at bank and in hand
Cash at bank 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.

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

2. Significant accounting policies (continued)

Financial liabilities (continued)

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.

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

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in the profit and loss account.

Offsetting of financial assets and liabilities
Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the company currently has a legally enforceable right to set off the recognised amounts; and the group intends to either settle on a net basis or realise the asset and settle the liability simultaneously. A right of set off is the 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.

Dividends
Dividend distributions are recognised in the period in which the dividends are paid.

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.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

<u>Key sources of estimation uncertainty</u>

Impairment of investments in subsidiaries
Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values.

Financial instruments
Certain financial instruments are carried on the balance sheet at fair value. Fair values are estimated by reference, in part, to published price quotations and in part by using valuation techniques.

4. Investments

	Subsidiary undertakings £m	Parent Company debt £m	**Total £m**
Cost			
At 1 April 2018	2,876.0	145.5	3,021.5
Amortisation of premium	-	(0.9)	(0.9)
Exchange rate movement	-	11.0	11.0
At 31 March 2019	**2,876.0**	**155.6**	**3,031.6**
Provision for impairment (ECL)	-	(0.1)	(0.1)
Net book value at 31 March 2019	**2,876.0**	**155.5**	**3,031.5**

Details of the Company's subsidiary undertakings are as follows:

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

4. Investments (continued)

^ Incorporated in Guernsey.

All undertakings are registered in England and Wales unless stated.

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

Except for Aztec Insurance Limited and WPD Limited, the registered office of all subsidiary undertakings is Avonbank, Feeder Road, Bristol BS2 0TB. The registered office for Aztec Insurance Limited is Marsh Management Services Limited, PO Box 34, St Martins House, Le Bordage, St Peters Port, Guernsey, GY1 4AU and for WPD Limited is Elizabeth House, Les Ruettes Brayes, St Peters Port, Guernsey, GY1 1EW.

5. Debtors	**2019**	2018
	£m	£m
Amounts falling due within one year:		
Amounts owed by Group undertakings	**392.6**	519.6
Other debtors	**2.5**	2.4
Prepayments and accrued income	**-**	0.4
Deferred tax asset	**1.7**	4.9
	396.8	527.3

Amounts owed by Group undertakings	**2019**	2018
	£m	£m
Inter-company Notes receivable from:		
PPL WEM Limited (1)	**238.8**	383.8
WPD Distribution Network Holdings Limited (2)	**-**	130.0
WPD Distribution Network Holdings Limited (3)	**147.6**	-
Interest on inter-company Notes receivable from:		
PPL WEM Limited	**3.5**	5.6
WPD Distribution Network Holdings Limited	**2.6**	0.1
Inter-company accounts	**0.1**	0.1
	392.6	519.6

(1) Accrues interest at a fixed rate of 5.0% per annum.
(2) Accrues interest at a rate of 1 month libor plus a margin of between 0.9% and 2.0% based on the company's credit rating.
(3) Accrues interest at a rate of 1 month libor plus a margin of between 0.9% and 2.0% based on the company's credit rating.

All notes are unsecured and are repayable on demand. ECL on amount owed by Group undertakings amount to £0.1m.

6. Creditors

	2019 **£m**	2018 £m
Amounts falling due within one year:		
Syndicated credit facility (1)	**153.4**	142.7
Term loan facility (2)	**-**	130.0
Amounts owed to Group undertakings	**1.0**	1.1
Accruals and deferred income	**25.4**	18.9
	179.8	292.7
Amounts falling due after more than one year:		
5.375% US$500m bonds due 2021 (3)	**398.4**	377.1
7.375% US$255m bonds due 2028 (4)	**213.4**	200.2
3.625% GB£500m bonds due 2023	**496.9**	496.2
3.5% GB£350m bonds due 2026	**345.1**	-
	1,453.8	1,073.5

(1) The amounts borrowed on the Company's £210.0m syndicated credit facility at 31 March 2019 and 31 March 2018 were USD-denominated borrowings of $200.0m for both periods, which bore interest at 2.70% and 1.61% (interest on the facility accrues at a rate of libor plus a margin of between 1.4% and 2.5% based on the Company's credit rating). At 31 March 2019, the Company had available £56.6m (2018: £68.6m) undrawn in respect of which all conditions precedent had been met. The unused capacity reflects the amount borrowed in GBP of £153.4m (2018: £141.4m) as of the date borrowed.

(2) On 19 March 2018, the Company entered into a £130.0m nine month term facility agreement with HSBC Bank and Mizuho Bank. On 22 March 2018, the Company borrowed the full loan amount under the facility. Proceeds of the borrowing were used for general corporate purposes. At 31 March 2018 interest on the facility accrued at a rate of 1.77%, being libor plus a margin of between 0.9% and 2.0% based on the Company's credit rating. The loan was fully repaid on 17 October 2018.

(3) The Company is a co-obligor and makes all payments on the $500m 5.375% notes due 1 May 2021 issued by PPL WEM Limited (the 'WEM Bonds') and has entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WEM are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of a reimbursement agreement, where WEM has given notice of its intention to make payments to the holders of the WEM Bonds, the Company will make payments to WEM equal to such amounts. Having recognised its obligations under the WEM bonds in full, the Company has not recognised any amounts in respect of its obligations under the reimbursement agreement.

(4) The Company is a co-obligor and makes all payments on the $255m 7.375% notes due 15 December 2028 issued by PPL UK Distribution Holdings Limited (the "PPLUK Bonds") and has entered into a reimbursement agreement in relation to payments under the PPLUK Bonds. This reimbursement agreement has been transferred to PPL UK Resources Limited during the year. In accordance with the agreements, the Company and PPL UK Resources Limited are jointly and severally, and fully and unconditionally, liable on the PPLUK Bonds. Under the terms of the reimbursement agreement, where PPL UK Resources Limited has given notice of its intention to make payments to the holders of the PPLUK Bonds, the Company will make payments to PPL UK Resources Limited equal to such amounts. Having recognised its obligations under the PPLUK bonds in full, the Company has not recognised any amounts in respect of its obligations under the reimbursement agreement.

7. Called-up share capital

	2019 **£m**	2018 £m
Allotted, called up and fully paid		
1,657,592,372 (2018: 1,657,592,372) ordinary shares of £1 each	**1,657.6**	1,657.6

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

8. Hedging reserve

	2019 **£m**	2018 £m
At 1 April	**(4.0)**	(4.9)
Reclassification adjustments for losses on cash flow hedges included in profit or loss	**0.9**	1.1
Fair value of cashed out interest rate swap	**3.4**	-
Income tax effect	**(0.8)**	(0.2)
At 31 March	**(0.5)**	(4.0)

The hedging reserve relates to the value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt. The effective portion of the loss when the swap was cashed out is being amortised through the profit and loss account over the term of the bond.

9. Related party transactions

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

The largest group in which the results of the Company are consolidated is that headed by PPL Corporation incorporated in the United States of America, which is the ultimate parent undertaking and controlling party. Copies of their accounts may be obtained from their registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

Investment in PPL affiliate debt
In October 2014, as part of an intra-group reorganisation, WPD acquired $200m nominal at a premium of $16m from PPL UK Distribution Holdings Limited of the $400m 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited. During the previous year the maturity date was extended to 2021.

The investment has the following terms and conditions:

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

The Company recorded interest receivable of £8.9m (2018: £8.5m) on the investment for the period. This includes premium amortisation from when the investment was transferred from a fellow group undertaking in 2014.

Registered office:
Western Power Distribution plc
Avonbank
Feeder Road
Bristol BS2 0TB
Telephone : 0117 933 2000
Fax : 0117 933 2001
email: info@westernpower.co.uk

Registered number 9223384