

Registered Number: 9223384

**WESTERN POWER DISTRIBUTION PLC
AND SUBSIDIARY UNDERTAKINGS**

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2018



Western Power Distribution plc

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Strategic report

For the year ended 31 March 2018

The directors present their annual report and the audited financial statements of Western Power Distribution plc (the "Company") and its subsidiary undertakings (the "WPD Group" or "WPD") for the year ended 31 March 2018. These are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The Company is the UK parent of the WPD Group whose principal operating activity is conducted by 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").

Ownership

The Company is ultimately owned by PPL Corporation, an electricity utility of Allentown, Pennsylvania, United States of America.

Business model

What we do

WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands are all electricity Distribution Network Operators ("DNOs"). The four WPD DNOs distribute electricity to a total of approximately 7.8 million end users over the following regions:

	End users (million)	Area (sq km)	Region
WPD South West	1.6	14,400	South West of England
WPD South Wales	1.1	11,800	South Wales
WPD East Midlands	2.6	16,000	East Midlands of England
WPD West Midlands	2.5	13,300	West Midlands of England
	7.8	55,500	

What we do is simple and comprises four key tasks:

- we operate our network assets effectively to 'keep the lights on';
- we maintain our assets so that they are in a condition to remain reliable;
- we fix our assets if they get damaged or if they are faulty;
- we upgrade the existing networks or build new ones to provide additional electricity supplies or capacity to our customers.

The 7.8 million end users are registered with licensed electricity suppliers, who in turn pay the WPD Group for using its network. Our costs make up around 16% of a domestic customer's bill.

WPD's network comprises approximately:

	Overhead lines (km)	Underground cable (km)	Transformers (no.)	Maximum demand (megawatts)	
				2017/18	2016/17
WPD South West	27,831	22,694	52,626	2,707	2,653
WPD South Wales	17,921	17,850	4,016	1,935	1,944
WPD East Midlands	21,123	52,410	43,520	5,079	5,040
WPD West Midlands	23,385	41,363	50,172	4,781	4,549
Total	90,260	134,317	150,334		

Regulation

WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands are monopolies regulated by the Gas and Electricity Markets Authority (known as "Ofgem").

The regulatory framework is based on a recently updated approach for 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 a much greater 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 and act as a "contract" between the distribution network companies and their customers.

For ED1 Ofgem set WPD's allowance for the cost of equity at 6.4%, which contributes to a weighted average cost of capital ("WACC") allowance of 3.68% for 2017/18.

Strategic report (continued)

For the year ended 31 March 2018

Business model (continued)

Regulation (continued)

The operations are regulated under the distribution licence which sets the outputs 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, to achieve customer services outputs relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions, and network output measures, which may result in revenue penalties or rewards.

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 licenses took effect from 1 April 2015.

Business objectives

WPD's business objectives are simple. They are:

- to minimise the safety risks associated with WPD's distribution network;
- to improve the reliability of electricity supplies and to make the distribution network more resilient;
- to reduce WPD's impact on the environment and to facilitate low carbon technology;
- to consistently deliver outstanding customer service;
- to meet the needs of vulnerable customers;
- to engage with our stakeholders;
- to be efficient, effective and innovative in everything we do;
- to make a return for the shareholder.

In summary the main objective of the business is to deliver frontier levels of performance at an efficient level of cost.

Long term strategy

WPD's long term strategy is to deliver our business objectives through an efficient and scalable organisational structure that can evolve to accommodate the challenges of the future.

Efficient organisational structure

The current flat organisational structure with locally based teams of in-sourced labour has been the foundation of WPD's success. It gives responsibility to front line staff to deliver work programmes and the absence of multiple layers of management minimises costs.

There are no plans to change this successful business model.

One of the big advantages of the geographical team structure is scalability. More staff can be added to an individual team where increases in future work cluster together or additional teams can be created where there are more widespread increases in workload. These changes can be achieved quickly.

Self-sufficiency

WPD's resourcing strategy is to use in-sourced labour. This ensures that knowledge is retained, allows greater flexibility to redeploy staff where needed and builds a strong culture with staff motivated to deliver business objectives.

The development of in-house apprentice schemes, training facilities, technical knowledge, operational capability and bespoke systems increases the self-sufficiency. This allows the business to respond quickly to new requirements and obligations and have better control over succession planning.

Investment in technology and innovation

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.

Innovation is core to our business strategy. We published an updated Innovation Strategy on working smarter and more cost effectively. We look for innovative developments across five broad areas:

- Network performance and efficiency – searching out better processes, equipment and technology that ensure we continue to be efficient;

Strategic report (continued)

For the year ended 31 March 2018

Long term strategy (continued)

Investment in technology and innovation (continued)

- Low carbon networks – supporting future electricity demand and generation requirements;
- Smart grids and meters – developing new techniques and utilising enhanced data to help develop more dynamic network control;
- Environment – reducing our business impact on the environment;
- Customer service – developing smarter ways of delivering better customer service.

Technology can provide benefits of improved performance or efficiency. The deployment of technologies is carried out in a way to ensure that compatibility is maintained. This applies equally to IT equipment, communications infrastructure and the roll out of new innovative network management techniques. This keeps costs low as fewer interfaces are required.

Understanding the long term needs of the network

Network monitoring, independent information sources and modelling techniques are used to predict investment requirements into the long term.

Asset replacement forecasts show that in the future more investment will be required to replace an ageing cable population. Monitoring of fault rates and analysis of causes will enable targeted investment programmes to be established. An example of practice where this already exists is in the replacement of Consac cables that were installed in the 1970s but have since been found to have a greater than average fault rate.

In July 2017, as part of its Industrial Strategy, the Department for Business, Energy and Industrial Strategy ("BEIS") published its Smart Systems and Flexibility Plan jointly with Ofgem. New technology is changing the way we generate, distribute and consume energy, and information and communication technology will transform local energy networks from passive systems to more active smarter networks. We are working to accommodate substantial increases in low carbon technologies by providing nationally-adopted innovative solutions that enable generators to connect to our network more quickly and at reduced cost. Alongside this we are exploring the flexibility available from both power generation and demand as we develop as a Distribution System Operator ("DSO"). In July 2017 we issued a consultation on our proposed DSO Strategy. Through implementation of our DSO Transition Programme, we plan to build on our Future Networks Programme and invest £125 million 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.

Doing more than the legal minimum

As a minimum the activities carried out aim to comply with licence obligations and the Electricity Act. Where identified as being in line with our business objectives, additional activities will be carried out to provide better service or provide additional network capacity. This approach ensures that any incremental investment above legal requirement is made to bring about clearly identified benefits to our customers, stakeholders and our business.

Completing work programmes

WPD does not delay work programmes. Whilst short term savings would provide a financial benefit under the regulatory efficiency incentives ("IQI"), such action is not commensurate with providing a longer term reliable network for customers. Unless objectives change, work programmes are completed.

Adapting the network for climate change

We engage with the BEIS and the industry to identify common climate change impacts and set about implementing changes to ensure that our networks remain reliable into the long term future.

We have used available projected climate data to assess risks resulting from three priority areas - increased lightning activity, flooding and the impact of temperature rise on overhead lines.

Lightning activity is predicted to increase across the whole WPD area. The effects are being mitigated by adding lightning protection devices to the network.

Site specific flood risk assessments are used to identify the most prudent flood prevention method to adopt to protect equipment. Mitigation measures include protection of individual items, protection of buildings and protection of the site as a whole or in extreme cases site relocation.

Predicted increases in ambient temperatures not only mean that thermal expansion will affect overhead line clearances but also thermal loading limits will be reached more quickly. As a result, we have introduced new overhead design requirements to increase ground clearance and have prepared new conductor ratings for overhead lines.

Strategic report (continued)

For the year ended 31 March 2018

Long term strategy (continued)

Stakeholder engagement

WPD regularly engages with stakeholders to ensure that our business objectives and strategy are in line with their needs and so that we can learn from our customers first hand. True improvements in customer service and business delivery come from understanding the areas where we can do better.

We use a range of engagement methods, including:

- stakeholder workshops;
- customer panel meetings;
- focus groups with domestic customers;
- 'willingness to pay stated preference' interviews with domestic and business customers;
- connections and distributed generation surgeries;
- distributed generation customer interviews.

Following stakeholder workshops we publish reports detailing all of the feedback received, as well as a WPD response outlining the conclusions we have reached and how this will impact on our plans.

Business review

The focus for the business during the year has been to continue to concentrate on the key five goals of safety, network performance, customer service, environment and business efficiency.

Key performance indicators ("KPIs")

	WPD South West		WPD South Wales	
	2017/18	2016/17	2017/18	2016/17
Non-Financial				
Safety:				
Lost time accidents	0	2	0	1
Non lost time accidents	17	20	11	3
Network reliability:				
Customer minutes lost	35.7	39.7	25.9	25.7
Customer interruptions (per 100 customers)	56.1	52.5	45.4	41.6
Financial				
Total expenditure*	£386.0m	£380.1m	£253.4m	£243.9m
Debt to Regulatory Asset Value ("RAV")**	64.1%	69.0%	58.7%	60.8%
Interest cover***	5.7	7.2	4.5	5.0
	WPD East Midlands		WPD West Midlands	
	2017/18	2016/17	2017/18	2016/17
Non-Financial				
Safety:				
Lost time accidents	0	2	0	2
Non lost time accidents	11	10	19	22
Network reliability:				
Customer minutes lost	22.9	22.0	22.5	32.0
Customer interruptions (per 100 customers)	45.7	44.9	47.4	59.0
Financial				
Total expenditure*	£502.0m	£506.3m	£484.3m	£486.0m
Debt to Regulatory Asset Value ("RAV")**	64.9%	66.6%	63.2%	63.5%
Interest cover***	4.8	5.7	4.6	5.0

* Operating expenses plus capital expenditure (not including customer contributions) on tangible and intangible assets. This is a key number in the business plan submitted to Ofgem.

** RAV is a regulatory concept to represent assets with a long term life. The regulated income in any year includes a return on RAV and amortisation of RAV as determined by Ofgem during a rate review. The percentage for the prior year has been restated to reflect the nominal value of RAV.

*** Interest cover is calculated as profit before interest, taxation, depreciation and amortisation divided by interest payable.

Each of the five key goals are discussed in more detail in the following sections.

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Key performance indicators ("KPIs") (continued)

The following tables detail the figures used in the calculation of the financial KPIs from the DNO financial statements.

	WPD South West		WPD South Wales	
	2017/18	2016/17	2017/18	2016/17
	£m	£m	£m	£m
Total expenditure				
Operating expenses	138.3	126.8	99.9	97.8
Tangible fixed asset additions	239.5	251.3	152.4	144.8
Intangible fixed asset additions	8.2	2.0	1.1	1.3
	386.0	380.1	253.4	243.9
Debt to Regulatory Asset Value				
Cash at bank and in hand	93.6	21.6	33.2	19.5
Less restricted cash	(4.4)	(8.8)	-	-
Bank loans and overdrafts	(25.3)	(105.4)	-	-
Long term borrowings	(1,002.5)	(743.9)	(653.2)	(619.8)
Letters of credit	(3.8)	(3.8)	-	-
Amounts owed to other WPD undertakings	(65.2)	(76.0)	(1.5)	(2.6)
Net debt	(1,007.6)	(916.3)	(621.5)	(602.9)
RAV*	1,571.4	1,464.9	1,059.0	992.3
Debt to RAV	64.1%	62.6%	58.7%	60.8%
Interest cover				
Profit before taxation	176.9	210.7	107.2	115.5
Add back interest payable	45.8	40.4	37.8	35.6
Add back depreciation	46.3	43.9	33.2	32.3
Add back amortisation of intangible assets	1.5	2.5	0.2	0.1
Add back amortisation of customer contributions	(8.7)	(8.2)	(6.9)	(6.8)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	261.8	289.3	171.5	176.7
Interest payable	45.8	40.4	37.8	35.6
EBITDA to interest payable	5.7	7.2	4.5	5.0
	WPD East Midlands		WPD West Midlands	
	2017/18	2016/17	2017/18	2016/17
	£m	£m	£m	£m
Total expenditure				
Operating expenses	191.9	176.4	194.1	184.2
Tangible fixed asset additions	307.9	327.2	287.9	299.1
Intangible fixed asset additions	2.2	2.7	2.3	2.7
	502.0	506.3	484.3	486.0
Debt to Regulatory Asset Value				
Cash at bank and in hand	1.6	11.3	6.9	11.5
Less restricted cash	-	(0.4)	(6.4)	(3.2)
Bank loans and overdrafts	(130.0)	(125.0)	(19.0)	-
Long term borrowings	(1,384.5)	(1,371.7)	(1,434.9)	(1,433.4)
Amounts owed to other WPD undertakings	(18.9)	(17.2)	(41.4)	(9.8)
Net debt	(1,531.8)	(1,503.0)	(1,494.8)	(1,434.9)
RAV*	2,359.3	2,256.4	2,365.1	2,261.1
Debt to RAV	64.9%	66.6%	63.2%	63.5%
Interest cover				
Profit before taxation	225.5	258.6	224.6	254.8
Add back interest payable	73.6	66.6	77.7	77.4
Add back depreciation	73.9	73.3	66.7	65.9
Add back amortisation of intangible assets	0.6	0.7	0.5	0.4
Add back amortisation of customer contributions	(17.3)	(16.4)	(12.8)	(12.1)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	356.3	382.8	356.7	386.4
Interest payable	73.6	66.6	77.7	77.4
EBITDA to interest payable	4.8	5.7	4.6	5.0

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Key performance indicators ("KPIs") (continued)

*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.

Further information on why these KPIs are important can be found in the business efficiency section below.

Safety

The safety of our staff, customers and members of the public continues to be a core value at the heart of all our business operations. Maintaining a practical and pragmatic safety culture from the "top down" remains an imperative. WPD staff continue to play an active role in many national committees and steering groups which concentrate on the future of safety and training policies across the industry.

Sadly and regrettably, the safety performance was over shadowed by one fatality to a member of staff during the prior year in WPD South Wales. There were no lost time accidents in WPD South West, WPD South Wales, WPD East Midlands or in WPD West Midlands in the current year. This compares with 2, 1, 2 and 2 respectively in 2016/17.

The number of non lost time accidents reported in 2017/18 was 17 in WPD South West, 11 in WPD South Wales, 11 in WPD East Midlands and 19 in WPD West Midlands. This compares with 20, 3, 10 and 22 respectively in 2016/17.

The total number of accidents to staff across WPD as a whole decreased from 62 in 2016/17 to 58 in 2017/18. The directors continue to be committed to the highest level of safety in all areas of the business.

During 2017/18 the Safety Team actively supported WPD Team Managers and Distribution Managers with their safety responsibilities and provided assistance to enable them to maintain a clear focus on safety. The Safety team also continued to provide support to all other areas of the business but with particular focus on the following areas of work:

- Continued roll-out of a bespoke safety training programme to technical staff across all Network Service areas of the business to promote heightened awareness of risk assessment and safety management related issues.
- Development and introduction of a new computer based process to assist with the required checks and allow Examining Officers and Issuing Officers to create and approve authorisation certificates electronically.
- Developed further engagement with organisations that work with WPD to achieve safety, with a new programme of Safety Conferences for contractors to encourage sharing of best practice with regard to safe methods of working and to promote the industry Powering Improvement initiative.
- Work continued to extend and improve WPD applications on the iPad to assist staff with the provision of additional information and to provide enhancements to the electronic risk assessment facility.
- Support of the national joint initiative between the Energy Networks Association ("ENA"), Health and Safety Executive ("HSE") and Trade Union bodies under the title of 'Powering Improvement' with the 2017 theme being 'Asset Management' in particular by co-ordinating a number of presentations to discuss relevant scenarios and to avoid the loss of corporate memory.
- A targeted public safety leaflet campaign, to provide information about keeping safe in proximity to WPD assets, to over 120,000 wayleave grantors and organisations that operate mobile plant such as lorry loaders and cranes within WPD regions.

During the Autumn of 2017 the Safety Team provided a package of presentations to support managers throughout WPD as part of the '2017 WPD Safety Week' programme, to update staff on the Company's health and safety statistics and provisions to cater for mental health issues, to raise awareness of the precautions required where work has to be carried out on live electrical apparatus, how to avoid a slip, trip or fall which is the most frequently reported type of accident within the business and safe driving

In May 2017 an internal audit confirmed that the combined Safety Management Systems conform to OHSAS 18001:2007, as issued by The British Assessment Bureau.

Network performance

Performance of the distribution network is measured in two key ways:

- Security - the number of supply interruptions recorded per 100 connected customers ("CI"); and
- Availability - the number of customer minutes lost per connected customer ("CML").

All licensees who operate a distribution system are required to report annually to Ofgem on their performance in maintaining system Security and Availability. The Quality of Service incentive scheme, also known as the Information and Incentives Scheme ("IIS"), which was introduced by Ofgem in April 2002, financially incentivises all licensees including WPD with respect to both the Security and Availability of supply delivered to customers. In addition Ofgem incentivises the quality of telephone response customers receive when they contact the licensee. This is assessed by a customer survey carried out on a monthly basis.

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Network performance (continued)

Network performance reported to Ofgem for the year was as follows:

	WPD South West		WPD South Wales		WPD East Midlands		WPD West Midlands	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
CML 2017/18	42.8		28.5		23.5		31.0	
Excluded events	(7.1)		(2.6)		(0.6)		(8.5)	
IIS 2017/18	35.7	43.5	25.9	33.4	22.9	38.8	22.5	53.0
IIS 2016/17	39.7	43.6	25.7	33.6	22.0	39.1	32.0	53.6
CI 2017/18	62.0		48.5		46.4		55.6	
Excluded events	(5.9)		(3.1)		(0.7)		(8.2)	
IIS 2017/18	56.1	58.5	45.4	53.3	45.7	51.4	47.4	85.4
IIS 2016/17	52.5	58.9	41.6	53.7	44.9	52.1	59.0	87.1

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD networks including those caused by bad weather and other faults together with 50% of CI and CML due to pre-arranged shutdowns for maintenance and construction. The 11kV network is the principal driver of customer minutes lost, with faults on overhead lines being the major contributor. In addition to the performance reported under IIS above, 85.6% of customers in the WPD South West, 87.2% for WPD South Wales, 88.9% for WPD East Midlands and 90.7% for WPD West Midlands off supply as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring.

Under the IIS scheme, performance is targeted at an underlying level of improvement. DNOs are thus permitted to claim an adjustment for events during the year which they believe were exceptional and had a significant impact on the total reported performance. An exceptional event can either be caused by a large number of weather related faults or be due to a one-off event which is outside the DNO's control. In either case, the event must meet prescribed thresholds in terms of the numbers of faults experienced or, for a one-off event, in terms of either the number of customers affected or the duration of the incident. If an event meets these prescribed thresholds, the DNO must notify Ofgem who will conduct an audit to determine the impact of the event. As part of the audit process the DNO must demonstrate that it mitigated against the impact of the event to the best of its ability before Ofgem will exclude the CI and CML incurred. WPD South West reported three exceptional events to Ofgem during the year, while WPD South Wales and WPD East Midlands reported two and WPD West Midlands reported four.

Subject to Ofgem confirmation, the customer minutes lost and interruptions per 100 customers for the year detailed above are within the targets set. The outperformance relative to the RIIO-ED1 targets set by Ofgem is particularly gratifying as the new targets are particularly tough for DNOs acknowledged by Ofgem as being frontier performers.

Customer service

We are committed to providing excellent customer service at all times and strongly believe that customer satisfaction is the key to the future success of the business. When dealing with customers our policy is to get it right "first time, every time". On the occasions when we fail to meet this standard, staff are encouraged to take personal responsibility for customer issues, to follow the problem through to the end, and to adopt our golden rule – "treat customers the way that we would like to be treated".

If customers are not happy with our efforts to resolve their complaint, they are able to ask The Energy Ombudsman ("Ombudsman") to review the matter. WPD South West and WPD South Wales have completed a ninth year of the statutory Energy Ombudsman Scheme with zero customer complaints upheld. WPD East Midlands and WPD West Midlands achieved a sixth year of the statutory Energy Ombudsman Scheme with zero customer complaints upheld.

During the year WPD South West recorded 38 failures against Ofgem's national Customer Guarantee Service Standards for network performance, WPD South Wales recorded one failure, WPD East Midlands recorded two failures and WPD West Midlands recorded 20 failures. WPD South West and WPD West Midlands both recorded zero failures for the year against the 37 standards relating to connections performance, where WPD South Wales and WPD East Midlands both recorded one failure each.

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Customer service (continued)

Stakeholder Engagement Incentive

WPD has maintained its position as the top performing DNO group in the Stakeholder Engagement Incentive Award Scheme (which is a key element of Ofgem's Broad Measure of Customer Satisfaction), held since its introduction in 2011/12. Most recently in 2016/17 WPD was again rated first place with a score of 8.53 out of 10. This is worth £6.17m (16/17 prices) and will be applied to 2018/19 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.

Broad Measure of Customer Satisfaction

As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey of DNO customers who contact their DNO to report loss of supply, been notified of a planned interruption, have a general enquiry or request a new connection (quoted and completed). This incentive has continued into the RIIO-ED1 period scored across the six performance areas. For WPD's four licence areas around 22,000 customers are surveyed per year. For the regulatory year 2017/18, WPD has been rated the number one DNO for customer satisfaction for the seventh consecutive year with an overall satisfaction rating in excess of 8.93 out of ten.

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 1.65 seconds.

National Customer Service Excellence Standard

WPD's excellent customer service is demonstrated by its continued accreditation to the national 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. WPD undergoes a stringent external assessment of our engagement activities every year. The CSE standard seeks to ensure we are providing services that are efficient, effective, equitable and have the customer at the heart of everything we do. There is a strong focus on the quality of our engagement methods and in particular the steps we take to develop customer insight, understand users' experiences, robustly capture their feedback and measure satisfaction. The standard assesses WPD's delivery, timeliness, information, professionalism and staff attitudes.

WPD is assessed against 57 elements and has full compliance against every one. As an established holder of the charter mark, WPD is assessed as part of a three year rolling programme, where one third of the standards are reviewed annually. There are four potential outcomes ranging from 'non-compliance' to 'compliance plus' (the highest level possible, indicating best practice across all sectors). WPD was reassessed in March 2018. WPD was successfully reaccredited, and demonstrated that improvements continue to be made with compliance plus ratings for a record 43 elements, with zero partial or non-compliances. The assessor concluded that "the culture of WPD continues to be highly customer-focused with a strong emphasis on team working and the use of customer insight to improve service delivery. There is strong leadership and appropriate policies and procedures to support staff in delivering consistently high levels of performance".

British Standard for Inclusive Service Provision

In 2014, WPD became the first company in the UK to be externally assessed by the British Standards Institute as fully compliant with the BS18477:2010 British Standard for inclusive service provision. Following a full system audit in December 2017, we retained full compliance with this standard for a fifth year. BS18477 was recommended by Ofgem as part of its Vulnerable Customer Strategy review discussions. The assessment adds considerable endorsement to WPD's social obligations programme and the services we offer to our Priority Service Register customers. WPD was assessed during a two day audit to review the accessibility of our services, literature and website, as well as WPD's social obligations programme and vulnerable customer strategy, all associated systems and processes, Contact Centre operations and the new connections process. WPD was assessed as fully compliant in over 36 audit elements.

In December 2017 the auditor reported that "WPD are achieving positive outcomes for their customers through expanding their PSR referral networks, implementing new innovative fuel poverty projects and using partners in the health and education sectors to target 'hard to reach' customers."

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Customer service (continued)

Customer Panel and Stakeholder Workshops

The WPD Customer Panel was introduced in 2011. The panel 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. Members include representatives from Citizens Advice, the British Red Cross, Major Energy Users Council, local parish councils, B&Q, University of Nottingham, Energy Saving Trust, Severn Trent Water and National Grid. 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 strategic priorities. The Panel is attended by WPD's Chief Executive and other directors, demonstrating the commitment at every level to proactively engage with customers.

Since 2010 WPD has held a number of stakeholder workshops and over 5,000 people, across a range of organisations, have been engaged to help us build and review our Business Plan - the vast majority face-to-face. Now that WPD's Business Plan has been agreed, WPD has maintained its relationship with stakeholders and shifted the focus on to delivery and also identifying long-term strategic priorities that may change the way networks operate in the future.

In January 2018 WPD hosted annual stakeholder workshops in Birmingham, Derby, Cheltenham, Newport, Bristol and Plymouth. The six events were attended by 270 stakeholders from a range of different backgrounds including domestic, business, local authorities, developers/connections, environmental, energy/utility, regulatory/government and voluntary sectors. WPD has subsequently identified 13 key improvement actions that WPD will be taking in order to address the stakeholder feedback received.

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.

Environment

WPD is committed to conducting its business as a responsible steward of the environment. WPD plans new routes so as to minimise, as far as economically possible, their impact on the environment.

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.

Following a successful surveillance audit in March 2018, WPD maintained certification to ISO55001. This international standard for Asset Management is the successor to PAS55, against which WPD had held continuous accreditation since 2006. Whilst asset management specifications, both PAS55 and ISO55001 encompass risk management, setting of and adherence to policies and procedures, and thus has relevance to control of environmental risk.

Fluid filled cables

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 commonly damaged by third parties digging the street, this oil may leak out, sometimes many hundreds of litres. 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. The losses from the WPD Group'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.

Fluid losses (litres)

WPD Group

2017/18	33,227
2016/17	17,251
2015/16	19,580
2014/15	25,131
2013/14	16,061

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Environment (continued)

Fluid filled cables (continued)

The use of Perfluorocarbon Trace ("PFT") technology within WPD reduces the effect on the total annual fluid losses. WPD continues to provide the Environment Agency with a monthly leak report as required under the joint agreement between the Environment Agency and Energy Networks Association ("ENA") Fluid Filled Cables Group.

SF6 gas

Sulphur hexafluoride (SF6) is a man-made gas which has had widespread use such as in double glazing, tennis balls and training shoes as well as a number of industrial applications including high voltage switchgear. Unfortunately it is also a strong greenhouse gas, with a global warming potential 22,800 times greater than carbon dioxide (CO2).

WPD carefully monitors its SF6 equipment and employs the external ENA Engineering Recommendation S38 methodology for the reporting of SF6 banks, emissions and recoveries. That ENA document, initially drafted by WPD, employs approaches set out by The Intergovernmental Panel on Climate Change ("IPCC"), set up by the World Meteorological Organisation and the United Nations Environmental Programme.

The losses from SF6 equipment in WPD South West and WPD South Wales during 2017/18 amounted to 225kg, representing less than 1% of its bank. Losses from SF6 equipment in WPD East Midlands and WPD West Midlands during the year amounted to 244kg, representing less than 0.5% of its bank.

WPD has been listed in the Fluorinated Greenhouse Gas Regulation 2009 as a Recognised Certification and Evaluation Body (HV Switchgear) under Regulation 33, and has certified relevant WPD staff.

Electric and magnetic fields ("EMFs")

The question of whether electric and magnetic fields are linked in any way to ill health is a long standing one which has no conclusive answer. WPD is committed to providing members of the public and its employees with full and up to date information on the issue. We believe that the decision on what constitutes a safe level of exposure should be made by the UK Government, advised by the Health Protection Agency.

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 and with the occupational exposure requirements specified within the Control of Electromagnetic Fields of Work Regulations 2016.

In addition WPD follows the ENA Engineering Recommendation G92/1, Guidelines for best practice in relation to Electric and Magnetic Fields (EMFs) in the Design and Management of Low Voltage Distribution Network and the DECC (now BEIS) Code of Practice on the Optimal Phasing of High Voltage Double Circuit Power.

General

In May 2017, all four licensed areas gained certification to the new ISO14001:2015 environmental management standard with no major non-conformances being raised. One six monthly surveillance audit was undertaken in December 2017 and again no major non-conformances were raised.

As with any large organisation working at the heart of the community, WPD wants to support these communities in ways that will enhance the landscape for people and wildlife too. Supporting environmental activities at a grass-roots level enables the community to make meaningful changes which are sustainable and provide an instant impact. In our experience, local groups, charities and schools are willing to take on small scale community projects but lack the financial input for the tools and resources to make it

Working in partnership with various regional Wildlife Trusts, The Conservation Trust and Groundwork Wales has enabled school children to experience hands-on nature projects, develop orchards in schools and understand the positive benefits of conserving our natural habitats for the future.

Certain environmental issues are discussed in the Corporate and Social Responsibility section. There is always the risk that changes in legislation relating to environmental and other matters, including those imposed on the UK by the European Union, could result in considerable costs being incurred by the Company with no guarantee that Ofgem would allow them to be recovered through regulated income.

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Business efficiency

Profit before income tax decreased by £98.2m compared to the previous year to £705.3m. Operating profit at £990.7m was £82.1m lower with revenue down by £43.7m and operating costs up by £40.2m. Revenue in the year was impacted by a decrease in tariffs and the timing of the recovery of regulated income.

Total expenditure ('totex') within the DNOs increased by £0.6m. Capital expenditure decreased by £39.6m. Totex is a key feature in the business plan submission to Ofgem as part of the price review process as it underpins the allowed revenue set; thus actual performance against the business plan is subject to close scrutiny as we are incentivised to stay within the business plan.

Total net assets at 31 March 2018 were £4,304.2m, an increase of £467.1m on the previous year. Property, plant and equipment increased by £735.4m reflecting the fact that capital expenditure exceeds the historical cost depreciation charge. The retirement benefit obligation increased by £99.2m. Debt, net of financial investments and cash, decreased by £70.7m. The value of derivatives showed a decrease of £91.3m.

The increase in the retirement benefit obligation is largely due to the fact that no contributions have been made during the year, following a £230.0m prepayment in March 2017. The current service cost, administration costs and remeasurements have all increased the liability.

Debt to RAV (see pages 4 and 5)

Asset cover (total net debt to RAV) is part of the rolling credit facility covenants for several of the WPD companies and is used as a key internal measure. As part of the regulatory process, Ofgem determines what it considers an appropriate debt/equity split to optimise the cost of capital and to ensure that the volume of debt in relation to RAV does not threaten the liquidity of the licensee.

Interest cover (see pages 4 and 5)

The ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) to interest payable is part of the rolling credit facility covenants for several of the WPD companies. It is also used as a key internal measure of the financial health of the DNOs. The interest cover ratios are at an acceptable level and show that the DNOs are generating more than enough profits to cover interest payments.

Capital investment

Capital investment on tangible fixed assets (before customers' contributions) during the year was £990.4m (2017: £1,030.0m) across the four DNO regions within the WPD Group and included the replacement of both lines and switchgear together with the introduction of new technology.

A number of significant projects were undertaken during the year including:

In the WPD South West area:

- Isles of Scilly

A boat dragging its anchor caused catastrophic damage to the submarine cable feeding the Isles of Scilly off the Cornish coast. 2.5km of damaged cable was recovered from the sea bed at a depth of 70m. 5km was then re-laid along an alternative route. A specialist cable repair vessel, which normally takes 30 days to arrange and mobilise, was contracted and mobilised within 10 days. The repair, which would normally take 105 days, was completed in 36. The submarine cable joint was the first of its kind as the joint was too big to fit in the frame that would safely lower it to the sea bed. So the frame was adapted into a 'joint development device' by WPD staff and was completed during the installation on site. Since the repair 64 tonnes of gravel have been laid to provide extra protection with three five-tonne concrete mattresses to be added in the summer.

- First 33kV Battery Storage site

Further developing the generation portfolio, the South West connected its first EHV Battery Storage site in July 17. Using WPD owned land adjacent to Lockleaze 132kV substation near Bristol, Aura Power Limited has installed a 20MW Lithium Ion Battery Storage Facility which will be used by National Grid for frequency response. In just under six months from first meeting with Aura Power, WPD Projects staff planned and completed the installation.

- ESQCR risks completion

Electricity Safety, Quality and Continuity Regulations 2002 specify requirements for clearance to objects and ground. With agreement with the Health and Safety Executive, the South West was tasked with completing all outstanding clearance risks to buildings and structures by 31 March 2018. This has been completed ahead of time.

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Capital investment (continued)

In the WPD South Wales area:

- Shiphill Primary refurbishment

At Shiphill Primary, Cardiff, a new Brush 33/11kV Transformer unit was installed as part of the ED1 asset replacement programme. In addition to the transformer change, the protection and voltage control was replaced along with a civil based refurbishment of the site. This site is dated from the mid-1950s and the new installation will help secure supplies to a three transformer group in the Cardiff City area.

- Goldenhill Primary refurbishment

At Golden Hill Primary, West Wales, the first phase of replacing the two grid transformers has been completed. The work required an upgrade to ratings of both transformers from 45mVA to 60/90mVA, due to the significant distributed generation that has developed in and around the south Pembrokeshire area. Phase 1 involved the removal of the Grid T1 unit under asset replacement and GT2 replacement is currently ongoing.

- Tir John Primary refurbishment

At Tir John Primary, Swansea, a very old 33kV AEI metal clad switchboard housed indoors in a building containing asbestos has been changed. This project was challenging with regard to the civil work required to remove all the asbestos and also electrically as it required the installation of a new GIS 33kV switchboard and the transfer of 15 circuits in an area where load is high, and the obvious requirement to maintain resilient supplies to the city of Swansea. This work is phase 1 of a major project, with phases 2 and 3 requiring the replacement of Primary and Grid Transformers during 2018.

In the WPD East Midlands area:

- Leicester North grid transformer replacement

Leicester North 132kV Bulk Supply Point ("BSP") is located in the northern area of Leicester city and supplies the electricity to a predominately urban area of light industrial and residential customers. The BSP also provides the 33kV supplies to five primary substation sites. An incident at Leicester North BSP interrupted supplies to 45,127 customers (60MVA in demand). All supplies were restored in 27 minutes by alternative switching. As a result of the failure there was significant fire damage to the transformer and its ancillary equipment. A replacement unit was identified at Siemens in Austria and the delivery to site was organised. In parallel with this the projects team prepared all the new civil structures and the replacement of the ancillary items. The new unit was energised within 19 days of the original failure.

- Heanor Bulk Supply Point - grid transformer replacement

Heanor BSP is a 132/33/11kV substation in Derbyshire constructed in the late 1950s. The two 132/33kV transformers were identified as part of the asset replacement programme, with an associated risk of environmental damage due to the proximity of a local water course. In addition the area has seen an increase in distributed generation which meant the switchgear was at its fault level limit. The work undertaken by the projects team involved the replacement of both Grid Transformers (GT1 & GT2) and associated earthing and auxiliary transformers, neutral earthing resistors ("NER"), disconnectors, fault throwing switches, earth switches and associated overhead conductors, bus bars and underground (power and multicore protection and control) cables, bunds, plinths, protection and control equipment. Ten 33kV circuits were transferred onto the new 33kV board in October 2017 and the final commissioning works was completed in December 2017 meaning the whole site has been replaced in approximately eight months.

- Wigston Bulk Supply Point - grid transformer replacement

Wigston BSP is a double banked site containing four Grid Transformers, with two 132/33kV and two 132/11kV transformers, feeding onto 33kV and 11kV switchboards. As part of the asset replacement programme one of the 132/11kV transformers and the 17 panel 11kV switchboard, inclusive of all HV and LV protection, cabling and civil works were required to be replaced. The Grid Transformer, manufactured in the 1950s was changed as it was beyond its repairable lifetime, was exhibiting oil leaks and was noisy, leading to customer concerns. All the work was completed over a six month period.

In the WPD West Midlands area:

- Birmingham City Centre

The West Midlands Projects' team has commissioned two new 6km 132kV XLPE cables between Nechells East and Bordesley 132kV substations in Birmingham. These replaced two nitrogen gas filled cables which were installed in 1970 and had recently failed. The new route runs for 6km through Birmingham city over challenging obstacles such as tunnels, bridges, historic redundant architecture and river culverts from Nechells East to Bordesley substation. The work was completed on 26 November at a cost £8.1m.

- 66kV connection to wind turbine

A 66kV connection to a 17 wind turbine site at Garreg Llwd near Felindre in South Wales has been completed in 2017. Although the site is in South Wales, due to the remote location, the nearest connection point to the network was from the West Midlands' network which is over 20km away. The project was delivered by the Ludlow area teams, West Midlands' Projects team and Primary System Design and involved the replacement of two 66kV transformers at Presteigne and Knighton, the laying of 19.5km of 66kV cable and the building of 4.5km of 66kV overhead line. This major project was particularly challenging due to the circuit route being over 20km in the highway and across landowner's property.

Strategic report (continued)

For the year ended 31 March 2018

Business review (continued)

Capital investment (continued)

In the WPD West Midlands area (continued):

- London to Birmingham High Speed rail link

HS2 Phase 1, which is the High Speed railway link between London and Birmingham, has started with 396 sites across East and West Midlands requiring WPD assets to be diverted. A small internal team has been set up in the West Midlands to co-ordinate the works with HS2's project team. The works range from simple low voltage diversions to the relocation of major 132kV substations and tower lines. WPD has concluded negotiations with HS2 on a Design and Construction Agreement and now has work orders to initiate the major diversion works as well as requests to provide new connections to HS2's tunnel boring machines used along the route. The HS2 Phase 1 project is due to be completed in 2027.

Future developments

See pages 2-4 for details of our long term strategy.

RIIO-ED1

All four WPD DNOs were fast-tracked by Ofgem in respect of RIIO-ED1, the only DNOs selected for this process. Fast tracking affords several benefits, including the ability to collect additional revenue equivalent to 2.5% of total annual expenditures (approximately £25m per year across WPD), greater revenue certainty and a higher level of cost saving retention.

In June 2015 Ofgem published a consultation proposing a new form of accounts which will apply to the network operators ("NWOs") that are regulated under the RIIO framework. The proposed RIIO accounts will replace Regulatory accounts. The aim is to improve transparency and make it easier for stakeholders to interpret the regulatory position and performance of the NWOs. Ofgem continues to work with NWOs, External Auditors and stakeholders to develop the RIIO Accounts including the Regulatory Financial Reporting Standard ("RFRS"), which set out the rules and procedures by which the accounts should be prepared.

In March 2018 WPD published "RIIO accounts" for the 2016/17 year on a voluntary basis and is seeking stakeholder comments and feedback on the format and content of the report to help shape future editions. The aim of the RIIO accounts is to reflect regulatory performance, based on the RIIO framework. As a result, there are differences between RIIO accounts and statutory accounts.

We hope that by sending out a proposal of what the RIIO Accounts can look like this will help ongoing discussions and development of a set of accounts which is useful for a range of stakeholders. It is Ofgem's current intention that 2018/19 will be the first year of RIIO accounts for all energy network companies.

Future Networks – Research, Innovation and Low Carbon Networks

As part of the previous distribution price control period (known as DPCR5), Ofgem introduced the Low Carbon Network ("LCN") Fund. 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 secured funding for six LCNF Tier 2 flagship projects:

- Network Templates was completed during 2013 with significant new learning which led to technical policy changes facilitating lower energy bills for customers.
- The Lincolnshire Low Carbon Hub was completed in February 2015 and resulted in "alternative connection" arrangements being implemented for generation customers.

Strategic report (continued)

For the year ended 31 March 2018

Future developments (continued)

Future Networks – Research, Innovation and Low Carbon Networks (continued)

- Project FALCON completed in October 2015; this project gave WPD a more detailed understanding of the application of various engineering techniques, an evolving roadmap about data requirements and a number of follow on projects that build on the learning from the project. In particular this project led to the development of WPD's "Flexible Power" demand side response proposition (www.flexiblepower.co.uk).
- The SoLa Bristol project was completed in April 2016 and provided learning linking customer profiles, time of use tariffs and charging/discharging regimes that will inform regulation and tariff changes moving forward.
- 'FlexDGrid' – This project concluded in June 2017 and developed a much greater understanding of Network Fault Levels. Through enhanced modelling and ground breaking measurement equipment it has assisted the city of Birmingham with the implementation of CHP (combined heat and power).

The remaining LCNF project is continuing to make good progress with valuable learning emerging as WPD trials new solutions:

- Network Equilibrium – This project is investigating the issues associated with further demand and generation integration on rural networks through a better understanding of voltage profiles and power flows. Through optimising voltage profiles at a system level and balancing power flows through the innovative use of power electronics, the existing network capacity can be fully utilised allowing an increased level of distributed generation and demand to connect to the existing network more quickly and cost effectively.

WPD has secured funding under the NIC for two projects:

- Open LV – This project is led, following a tender for project partners, by EA Technology Limited. It is developing a substation intelligence platform which can make network data available to communities and academic institutions. It will also host a number of localised and autonomous Smart Grid applications, freeing capacity on local networks for low carbon technology new connections.
- Energy Forecasting and Flexibility System (EFFS) – This project is being delivered in conjunction with related projects within SSE Energy Networks (Transition) and SP Energy Networks (FUSION). Our work involves the development of a simple, repeatable and transparent methodology to forecast Demand Side Response (DSR) requirements to maintain current levels of supply security. The methodology and algorithms will be demonstrated in a prototype system to be developed by project partner AMT Sybex.

WPD completed 10 projects under the DPCR5's Tier 1 mechanism. Under the RIIO-ED1 arrangements, WPD has registered 30 projects under NIA covering a broad range of topics.

Further details of innovation activities can be found at www.westernpowerinnovation.co.uk.

Principal risks and uncertainties

WPD views the following risk categories as those that are the most significant in relation to its businesses.

Regulatory risk

A substantial part of WPD's revenue is regulated and is subject to a review every eight years. The current price control, RIIO-ED1, commenced 1 April 2015 and continues to 31 March 2023.

Under the review, Ofgem assesses the revenue and capital expenditure plans of each regulated Company and determines what they consider an efficient level of that expenditure. Ofgem also considers the required cost of capital sufficient to encourage the required investment in the network, and determines customer service targets.

WPD's management invests considerable resources in the review process and has been proactive in working with Ofgem to establish better measures of cost recording to inform future reviews.

If a licensee feels that, as a result of a review it would financially be unable to continue to operate and to meet its obligations under the licence, then it has the right to refer the matter to the UK Competition and Markets Authority for a determination.

WPD's regulated income and also the RAV are to some extent linked to movements in the RPI. Reductions in the RPI would adversely impact revenues and the debt/RAV ratio.

Strategic report (continued)

For the year ended 31 March 2018

Principal risks and uncertainties (continued)

Mid-period review

A mid-period review ("MPR") of outputs is a mechanism included in the RIIO price controls to help manage uncertainty. Any potential MPR would cover material changes to outputs that can be justified by clear changes in government policy and the introduction of new outputs that are required to meet the needs of customers and other network users. Ofgem has made it clear that an MPR is not an opportunity to re-open the price controls or alter incentive mechanisms, other than as required to accommodate changes to outputs. Ofgem has also ruled out making retrospective adjustments as part of an MPR. In February 2017, Ofgem published its final decision on the MPR for National Grid electricity transmission and gas distribution, the results of which took effect in April 2018. There was no MPR for gas distribution or for the Scottish Transmission companies.

In July 2017 Ofgem issued a call for evidence on a potential MPR for electricity distribution, followed by a full consultation in December 2017 on options including no MPR, a focused increase in scope or a significant increase in scope. Ofgem published the decision in April 2018 that it would not progress the MPR.

RIIO2 Framework

In July 2017 Ofgem launched the RIIO2 process for establishing the key principles for the RIIO2 Framework across transmission and distribution, followed by a series of industry workshops. Ofgem issued an RIIO2 Framework Consultation in March 2018. This included topics such as the length of the ED2 price control period, the cost of equity and a more prescriptive structure for stakeholder engagement. The consultation closed on 2 May 2018 and Ofgem expects the decision to be published on 30 July 2018.

Network disruption

Disruption to the network could impact profitability 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 (discussed under 'Network performance' above).

There are economic restrictions on the level of capital expenditure that can be incurred to make the network totally reliable. A certain level of risk must be accepted and this is recognised by Ofgem in its regulatory review. However, WPD believes that its networks are robust. It targets capital expenditure on schemes which are assessed to have the greatest improvement in customer service levels. It also spends considerable sums on routine maintenance, including tree cutting to keep trees away from lines both for safety reasons and as trees have been proven to be a major cause of network interruptions. WPD has met Ofgem's targets for customer service.

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. However, WPD considers that there are sufficient alternative suppliers such that, should an existing supplier be unable to continue to make supplies, then 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 and enters WPD's network at a limited number of grid supply points. WPD is dependent on the national grid. However, this is also an activity regulated by Ofgem and thus the risk of a major failure is considered very remote.

Environment

Certain environmental issues are discussed in the Corporate and Social Responsibility section. There is always the risk that changes in legislation relating to environmental and other matters, including those imposed on the UK by the European Union, could result in considerable costs being incurred by WPD with no guarantee that Ofgem would allow them to be recovered through regulated income.

Interest rate risk

The WPD Group has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, respectively. An element of the long-term debt is index linked which creates a natural hedge against the WPD Group's regulated income, which is also index linked.

Credit rate risk

WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands are required by their distribution licences to maintain investment grade ratings, which they have done. All four WPD DNOs have the following long-term corporate credit ratings: Moody's Baa1 and Standard & Poor's A-.

Cash deposits are made with third parties with a high credit rating (not below a long-term rating of A/A2/A and a short-term rating of A1/P1/F1 by Standard & Poor's, Moody's and Fitch, respectively) and within strict limits imposed by the appropriate Board.

Strategic report (continued)

For the year ended 31 March 2018

Principal risks and uncertainties (continued)

Exchange rate risk

The WPD Group's assets are principally pound 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.

WPD 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 short-term borrowings of \$200m under a related committed credit facility. At 31 March 2018, the WPD Group was exposed to movements on exchange rates of \$2.7m. See Note 20 for further detail.

Creditworthiness of customers

Most of WPD's income is for the delivery of electricity to end-users and thus its customers are the suppliers to those end-users. It is a requirement that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement sets out how creditworthiness will be determined and, as a result, whether the supplier needs to provide collateral. The risk of a significant bad debt is thus considered low.

Pensions

Most employees are members of a defined benefit pension scheme, which also has a considerable number of members who are either retired or have deferred benefits. There are risks associated with the financial performance of the assets within the scheme and with the estimate of the liabilities of the scheme including longevity of members. Currently, ongoing service costs and a proportion of the deficit costs are recoverable through regulated income.

With very limited exceptions, WPD's defined benefit pension plans are closed to new members. A defined contribution scheme is offered to new employees instead. As time elapses, this will reduce WPD's exposure associated with defined benefit pension plans.

UK membership of European Union ("EU")

In March 2017, the United Kingdom government formally notified the EU of its intent to withdraw from the EU, thereby commencing negotiations on the terms of the withdrawal. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy.

Cyber security

WPD adopts a fundamentally unique stance towards reducing the cyber security risk to the extent that, in addition to considerable resources spent on "defence in depth" cyber security controls, WPD does not permit direct connection between WPD's corporate network and the internet, nor direct cloud based services accessed from WPD's corporate network, nor bring your own device. It therefore considers that the risk of major disruption to its systems or to the electricity network is very low.

Insurance arrangements

WPD has a wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey. Depending on the nature of the risk, WPD operating subsidiaries carry all or an element of the risk itself ("self insured") or underwrite insurance with a combination of Aztec and external insurers. Insurance arrangements are reviewed in detail annually.

Insurance arrangements for the year ended 31 March 2018 relating to WPD's key risks were as follows:

- the distribution network is self insured.
- offices and depots including their contents and stock are self insured up to £500,000 for each claim and externally insured above that, subject to a maximum of £50.0m.
- combined liability covers employer's liability, public and product liability, and professional indemnity. The first £10,000 of each claim is self insured; Aztec covers the next part of the claim up to £1.0m per claim and £5.0m in total; claims exceeding these limits are externally insured subject to certain limits.
- on motor related claims, damage to own vehicles is self insured if not recoverable from a third party, as is the first £5,000 of each third party claim. Aztec covers the next part of the claim up to £1.0m for any claim and £2.4m in aggregate; claims exceeding these limits are externally insured subject to certain limits.
- claims relating to death or injury to employees whilst on WPD business or travelling on business are externally insured subject to various limits.
- external insurance is also in place (subject to limits) for loss of money, securities or property through dishonest acts by employees and for wrongful acts by pension scheme trustees.
- insurance in respect of directors and officers is maintained by WPD's US parent, PPL Corporation.
- external insurance is also in place (subject to limits) for cyber liability (costs for security/privacy breaches, defence costs in relation to regulatory breaches and other breaches) and is maintained by WPD's US parent, PPL Corporation.

Strategic report (continued)

For the year ended 31 March 2018

Internal control environment

PPL Corporation has an audit committee that has oversight of the internal control environment across all PPL entities. The WPD Internal Audit Team completes a programme of internal audit work that provides independent assurance on internal controls. The WPD Internal Audit Team reports to both the PPL Audit Committee and the Western Power Distribution plc Board. The Western Power Distribution plc Board has responsibility for internal controls across WPD entities.

PPL's Audit Committee reviews and monitors the independence of the external auditor. The responsibility to monitor the financial reporting process and statutory audit of these financial statements is assumed by the Western Power Distribution plc Board. This Board comprises executive and non-executive directors who are employees of WPD's parent, PPL Corporation. The Boards of the DNOs also include independent directors.

The directors of the Western Power Distribution plc Board have exercised their responsibility for internal controls by establishing a system of internal controls designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material mis-statement or loss.

There are many cultural features in WPD that contribute directly to the success of WPD and the results that it has achieved. These include:

- good definition and communication of short-term business objectives and targets;
- commitment to achievement of objectives and targets;
- speedy decision-making;
- business environment that empowers managers;
- an uncomplicated management structure that aids the flow of information both ways through the organisation.

In order for this success to occur, the control environment is one which empowers those with direct responsibility to take decisions within a clearly defined control framework. The control mechanisms have to be sufficient to limit risk but appropriate to WPD's ability to react quickly and effectively to events, therefore enabling WPD to deliver results over a sustained period of time.

It is important to have a clearly defined structure of control expectations. The controls start at director level and make it clear to everyone concerned how the business should be conducted (policy) and how far each person can go in conducting that business (authority levels). This information is communicated effectively to all levels of staff.

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"). There are two main components of the Act, SOX302 and SOX404.

Under Section 302 of this Act, senior managers affirm quarterly that disclosure controls are operating effectively and that all material information is disclosed in the financial reports.

Section 404 is an annual process which includes management's assessment of internal controls over financial reporting. WPD complies with these requirements via a two stage approach.

Firstly, WPD entity level controls which are pervasive across WPD are documented and tested. The controls cover the COSO elements of effective internal control and the 17 principles set out in the COSO 2013 integrated framework. These encompass:

- control environment
- risk assessment
- information and communication
- control activities
- monitoring.

Secondly, all the major financial processes have been documented with specific detail on the controls in place. This includes the Information Technology environment which supports the financial processes. Management monitors these controls on an ongoing basis. In addition, the controls are reviewed and tested by the Internal Audit department and any issues identified are communicated back to management and the process owners to enable improvement to the controls.

Annually, WPD's compliance with the Act is also reviewed in detail by WPD's external auditor. Good controls together with appropriate documentation must be maintained, and this is subject to testing by both internal and external auditors on an annual basis. Since inception of the Act, no control failures have been identified which merited public disclosure.

Strategic report (continued)

For the year ended 31 March 2018

Corporate and social responsibility

Social and community issues

In the year to March 2018, we assisted 318 separate charitable and non-charitable organisations as part of a commitment of over £265,000 – the three themes of education, safety and the environment continuing to form the bedrock of our community support.

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

In particular, we have continued to promote WPD's Priority Services Register at a range of events and roadshows, and we are also continuing to develop initiatives as part of our land safety and educational safety activity.

Highlights during the year have included:

- Over 3,200 educational safety sessions reached over 81,000 schoolchildren against our target of 50,000. These included school visits, crucial crew and lifeskills initiatives.
- Education sponsorships included bursary support for underprivileged students in South Wales involved with Duke of Edinburgh Awards, a British Heart Foundation initiative to provide CPR kits in Bristol schools, sponsorship of the Welsh Business Awards young entrepreneur, the children's safety initiative Countrytastic at the Malvern Show and partnership at three major agricultural shows (Royal Welsh, Bath & West and Malvern) with Techniquist the educational science centre for children.
- Organised the successful re-awarding of the Action on Hearing Loss ("AOHL") Charter Mark for a further 12 months – the seventh consecutive year. It recognises service excellence for those who are hard of hearing or deaf.
- Singled out for praise by AOHL in its national case study 'Working for Change' which highlights service and accessibility excellence. Also won the service excellence award from AOHL Cymru.
- Partnered Wildlife Trusts in Bath and Gloucester. In Bath, a project involving three schools and local people helped to restore the landscape to support pollinators. In Gloucester, the long-term unemployed were taught a range of woodland skills – from coppicing to making tools and benches – in a project that has now been extended to include school students who struggle with mainstream education.
- Worked with Spectacle Theatre to promote PSR in West Wales through street-theatre events, where 'live adverts' were performed by the theatre to promote WPD and the Priority Services Register. As a result, we added 90 new customers to the PSR and the initiative has also been shortlisted for an Arts, Business and Brand Identity Award at the Arts and Business Cymru Awards 2018.
- Continued our winter warmth campaign with Age Cymru to distribute thermometers to the over 65s in South Wales.
- Supported three major agricultural shows (Bath & West, Malvern, Royal Welsh) promoting farm safety messages, the 105 single emergency number and our Priority Service Register. They attracted thousands of visitors. WPD's exhibition was voted best commercial stand at the Three Counties Show, Malvern, for the third year running.
- Supported one Welsh language initiative – the Urdd (Welsh Youth Eisteddfod).

Customer awareness survey

WPD's commitment to promoting customer awareness pre-dates any of the current regulatory or government pressures on distribution businesses to sharpen their focus on stakeholder engagement.

WPD began this process in a meaningful way in 2010 with the launch of the Power for Life initiative which is designed to raise awareness of the business and to better understand and respond to customer opinion and priorities. The 2017 campaign was WPD's eighth.

This annual customer awareness campaign Power for life was held during September/October 2017 in the lead up to the winter season. Power for Life 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, it also provides information and advice, and explains how we can be contacted in an emergency. Following on from the 2016 campaign, it also encouraged customers to respond so that we could ensure we had their most up-to-date contact details. Some 4,036 customers responded.

Strategic report (continued)

For the year ended 31 March 2018

Corporate and social responsibility (continued)

Customer awareness survey (continued)

Customer opinion research is taken pre and post-campaign. An independent agency undertakes face-to-face feedback with a random sample of 2,000 people across the wider WPD territory. This is designed to test customer awareness of WPD as well as the effectiveness of the campaign in raising the Company's profile and getting across key messages. Analysis indicates that the latest pre-campaign research showed a 2% improvement in customer awareness of WPD on the previous year (58% compared with 56% in 2016).

The post-campaign results indicated that 64% of customers were aware of Western Power Distribution. Here is an excerpt from this year's independent market research survey:

"Awareness of WPD reached its highest ever for the pre-stage survey. Whilst not due to this year's campaign, this may be due to a delayed effect of previous campaigns. This research has demonstrated that awareness of WPD has increased following the campaign, a positive outcome considering it was very high before the campaign. Furthermore, through analysis of the recall and non-recall groups in the post-campaign research it was possible to isolate the 'campaign effect'. This demonstrated a significantly higher level of awareness of WPD amongst those who had been exposed to the campaign compared to those who had not been exposed." (Future Focus Research, 2017)

What is very encouraging is not only the effectiveness seen from the campaign, but actually that our pre-campaign figures in 2017 continue to rise year-on-year. This illustrates that our campaign and ongoing communications work is creating a longstanding effect in making WPD more well known to customers.

Environmental matters

See the Environment section on pages 9 and 10.

Greenhouse gas emissions

Our greenhouse gas reporting year is to 31 March. Emissions were from:

	WPD Group		WPD Group	
	tCO₂e		tCO₂e per employee	
	2018	2017	2018	2017
Scope 1 (direct emissions)				
Operational transport	23,465	23,411	3.53	3.54
SF6 gas (page 10)	10,690	5,211	1.61	0.79
Fuel combustion (diesel)	3,982	2,965	0.60	0.45
Buildings	220	226	0.03	0.03
	38,357	31,813	5.77	4.81
Scope 2 (energy indirect emissions)				
Buildings electricity	7,041	9,071	1.06	1.37
Substation electricity	19,616	22,992	2.95	3.48
Surf Telecoms Limited (subsidiary company)	593	651	0.09	0.10
	27,250	32,714	4.10	4.95
Total scope 1 & 2	65,607	64,527	9.87	9.76
Scope 3 (other indirect emissions)				
Business transport	3,541	3,311	0.53	0.50
Total scope 1, 2 & 3	69,148	67,838	10.40	10.26

tCO₂e = tonnes of carbon dioxide equivalent

WPD's chosen intensity measurement is tonnes of carbon dioxide equivalent per employee. The methodology used to calculate our emissions is based on the current guidance provided from BEIS and the Department for Environment, Food and Rural Affairs ("DEFRA"), Green House Gas Reporting Requirements and the UK Government conversion factors for 2016/17 Company Reporting.

Strategic report (continued)

For the year ended 31 March 2018

Corporate and social responsibility (continued)

Employees

The average number of employees during the year was 6,646 (2017: 6,606).

WPD is committed to equality of opportunity in employment and this is reflected in its equal opportunities policy and employment practices. 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 WPD continues by way of making adjustments to their role and/or working environment or through retraining arranged as appropriate. It is the policy of WPD that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

WPD places considerable value on the involvement of its employees in its affairs. Staff are kept informed of WPD's aims, objectives, performance and plans, and their effect on them as employees through monthly business updates, regular team briefings and other meetings, 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 each year ensures that all staff are aware of, and can contribute to, WPD's corporate goals.

Gender Pay Gap Report

As with all other UK employers with at least 250 employees, WPD reported on its gender pay gap which was published recently.

WPD's mean hourly gender pay gap was calculated at 9.0%; the median at 10.5% which is 7.6% below the national gender gap and 17.6% 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.

WPD places great emphasis on our diversity and inclusion programmes to attract, retain and progress female employees within the business. It is important for us to continually review our gender pay gap and diversity information and be aware of factors that may impact people related decisions.

Diversity

WPD is fully committed to equality of opportunity and the elimination of unlawful and unfair discrimination. WPD values the differences 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. The aim of the policy is to ensure compliance with the provisions of equality legislation and best practise principles ensuring that employees are treated fairly and consistently and are not discriminated against on the grounds of any protected characteristic or related legislation. In addition, WPD seeks to create a culture which values diversity and individual differences based on values of acceptance and respect.

The policy has been refreshed in July 2018. All those involved in the management of people will receive appropriate training, guidance and relevant support, particularly with regard to recruitment and selection, so as to ensure that the individual understands the policy, the relevant Acts and their personal liabilities at law.

In order to demonstrate the effectiveness of the policy, arrangements exist to monitor the selection and appointment process and the make-up of the workforce.

Human rights issues

WPD is dedicated to conducting its business with honesty, integrity and fairness. It is committed to the highest ethical standards. In support of these principles, it is WPD's policy to observe all domestic and applicable foreign laws and regulations.

In addition to conserving the human rights of its employees, WPD also considers those in relation to customers. Two specific customer groups whose needs are targeted by WPD are vulnerable customers and those in fuel poverty.

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. Bespoke services are provided by understanding the special needs of the customers.

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. In the year to March 2018, WPD contacted 955,664 customers and successfully updated 34% of their records.

Strategic report (continued)

For the year ended 31 March 2018

Corporate and social responsibility (continued)

Human rights issues (continued)

Vulnerable customers (continued)

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.

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.

Project Inspire

Working with the charity and think tank Sustainability First, WPD sponsored 'Project Inspire' alongside Ofgem, the Department for Business Energy & Industrial Strategy (BEIS) and energy suppliers. The aim was to identify how businesses are using innovative technology to meet the current and future needs of vulnerable customers. Over 100 global organisations took part, with best practice highlighted across energy, water and financial institutions. WPD won a silver and two gold awards for our proactive PSR cleansing, vulnerability horizon scan and use of two-way text messaging respectively.

Fuel poverty and energy affordability

Some customers on low incomes cannot afford to use electricity to effectively heat their properties. There is growing concern that customers will suffer as economic growth remains uncertain and austerity measures affect fuel poor customers further. 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, the charity National Energy Action 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 the Coventry Citizens Advice Bureau ("CAB") since 2014 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. The service offers free, independent, confidential and impartial advice. The project works by partner organisations such as CAB taking referrals directly from WPD (following calls proactively made to vulnerable customers as part of WPD's update of the Priority Services Register).

Building on this successful model we have replicated this project and now have four 'Power Up' referral schemes – one in each of our regions working with CAB in the Midlands, Energy Saving Trust in South Wales and the Centre for Sustainable Energy in the South West. 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. Based on feedback from our Customer Panel customers are offered free, independent, confidential and impartial advice on:

1. Income maximisation (e.g. debt management)
2. Tariffs switching assistance
3. Energy efficiency measure (e.g. access to local insulation schemes)
4. Boiler replacements
5. Behavioural changes (e.g. efficient use of heating systems).
6. Health & wellbeing measures

In 2017/18, these projects supported over 15,000 fuel poor customers across WPD, leading to total annual savings of over £5.3m for these customers.

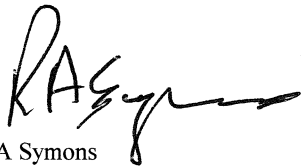
In 2017 we launched a fifth referral scheme "Power Up Health" with our partner Air Liquide, aimed specifically at oxygen dependent customers. This is being trialled in the South West, where Air Liquide supports over 9,000 customers. In the first three months we delivered total annual savings of over £25,000 through this scheme.

We also support four Affordable Warmth schemes (one per licence area) which deliver the same six fuel poverty interventions, but they do not receive referrals from WPD. Instead we have formed partnerships with existing, fuel poverty outreach programmes who via their existing front-line services seek to identify hard-to-reach customers not already known to WPD.

Strategic report (continued)

For the year ended 31 March 2018

By Order of the Board

A handwritten signature in black ink, appearing to read 'RA Symons', with a stylized flourish at the end.

RA Symons
Chief Executive Officer

19 July 2018

Western Power Distribution plc

Avonbank
Feeder Road
Bristol BS2 0TB

Directors' report

For the year ended 31 March 2018

Results and dividends

The WPD Group reports a profit for the financial year of £586.0m (2017: £694.3m). Profit on ordinary activities before tax is £705.3m (2017: £803.5m).

The WPD Group also reports other comprehensive losses, which were posted directly to capital and reserves, of £26.2m (2017: £232.9m). This primarily relates the defined benefit pension plan remeasurement, net of tax.

Dividends of £92.7m have been paid during the year (2017: £313.8m).

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 "principal risks and uncertainties" section of the Strategic report.

Liquidity and going concern

The following credit facilities were in place at 31 March 2018, in respect of which all conditions precedent 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. 2022	210.0	141.4	-	68.6
WPD plc - Term Loan Facility	Dec. 2018	130.0	130.0	-	-
WPD South West - Syndicated Credit Facility	July 2021	245.0	-	-	245.0
WPD East Midlands - Syndicated Credit Facility	July 2021	300.0	130.0	-	170.0
WPD West Midlands - Syndicated Credit Facility	July 2021	300.0	19.0	-	281.0
Uncommitted Credit Facilities		130.0	-	3.8	126.2
Total Credit Facilities		1,315.0	420.4	3.8	890.8

As at 31 March 2018 and 2017 the WPD Group had the following levels of debt:

	External debt outstanding				Cash and short term deposits	
	Long-term		Short-term			
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
WPD South West	1,002.50	744.0	25.3	105.4	93.6	21.6
WPD South Wales	660.0	629.2	-	-	33.2	19.5
WPD East Midlands	1,397.2	1,384.9	130.0	125.0	1.6	11.3
WPD West Midlands	1,440.3	1,439.5	19.0	-	6.9	11.5
Western Power Distribution plc	988.1	1,046.9	272.7	469.5	10.3	3.0
Other subsidiaries	-	-	-	-	31.7	30.6
	<u>5,488.1</u>	<u>5,244.5</u>	<u>447.0</u>	<u>699.9</u>	<u>177.3</u>	<u>97.5</u>

Short-term debt includes bank overdrafts of £25.2m (2017: £25.3m). In addition the WPD Group's parent, Western Power Distribution plc, had made a loan to its parent of £144.7m (2017: £163.1m).

The Group has net current liabilities of £530.7m (2017: £841.0m). 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.

Directors' report (continued)

For the year ended 31 March 2018

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 13;
- an indication of activities of the Company in the field of research and development - see page 13;
- a statement on the policy for disabled employees - see page 20;
- employee policies - see page 20; and
- greenhouse gas (carbon) emissions - see page 19.

Subsequent events

Subsequent to the year end, on 15 June 2018, the Company paid an interim dividend of £150.0m to PPL WPD Investments Limited.

Directors and their interests

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

RA Symons, Chief Executive

DCS Oosthuizen, Finance Director (resigned 31 March 2018)

P Swift, Operations Director

IR Williams, Finance Director

AJ Sleightholm, Resources and External Affairs Director (appointed 1 April 2018)

WH Spence (resigned 12 December 2017)

V Sorgi

AJ Torok

JP Bergstein (resigned 31 July 2017)

GN Dudkin

JH Raphael (appointed 13 December 2017)

SK Breining, alternate director to V Sorgi (resigned 31 July 2017)

JH Raphael, alternate director to WH Spence (appointed 1 August 2017, resigned 12 December 2017)

Alternate directors have the right to attend Board meetings but can only vote if the person for whom they are the alternate is not present.

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.

Regulatory financial statements

As a condition of its Electricity Distribution Licence, each licensee is required to prepare and publish separate financial statements for its distribution business for each year ending 31 March. WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands will publish information on the WPD website and this information will also be available from the Company's registered office as shown below.

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, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

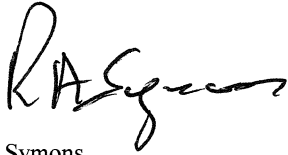
Directors' report (continued)

For the year ended 31 March 2018

Independent auditor

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

Approved by the Board and signed on its behalf by:



RA Symons
Chief Executive

19 July 2018

Western Power Distribution plc

Avonbank
Feeder Road
Bristol BS2 0TB

Registered Number: 9223384

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 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 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 give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 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 group income statement;
- the group statement of comprehensive income;
- the group statement of changes in equity;
- the group balance sheet;
- the group cash flow statement;
- the related notes 1 to 29 to the group financial statements;
- the company statement of changes in equity;
- the company balance sheet; 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: • Capitalisation of overheads • Impairment of goodwill; and • Uncertain tax positions.
Materiality	The materiality that we used for the group financial statements was £35m which was determined on the basis of 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.

Independent auditor's report

to the members of Western Power Distribution plc (continued)

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.

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. There are two key judgements in relation to the capitalisation of engineering indirect costs and corporate overheads:

- 1) the nature of costs included within each cost classification; and
- 2) the appropriate percentage of costs to capitalise.

Due to the management judgements in assessing the value to be capitalised, we have determined that there was a potential for fraud through possible manipulation. Given the magnitude of overheads capitalised in the business the impact could be material.

Total engineering indirect costs and corporate overheads are £430.1m in the year (2017: £405.3m), of which £295.9m (2017: £285.5m) has been capitalised to fixed assets.

Refer to note 1 'significant accounting policies' and note 11 'property plant and equipment' in the financial statements for further discussion of the Group's policy and judgements in capitalisation of overheads.

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

We 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 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.

Key observations

The results of our procedures were satisfactory. On the basis of these procedures we conclude that the capital expenditure recorded is appropriate.

Independent auditor's report

to the members of Western Power Distribution plc (continued)

Key audit matters (continued)

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, being the Regulatory Asset Value ("RAV") at the end of the cash flow model period in respect of the East Midlands, West Midlands and South Wales cash generating units.

As disclosed in note 13 of the financial statements the carrying value of goodwill in relation to East Midlands is £518.8m (2017: £518.8m), West Midlands £614.4m (2017: £614.4m) and South Wales £120.9m (2017: £120.9m).

Due to the level of management judgement involved in determining the discount rate and the RAV, we have determined that there is a potential for fraud through possible manipulation of this balance through amending these assumptions.

Refer to note 1 'significant accounting policies' and note 13 'intangible 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.
- 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, considering the judgements together, we concur with management's assessment that no impairment is required at 31 March 2018. We are satisfied with the financial statement disclosures presenting the reasonable possible change in assumptions that would result in an impairment.

Uncertain tax positions

Key audit matter description

Management uses its judgement in applying the Corporate Interest Restriction Rules introduced with the Finance Act in 2017 to determine the value of interest which can be deducted in arriving at taxable profit. This is a key audit matter due to the significance of the judgement.

Refer to note 1 'significant accounting policies' and note 2 'critical accounting judgements and key sources of estimation uncertainty' in the financial statements for further discussion of the Group's policy and judgements in respect of taxation.

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 the key controls related to the key tax judgements.
- In conjunction with our taxation audit specialist, we have assessed the assumptions and judgements used by management in determining the interest deductibility in arriving at taxable profit is reasonable.

Key observations

From the work performed we are satisfied that the assumptions made are reasonable.

Our application of materiality

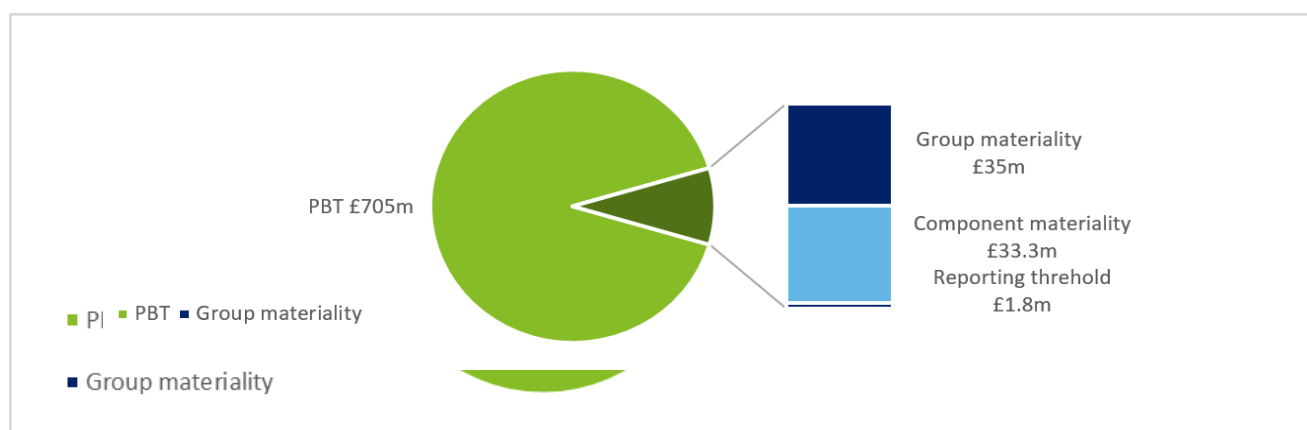
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

Our application of materiality

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	£35m	£14m
Basis for determining materiality	5% of profit before tax	Parent company equates to less than 1% of net assets which is capped at 40% of group materiality.
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.



We agreed with the Board of Directors that we would report all audit differences in excess of £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 one component, which was subject to a full scope audit.

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 was £33.3m.

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.

Independent auditor's report

to the members of Western Power Distribution plc (continued)

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.

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.

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.

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.

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

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 two years, covering the years ending 31 March 2017 to 31 March 2018.

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).

Delyth Jones

Delyth Jones (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
24 July 2018

Western Power Distribution plc Group income statement

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Revenue	3	1,620.9	1,664.6
Operating costs	4	(632.8)	(592.6)
Other operating income	5	3.6	2.8
Other operating expense	5	(1.0)	(2.0)
Operating profit	3	990.7	1,072.8
Finance income	6	9.6	8.4
Finance costs	6	(290.6)	(271.3)
Net finance expense relating to pensions and other post-retirement benefits	23	(4.4)	(6.4)
Profit before income tax		705.3	803.5
Income tax expense	9	(119.3)	(109.2)
Profit for the year attributable to equity holders of the parent		586.0	694.3

All operations are continuing.

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

Western Power Distribution plc Group statement of comprehensive income

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Profit for the year		586.0	694.3
Other comprehensive (loss)/income:			
<i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:</i>			
(Losses)/profits arising on cash flow hedges during the year		(69.1)	68.9
Reclassification adjustments for gains/(losses) on cash flow hedges included in profit or loss (finance costs)		61.2	(83.8)
Income tax effect	9	1.3	2.6
		(6.6)	(12.3)
<i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement losses on defined benefit pension plan	23	(25.1)	(271.1)
Income tax effect:			
Impact of tax rate change	9	-	(2.3)
Other	9	5.5	52.8
		(19.6)	(220.6)
Other comprehensive loss for the year, net of tax		(26.2)	(232.9)
Total comprehensive income for the year, net of tax, attributable to equity holders of the parent		559.8	461.4

Western Power Distribution plc Group statement of changes in equity

For the year ended 31 March 2018

	Note	Share capital £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016		1,657.6	(963.1)	1.0	2,994.0	3,689.5
Profit for the year		-	-	-	694.3	694.3
Other comprehensive loss		-	-	(12.3)	(220.6)	(232.9)
Total comprehensive (loss)/income for the year		-	-	(12.3)	473.7	461.4
Equity dividends paid	10	-	-	-	(313.8)	(313.8)
At 31 March 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	10	-	-	-	(92.7)	(92.7)
At 31 March 2018		1,657.6	(963.1)	(17.9)	3,627.6	4,304.2

Western Power Distribution plc Group balance sheet

As at 31 March 2018

	Note	2018 £m	2017 £m
ASSETS			
Property, plant and equipment	11	11,974.3	11,238.9
Investment property	12	35.0	37.3
Intangible assets	13	1,281.8	1,271.5
Held-to-maturity investments	14	144.7	163.1
Trade and other receivables	16	2.4	2.0
Derivative financial instruments	21	46.3	114.0
Non-current assets		13,484.5	12,826.8
Inventories	15	24.7	23.2
Trade and other receivables	16	324.4	297.3
Current tax assets		-	11.8
Derivative financial instruments	21	3.3	26.9
Cash at bank and in hand	17	177.3	97.5
Current assets		529.7	456.7
Total assets	3	14,014.2	13,283.5
LIABILITIES			
Loans and other borrowings	19	447.0	699.9
Trade and other payables	18	564.7	585.0
Current tax liabilities		39.0	-
Provisions	24	9.7	12.8
Current liabilities		1,060.4	1,297.7
Loans and other borrowings	19	5,488.1	5,244.5
Deferred income tax liabilities	22	498.8	474.7
Retirement benefit obligations	23	170.6	71.4
Trade and other payables	18	2,369.7	2,232.5
Provisions	24	122.4	125.6
Non-current liabilities		8,649.6	8,148.7
Total liabilities	3	9,710.0	9,446.4
Net assets		4,304.2	3,837.1
EQUITY			
Share capital	25	1,657.6	1,657.6
Merger reserve	26	(963.1)	(963.1)
Hedging reserve	26	(17.9)	(11.3)
Retained earnings	26	3,627.6	3,153.9
Total equity		4,304.2	3,837.1

The financial statements on pages 33 to 86 were approved by the Board of Directors on 19 July 2018 and signed on its behalf by:


R A Symons
Chief Executive


I R Williams
Finance Director

Western Power Distribution plc Group cash flow statement

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Operating activities - continuing operations			
Profit for the year		586.0	694.3
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Tax expense		119.3	109.2
Finance costs		295.0	277.7
Finance revenue		(9.6)	(8.4)
Depreciation of property, plant and equipment		220.5	219.6
Amortisation of customers' contributions		(44.3)	(42.0)
Amortisation of intangible assets		3.4	4.5
Gain on disposal of property, plant and equipment		(1.6)	(1.2)
Gain on disposal of investment properties		(0.2)	-
Fair value gains on investment properties		(1.8)	(1.4)
Fair value losses on investment properties		1.0	2.0
Difference between pension contributions paid and amounts recognised in the income statement		67.1	(406.1)
(Decrease)/increase in provisions		(3.7)	0.1
Working capital adjustments:			
Increase in inventories		(1.5)	(3.1)
Increase in trade and other receivables		(27.6)	(19.7)
(Decrease)/increase in trade and other payables		(9.9)	11.8
Interest paid		(247.5)	(262.2)
Interest received		10.8	10.3
Income taxes paid		(37.5)	(52.7)
Net cash from operating activities		917.9	532.7
Investing activities			
Purchase of property, plant and equipment		(952.2)	(992.6)
Customers' contributions received		167.3	191.7
Proceeds from sale of property, plant and equipment		2.1	1.6
Purchase of investment properties		-	(0.1)
Proceeds from sale of investment properties		2.8	-
Purchase of intangible assets		(13.7)	(8.8)
Net cash used in investing activities		(793.7)	(808.2)
Financing activities			
Net (decrease)/increase in short-term borrowings		(154.4)	400.6
Proceeds from long-term borrowings		279.6	236.1
Issue costs of long-term borrowings		(1.7)	(0.4)
Repayment of long-term borrowings (net of cross currency swap settlements)		(75.1)	(282.8)
Loan repaid to affiliate		-	(30.7)
Dividends paid		(92.7)	(313.8)
Net cash (used in)/from financing activities		(44.3)	9.0
Net increase/(decrease) in cash and cash equivalents		79.9	(266.5)
Cash at bank and in hand at beginning of year	17	72.2	338.7
Cash at bank and in hand at end of year	17	152.1	72.2

Notes to the Western Power Distribution plc Group financial statements

For the year ended 31 March 2018

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 2018 were authorised for issue by the Board of Directors on 19 July 2018 and the balance sheet was signed on the Board's behalf by RA Symons and IR Williams. The Company is a public limited company, limited by shares and incorporated and domiciled in England and Wales. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and in accordance with the provisions of the UK Companies Act 2006. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board ('IASB'); however, the differences have no impact on the WPD Group's consolidated financial statements for the years presented. The significant accounting policies and critical accounting judgements, estimates and assumptions of the WPD Group are set out below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with EU IFRS and IFRS Interpretations Committee ('IFRIC') interpretations issued and effective for the year ended 31 March 2018. 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.

These consolidated financial statements are presented in sterling and all values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

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

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

Not yet adopted (continued)

IFRS 9

IFRS 9 'Financial Instruments' will supersede IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

As per IFRS 9 the classification and measurement of financial assets is required to reflect the business model (intent to hold or to sell) and their cash flow characteristic. WPD has assessed the impact of IFRS 9 on its financial assets and it does not expect the new classification requirements to have any impact on the financial assets of the group. The financial assets of WPD comprise held to maturity investment, trade and other receivables, derivatives and cash and cash equivalents. All the financial assets excluding derivatives have been assessed to meet the business model test of hold to collect and the cash flow characteristic test of contractual payments being principal and interest only and thus will continue to be measured at amortised cost. The derivatives will continue to be measured at fair value through profit and loss ("FVTPL") which is in compliance with the requirements of IFRS 9.

IFRS 9 replaces the current incurred loss model in IAS 39 with a forward looking expected credit loss ("ECL") model for impairment. The ECL is to be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income ("FVOCI") except for investment in equity instruments, financial guarantees (except those at FVTPL), loan commitments (except those at FVTPL), and contract assets. WPD is still assessing the full impact of the new impairment model on its financial assets; the impact is not expected to be material. The majority of WPD's financial assets within the scope of impairment pertain to trade receivables with less than 12 months to maturity. With limited exception, WPD provides 100% for balances 90 days overdue and at an adequate rate for balances due within 90 days. Incorporating forward looking probabilities of default in WPD's provisioning methodology is not expected to have a significant impact on the impairment loss.

IFRS 9 has adopted a more qualitative and forward looking approach to assessing hedge effectiveness and it requires that hedge relationships are aligned with the risk management objective and strategy. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of 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.

IFRS 15

IFRS 15 Revenue from Contracts with Customers issued in May 2014 and amended in April 2016, 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. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2018.

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

The EU has adopted both IFRS 9 and IFRS 15.

IFRS 16

IFRS 16 'Leases' provides 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 over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

Not yet adopted (continued)

IFRS 16 (continued)

WPD expects to adopt IFRS 16 on 1 April 2019 using the modified retrospective approach to transition permitted by the standard in which the cumulative effect of initially applying the standard is recognised in opening retained earnings at the date of initial application. The Group's evaluation of the effect of adoption of the standard is ongoing but it is expected that it will have an effect on the Group's financial statements, increasing the Group's recognised assets and liabilities primarily in the non-network businesses. It is expected that the presentation and timing of recognition of charges in the income statement will also change as the operating lease expense currently reported under IAS 17, typically on a straight-line basis, will be replaced by depreciation of the right-to-use asset and interest on the lease liability. Information on the Group's leases currently classified as operating leases, which are not recognised on the balance sheet, is provided in Note 28.

The EU has adopted IFRS 16.

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.

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

Revenue is recognised to the extent that it is probable that economic benefits will flow to the WPD Group and that the revenue can be reliably measured. Revenue comprises primarily use of energy system income.

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

Revenue recognition (continued)

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 revenue comprises interest receivable on funds invested and returns on pension scheme assets that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, on an effective rate basis.

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

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.

Contributions

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

Finance costs

Finance expenses comprise interest payable on borrowings, accretion relating to inflation on index linked debt, the release of discount on provisions, and interest on pension scheme liabilities. Interest charges are recognised in the 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 production 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:

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

Intangible assets (continued)

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 for impairment annually and 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.

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.

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.

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

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

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

- 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 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.

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 defined benefit pension plan surplus or deficit in the balance sheet 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.

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

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 loans and receivables; financial assets at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; held-to-maturity financial assets; or as available-for-sale financial assets, as appropriate. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments, 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.

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

Loans and receivables

Loans and receivables 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 loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables. Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Financial assets at fair value through profit or loss

Financial assets 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 classified as held for trading and are included in this category.

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.

Held-to-maturity investments

Held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Impairment of loans and receivables

The WPD Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the income statement.

Cash and cash equivalents

In the consolidated cash flow statement and related notes, cash and cash equivalents includes cash at bank and in hand, deposits, other short-term highly liquid investments 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 fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include trade and other payables, accruals, finance debt and derivative financial instruments. The 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 classified as held for trading and are included in this category.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

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.

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 using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs.

This category of financial liabilities includes trade and other payables and finance debt.

Derivative financial instruments and hedging activities

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

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

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

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

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 profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, 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 profit or loss. 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 profit or loss.

Fair value hedges

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

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

1. Significant accounting policies (continued)

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.

Finance 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.

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

Indirect costs are initially charged to the income statement. A proportion is then capitalised based on an assessment of the allocation of direct costs between operating activities and those which are capitalised as they provide long term benefit.

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.

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, the return that the pension fund assets will generate in the time before they are used to fund the pension payments 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 23 for information on sensitivities.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

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

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. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the fair value of cash-generating units, specifically in relation to the discount rate and the premium applied to the RAV at the end of the period. Estimates of fair value are consistent with market information and the WPD Group's plans and forecasts.

At 31 March 2018, the carrying value of goodwill amounted to £1,254.1m (2017; £1,254.1m). Refer to Note 13 for further details on the impairment testing performed on goodwill.

Uncertain tax positions

WPD monitors any changes to tax legislation for their impact on the Group's tax position. The recent OECD Base Erosion and Profit Shifting project has resulted in HMRC enacting complex legislation. Management has assessed the impact of this legislation on the WPD Group and has taken necessary action to ensure that the Group is compliant with the rules and that the tax charge reflects this position. WPD will continue to monitor its position as the guidance and practice develops.

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	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	364.5	372.2	(1.0)	(1.0)	363.5	371.2
South Wales	245.9	251.2	(0.1)	(0.1)	245.8	251.1
East Midlands	491.0	501.5	(0.1)	-	490.9	501.5
West Midlands	496.7	515.6	(0.1)	-	496.6	515.6
	1,598.1	1,640.5	(1.3)	(1.1)	1,596.8	1,639.4
Other businesses	58.3	59.5	(34.2)	(34.3)	24.1	25.2
	1,656.4	1,700.0	(35.5)	(35.4)	1,620.9	1,664.6

Information about major customers

Revenues from the WPD Group's largest five customers amounted to £251.0m, £250.7m, £243.2m, £237.2m and £227.0m (2017: £281.7m, £268.6m, £267.5m, £257.3m and £243.1m) arising from sales reported across the South West, South Wales, East Midlands and West Midlands segments.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

3. Operating segment information (continued)

b) Profit

	2018 £m	2017 £m
Distribution network systems		
South West	231.2	250.1
South Wales	150.7	157.4
East Midlands	307.4	332.5
West Midlands	311.8	340.0
	1,001.1	1,080.0
Other businesses	12.0	12.3
Corporate and unallocated*	(22.4)	(19.5)
Operating profit	990.7	1,072.8
Finance revenue	9.6	8.4
Finance costs	(290.6)	(271.3)
Net finance expense relating to pensions and other post-retirement benefits	(4.4)	(6.4)
Profit before tax	705.3	803.5

* 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)	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	2,762.0	2,549.2	630.4	614.9	247.7	252.0
South Wales	1,967.5	1,847.2	413.2	395.7	153.5	145.2
East Midlands	4,517.2	4,290.1	1,062.4	1,024.9	310.1	328.0
West Midlands	4,260.1	4,041.4	748.4	706.7	290.2	300.0
	13,506.8	12,727.9	2,854.4	2,742.2	1,001.5	1,025.2
Other businesses	197.8	145.9	268.1	(52.2)	7.0	18.1
Corporate and unallocated	309.6	409.7	6,587.5	6,756.4	(3.9)	(4.5)
	14,014.2	13,283.5	9,710.0	9,446.4	1,004.6	1,038.8

(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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

3. Operating segment information (continued)

d) Depreciation and amortisation

	Depreciation on property, plant and equipment (Note 11)		Amortisation of intangible assets (Note 13)	
	2018 £m	2017 £m	2018 £m	2017 £m
Distribution network systems				
South West	56.9	55.2	1.5	2.5
South Wales	37.7	37.6	0.2	0.1
East Midlands	80.9	82.9	0.6	0.7
West Midlands	71.7	74.3	0.5	0.4
	247.2	250.0	2.8	3.7
Other businesses	7.3	6.8	0.6	0.8
	254.5	256.8	3.4	4.5
Less: recapitalised to property, plant and equipment	(34.0)	(37.2)	-	-
Charged to consolidated income statement	220.5	219.6	3.4	4.5

4. Operating costs

WPD Group operating costs can be analysed as follows:	2018 £m	2017 £m
Employee benefit expense (Note 7)	139.0	130.3
Depreciation of property, plant and equipment	220.5	219.6
Property taxes	98.0	97.4
Other operating charges	175.3	145.3
	632.8	592.6

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

	2018 £m	2017 £m
Employee benefit expense (Note 7)	139.0	130.3
Depreciation of property, plant and equipment *	220.5	219.6
Amortisation of intangibles	3.4	4.5
Operating lease rentals:		
Plant, machinery and equipment	9.6	12.4
Land and buildings	3.0	2.7
Amortisation of customer contributions	(44.3)	(42.0)
Research and development expenditure **	0.2	0.4

* Depreciation of property, plant and equipment is stated net of depreciation capitalised of £34.0m (2017: £37.2m) 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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

4. Operating costs (continued)

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:

	2018 £m	2017 £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	0.4	0.4
- Other services pursuant to legislation	0.1	0.1
- All other services	0.5	0.4
	1.1	1.0

5. Other operating income and expense	2018 £m	2017 £m
Other operating income		
Net gain on disposal of property, plant and equipment	1.6	1.2
Increase in fair value of investment properties	1.8	1.4
Income from fixed asset investments	0.2	0.2
	3.6	2.8
Other operating expense		
Reduction in fair value of investment properties	(1.0)	(2.0)
Net other operating income	2.6	0.8

6. Net finance costs	2018 £m	2017 £m
Finance revenue		
Interest on bank deposits	0.5	0.7
Interest on loans to PPL affiliates (Note 29)	9.1	7.7
Total finance revenue	9.6	8.4
Finance costs		
Interest payable on bank loans and overdrafts	(4.6)	(5.6)
Interest payable on other loans	(288.0)	(269.5)
Foreign exchange gain/(loss) on US\$ denominated financial assets and liabilities	59.9	(82.7)
Transfers from the hedging reserve in relation to cash flow hedges	(61.2)	83.8
Less: interest capitalised	3.3	2.7
Total finance costs	(290.6)	(271.3)
Net finance costs	(281.0)	(262.9)

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

7. Employee benefit expense

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

	2018 £m	2017 £m
Wages and salaries	331.9	326.9
Social security costs	38.7	38.4
Pension costs	70.9	52.8
	441.5	418.1
Less: amounts capitalised as part of property, plant and equipment	(302.5)	(287.8)
Charged to the income statement	139.0	130.3

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

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

	2018 Number	2017 Number
Electricity distribution	6,493	6,455
Other activities	153	151
	6,646	6,606

8. 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.

WPD Group	Highest paid director		Total	
	2018 £000	2017 £000	2018 £000	2017 £000
The emoluments of the executive directors comprised:				
Base salary (note i)	607	594	1,629	1,518
Performance dependent bonus (note ii)	580	552	1,201	1,097
Pension compensation allowance (note iii)	-	-	345	808
Sub-total directors' remuneration	1,187	1,146	3,175	3,423
Long term incentive plan (note iv)	691	1,245	1,250	2,509
Fees to the independent non executive directors (note v)	-	-	100	61
	1,878	2,391	4,525	5,993

(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, the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 23). Thus WPD no longer contributes for ongoing service to the ESPS in respect of the 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).

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

8. Directors' emoluments (continued)

(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; no executive directors exercised options (2017: three). 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, four executive directors (2017: four) were members of the defined benefit ESPs. At 31 March 2018, the highest paid director had accrued annual pension benefits of £585,456. The benefits shown assume that an option to convert an element of the annual benefits to a lump sum payable on retirement is not exercised.

9. Income tax expense

The major components of income tax expense are:	2018 £m	2017 £m
Current tax		
Current income tax expense	92.8	22.5
Adjustments in respect of prior years*	(4.4)	(1.9)
Deferred tax (Note 22)		
Relating to the origination and reversal of temporary differences	31.6	124.6
Adjustments in respect of prior years	0.1	(1.0)
Impact of tax rate change	(0.8)	(35.0)
	119.3	109.2

* Mainly due to additional group relief received from PPL affiliates at non-standard rates.

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% (2017: 20%) as follows:

	2018 £m	2017 £m
Profit before income tax	705.3	803.5
Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	134.0	160.7
Effects of:		
Expenses not deductible and income not taxable for tax purposes	0.2	0.4
Adjustments to tax charge in respect of prior years	(4.3)	(2.9)
Group relief received at non-standard rates	(9.8)	(14.0)
Impact of tax rate change	(0.8)	(35.0)
Total taxation (continuing operations)	119.3	109.2
Tax relating to items (charged) or credited to other comprehensive income	2018 £m	2017 £m
Deferred tax:		
Revaluation of cash flow hedges	1.3	2.6
Deferred tax on defined benefit pension schemes	5.5	50.5
	6.8	53.1

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

9. Income tax expense (continued)

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 the impact included in these financial statements.

10. Dividends

	2018 £m	2017 £m
Equity dividends - 5.59 pence (2017: 18.93 pence) per £1 share	92.7	313.8

11. 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 2016	0.4	12,084.2	127.8	232.8	117.6	12,562.8
Additions	-	961.2	10.9	44.9	13.0	1,030.0
Disposals and retirements	-	(2.1)	-	(26.1)	(5.5)	(33.7)
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 31 March 2018	0.5	13,958.3	154.9	275.8	127.1	14,516.6
Accumulated depreciation						
At 1 April 2016	-	1,941.8	11.5	103.8	39.5	2,096.6
Depreciation charge for the year	0.1	201.2	1.9	41.8	11.8	256.8
Disposals and retirements	-	(2.1)	-	(26.1)	(5.0)	(33.2)
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 31 March 2018	0.1	2,342.1	15.5	130.5	54.1	2,542.3
Net book value						
At 31 March 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
At 31 March 2016	0.4	10,142.4	116.3	129.0	78.1	10,466.2

Included in distribution network at 31 March 2018 was an amount of £131.5m (2017: £171.8m) 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 £5.7m (2017: £5.8m) and £1.4m (2017: £1.4m), respectively, in respect of long leasehold properties.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

11. Property, plant and equipment (continued)

Included in additions are staff costs of £302.5m (2017: £287.8m).

12. Investment property	Retail £m	Office £m	Industrial £m	Total £m
Fair value				
At 1 April 2016	24.3	6.9	6.6	37.8
Additions	-	0.1	-	0.1
Valuation gains	0.3	0.5	0.7	1.5
Valuation losses	(1.1)	(0.5)	(0.5)	(2.1)
At 1 April 2017	23.5	7.0	6.8	37.3
Additions	-	-	-	-
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 31 March 2018	22.5	7.1	5.4	35.0

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 £2.8m (2017: £3.7m).

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 £0.6m (2017: £0.7m) 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 £6.9m (2017: £6.9m), are a further 48 (2017: 53) investment properties with an average value of £143,000 per property (2017: £130,000), 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 20). 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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

12. 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 2018 £m	Valuation technique	Input	Range (weighted average) 2018		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 3,428 0%
Total	28.1					
Other assets	6.9					
Total fair value	35.0					

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

12. Investment property (continued)

Unobservable and observable inputs used in determination of fair values

Other key information

Class of property	Carrying amount/Fair value 2017 £m	Valuation technique	Input	Range (weighted average) 2017		Range 2017
Retail Level 3	17.4	Income capitalisation	> Length of leases in place (in years) > Yield > Passing rent (per sqm p.a) > Long term vacancy rate	12y 5.4% £201.4 0%	> Age of building > Remaining useful life of building > Square metres	23y 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 (£148) 4y - 8y (5.4y) 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	4.7	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£50 - £165 (£122) 0.5y - 5y (2.0y) 9% - 15% 0% - 97% (29%)	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	20y - 30y 20y - 46y 7,204 0% - 97%
Office Level 3	1.8	Market comparison	> Price per square metre	£767	> Age of building > Remaining useful life of building > Square metres	33y 27y 2,280
Industrial Level 3	2.6	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£5.0 - £5.1 (£5.1) 0.5y - 15y (7y) 9.1% - 185% 0%	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	31y - 61y 17y - 19y 5,966 0%
Total	30.4					
Other assets	6.9					
Total fair value	37.3					

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

13. Intangible assets

	Goodwill	Computer software	Customer contracts	Total
Cost:	£m	£m	£m	£m
At 1 April 2016	1,574.5	18.1	6.2	1,598.8
Additions	-	8.8	-	8.8
Disposals and retirements	-	(4.0)	-	(4.0)
At 1 April 2017	1,574.5	22.9	6.2	1,603.6
Additions	-	13.7	-	13.7
At 31 March 2018	1,574.5	36.6	6.2	1,617.3

Aggregate amortisation and impairment:

At 1 April 2016	320.4	8.3	2.9	331.6
Charge for the year	-	3.8	0.7	4.5
Disposals and retirements	-	(4.0)	-	(4.0)
At 1 April 2017	320.4	8.1	3.6	332.1
Charge for the year	-	2.8	0.6	3.4
At 31 March 2018	320.4	10.9	4.2	335.5

Carrying amount

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
At 31 March 2016	1,254.1	9.8	3.3	1,267.2

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

Carrying amount of goodwill allocated to cash-generating units ("CGUs")	2018 £m	2017 £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 sell and value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be the value in use.

The WPD Group calculates the recoverable amount as the value in use using a discounted cash flow model. 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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

13. Intangible assets (continued)

The future cash flows are discounted using a rate adjusted for risks specific to the CGU. The discount rate is derived from the WPD Group's post-tax weighted average cost of capital 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 management's expectation of the outcome of future price control reviews. The premium applied to the RAV at the end of the period is 25%. This 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, and possible future changes to achievable premiums.

The pre-tax rate used to discount the forecast cash flows is 5.1% (2017: 5.2%). Post tax this equates to 4.24% (2017: 4.32%).

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 13 years have been discounted and aggregated with a terminal value, which is based on 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 and a forecast for RIIO-ED2, which is yet to be agreed with Ofgem.

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 implied growth rate from management's discounted cash flow model and premium applied to the terminal RAV value, currently 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.

At 31 March 2018, the East Midlands, West Midlands, and South Wales recoverable amounts exceeded their carrying amounts by £272.2m, £270.0m, and £195.2m (2017: £153.9m, £196.2m and £187.3m), respectively.

Reasonable possible changes in key assumptions:

	East Midlands	West Midlands	South Wales	Total
	Reduction in Value In Use			
	£m	£m	£m	£m
0.3% increase in the discount rate	101.7	103.6	49.6	254.9
5.0% decrease in the premium on the RAV	122.5	124.2	61.6	308.3
A £5.0m real reduction in projected net pre-tax cash flows in each of the 13 years used in the discounted cash flow model	54.9	54.9	54.9	164.7
	279.1	282.7	166.1	727.9
	Change in assumption required to give rise to an impairment			
	%	%	%	
Increase in the discount rate	0.7%	0.7%	1.0%	
Decrease in the premium on the RAV	11.1%	10.9%	15.8%	

14. Investments

(a) Held-to-maturity investments

	2018 £m	2017 £m
Investment in PPL affiliate debt	144.7	163.1

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

14. Investments (continued)

(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.

15. Inventories

	2018 £m	2017 £m
Raw materials	23.3	22.1
Work in progress	1.4	1.1
	24.7	23.2

16. Trade and other receivables

	2018 £m	2017 £m
Current receivables		
Trade receivables	262.8	263.6
Other receivables	21.0	3.9
Prepayments and accrued income	40.6	29.8
Total current receivables	324.4	297.3
Non-current receivables		
Other receivables	1.4	1.0
Prepayments and accrued income	1.0	1.0
Total non-current receivables	2.4	2.0
Total trade and other receivables	326.8	299.3

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 2018, trade receivables at a nominal value of £1.7m (2017: £1.5m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows.

	2018 £m	2017 £m
At 1 April	1.5	1.3
Provision for receivables impairment	9.3	8.8
Amounts written off as uncollectable	(0.9)	(1.0)
Amounts recovered during the year	(8.2)	(7.6)
At 31 March	1.7	1.5

With limited exception, the WPD Group has provided fully for receivables over 90 days. Trade receivables less than 90 days, where payment is deemed very unlikely, or unobtainable, are also provided for at an appropriate rate.

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

16. Trade and other receivables (continued)

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

	Neither past due		Past due but not impaired				
	Total £m	nor impaired £m	<30 days £m	30-60 days £m	60-90 days £m	90-120 days £m	>120 days £m
2018	262.8	258.8	3.0	0.9	0.1	-	-
2017	263.6	260.7	2.5	0.4	-	-	-

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 Distribution and Connection Use of System Agreement ("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.

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 2018, the WPD Group held collateral in relation to trade receivables in the form of cash £2.8m (2017: £3.5m), letters of credit £74.5m (2017: £77.2m), and parent company guarantees £48.7m (2017: £32.5m).

17. Cash at bank and in hand	2018 £m	2017 £m
Cash at bank	65.0	56.0
Short-term bank deposits	112.3	41.5
Cash at bank and in hand	177.3	97.5

The fair value of cash and short-term deposits is considered to approximate its carrying amount.

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 2018, the WPD Group had available £764.6m (2017: £691.1m) 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 2018, it also had available undrawn uncommitted facilities of £126.2m (2017: £86.2m).

Included in cash and short-term bank deposits are restricted amounts totalling £15.3m (2017: £16.9m) 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:

	2018 £m	2017 £m
Cash at bank and in hand (from above)	177.3	97.5
Bank overdrafts (Note 19)	(25.2)	(25.3)
Cash at bank and in hand in the cash flow statement	152.1	72.2

Bank overdrafts comprise principally unpresented cheques at the year end.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

18. Trade and other payables

	2018 £m	2017 £m
Current payables		
Trade payables	50.2	57.0
Social security and other taxes	56.2	58.2
Payments received in advance	140.3	160.9
Other payables	12.8	15.3
Deferred contributions	44.3	42.0
Accruals and deferred income	260.9	251.6
	564.7	585.0
Non-current payables		
Deferred contributions	2,369.7	2,232.5
	2,934.4	2,817.5

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.

19. Borrowings

	2018 £m	2017 £m
Current		
Bank overdrafts (Note 17)	25.2	25.3
Syndicated credit facilities (i)	291.8	365.0
Term loan facility (ii)	130.0	230.0
7.250% US\$100m bonds due 2017	-	79.6
	447.0	699.9

(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 2018, £149.1m (2017: £205.1m) of syndicated credit facilities were denominated in Sterling and £142.7m (2017: £159.9m) were denominated in US dollars.

(ii) On 28 March 2017, the Company entered into a £230.0m nine month term facility agreement with HSBC Bank and Mizuho Bank. On 29 March 2017, the Company borrowed the full loan amount under the facility. Proceeds of the borrowing were used to make an advance payment of WPD's pension contributions for the year ending 31 March 2018. This facility was fully repaid, when due, in December 2017.

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

19. Borrowings (continued)

	2018 £m	2017 £m
Non-current		
5.875% GB£250m bonds due 2027 (iv)	248.6	248.4
5.75% GB£200m bonds due 2040 (iv)	197.4	197.3
2.375% GB£250m bonds due 2029	246.4	-
9.250% GB£150m bonds due 2020 (iv)	156.5	159.0
4.804% GB£225m bonds due 2037 (i) (iv)	220.5	220.3
5.75% GB£200m bonds due 2040 (iv)	197.4	197.3
6.25% GB£250m bonds due 2040 (iv)	258.1	258.4
5.25% GB£700m bonds due 2023 (iv)	701.4	701.7
6.00% GB£250m bonds due 2025 (iv)	253.4	253.9
5.75% GB£800m bonds due 2032 (iv)	790.5	789.8
3.875% GB£400m bonds due 2024 (iv)	396.4	395.8
3.625% GB£500m bonds due 2023	496.2	495.5
5.375% US\$500m bonds due 2021	355.9	398.7
7.375% US\$202m bonds due 2028	136.0	152.7
1.541% + RPI GB£105m index linked bonds 2053 (ii) (iii)	144.7	139.2
1.541% + RPI GB£120m index linked bonds 2056 (ii) (iii)	165.4	159.1
0.010% + RPI GB£50m index linked bonds 2029 (iii)	54.5	52.6
0.010% + RPI GB£30m index linked bonds 2036 (iii)	31.1	-
2.671% + RPI GB£140m (2016: £100m) index linked bonds 2043 (iii)	201.1	196.2
1.676% + RPI GB£105m index linked bonds 2052 (iii)	130.9	127.0
0.4975% + RPI GB£100m index linked bonds 2026 (iii)	105.7	101.6
	5,488.1	5,244.5
Total borrowings	5,935.1	5,944.4

(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 U.K. 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 U.K. 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 2018 was an increase of approximately £28.8m 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 has sinking fund requirements.

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

	2018 £m	2017 £m
UK pound	5,300.5	5,153.5
US dollar	634.6	790.9
	5,935.1	5,944.4

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. 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 2018 and 2017, 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.

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

	2018	2017
	Carrying	Carrying
	amount	amount
	£m	£m
Interest bearing/earning assets and liabilities:		
Fixed	4,460.4	4,244.4
Floating	269.7	522.8
Index-linked	833.4	775.7
	5,563.5	5,542.9
Represented by:		
Cash and cash equivalents	(177.3)	(97.5)
Investment in parent company debt	(144.7)	(163.1)
Derivative financial assets	(49.6)	(140.9)
Loans and borrowings	5,935.1	5,944.4
	5,563.5	5,542.9

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. Financial instruments (continued)

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.

	2018		2017	
	Income statement (before tax) +/- £m	Equity +/- £m	Income statement (before tax) +/- £m	Equity +/- £m
Interest Rate +/- 100bp	2.7	-	(5.2)	-

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:

	2018 £m	2017 £m
Index-linked debt	833.4	775.7

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. Financial instruments (continued)

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.

	2018		2017	
	Income statement (before tax) +/- £m	Equity +/- £m	Income statement (before tax) +/- £m	Equity +/- £m
UK Retail Prices Index +/- 1.00%	8.3	(6.6)	7.8	(6.2)

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 2018, the WPD Group was exposed to movements on exchange rates of \$2.7m (2017: \$3.8m), 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:

	2018 \$m	2017 \$m
Investment in parent company Eurobonds	202.7	203.8
Borrowings	(902.0)	(1,002.0)
Gross exposure	(699.3)	(798.2)
Effect of cross-currency swaps	702.0	802.0
Net exposure	2.7	3.8

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. 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.

	2018		2017	
	Income statement (before tax) £m	Equity £m	Income statement (before tax) £m	Equity £m
10% increase in exchange rates	(0.2)	(7.6)	(0.3)	(11.5)
10% decrease in exchange rates	0.2	9.3	0.3	14.0

Credit risk (see also Note 16)

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:

	2018 £m	2017 £m
Cash and short-term deposits	177.3	97.5
Trade receivables	262.8	263.6
Other receivables	22.4	4.9
Held-to-maturity investments	144.7	163.1
Derivative financial instruments	49.6	140.9
	656.8	670.0

The table above does not take into account collateral held in relation to trade receivables in the form of cash £2.8m (2017: £3.5m), letters of credit £74.5m (2017: £77.2m), and parent company guarantees £48.7m (2017: £32.5m).

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. Financial instruments (continued)

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 2018.

	Expiration Date	Capacity £m	Borrowed £m	Letters of Credit issued £m	Unused Capacity £m
WPD plc - Syndicated Credit Facility	Jan. 2022	210.0	141.4	-	68.6
WPD plc - Term Loan Facility	Dec. 2018	130.0	130.0	-	-
WPD South West - Syndicated Credit Facility	July 2021	245.0	-	-	245.0
WPD East Midlands - Syndicated Credit Facility	July 2021	300.0	130.0	-	170.0
WPD West Midlands - Syndicated Credit Facility	July 2021	300.0	19.0	-	281.0
Uncommitted Credit Facilities		130.0	-	3.8	126.2
Total Credit Facilities		1,315.0	420.4	3.8	890.8

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.

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

2017	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Borrowings	958.3	1,722.6	4,573.9	3,546.8	10,801.6
Trade and other payables	323.9	-	-	-	323.9
Total	1,282.2	1,722.6	4,573.9	3,546.8	11,125.5

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. Financial instruments (continued)

Liquidity risk (continued)

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.

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)

2017	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	91.1	412.3	175.7	-	679.1
Cross currency derivative receipts	(119.2)	(534.6)	(233.0)	-	(886.8)
Total	(28.1)	(122.3)	(57.3)	-	(207.7)

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.

2018	Loans and receivables £m	Held-to- maturity investments £m	Derivatives designated in hedge accounting relationships £m	Amortised cost £m	Total book value £m	Fair value £m
<i>Financial assets</i>						
Cash	177.3	-	-	-	177.3	177.3
Held-to-maturity investments	-	144.7	-	-	144.7	146.3
Derivative financial instruments	-	-	49.6	-	49.6	49.6
Trade and other receivables	285.2	-	-	-	285.2	285.2
<i>Financial liabilities</i>						
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)
	462.5	144.7	49.6	(6,284.2)	(5,627.4)	(7,043.3)

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)

2017	Loans and receivables £m	Held-to- maturity investments £m	Derivatives designated in hedge accounting relationships £m	Amortised cost £m	Total book value £m	Fair value £m
<i>Financial assets</i>						
Cash	97.5	-	-	-	97.5	97.5
Held-to-maturity investments	-	163.1	-	-	163.1	171.6
Derivative financial instruments	-	-	140.9	-	140.9	140.9
Trade and other receivables	268.5	-	-	-	268.5	268.5
<i>Financial liabilities</i>						
Bank overdraft	-	-	-	(25.3)	(25.3)	(25.3)
Interest-bearing loans and borrowings:						
- Floating rate borrowings	-	-	-	(620.3)	(620.3)	(620.3)
- Fixed rate borrowings	-	-	-	(4,548.4)	(4,548.4)	(5,715.5)
- Index linked	-	-	-	(775.7)	(775.7)	(1,229.7)
Trade and other payables	-	-	-	(323.9)	(323.9)	(323.9)
	366.0	163.1	140.9	(6,293.6)	(5,623.6)	(7,236.2)

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

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

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

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. Financial instruments (continued)

Fair value hierarchy (continued)

As at 31 March 2018, the WPD Group held the following financial instruments measured at fair value:

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<i>Assets measured at fair value</i>				
Cross currency swaps	-	49.6	-	49.6
2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<i>Assets measured at fair value</i>				
Cross currency swaps	-	140.9	-	140.9

During the reporting period ending 31 March 2018, 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.

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 2018 and 31 March 2017.

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

20. Financial instruments (continued)

Capital risk management (continued)

	2018 £m	2017 £m
Borrowings	5,935.1	5,944.4
Cross currency swaps	(49.6)	(140.9)
Less cash and cash equivalents	(177.3)	(97.5)
Net debt	5,708.2	5,706.0
Regulatory Asset Value	7,354.8	6,970.8
Gearing ratio	78%	82%

Reconciliation of cash flows to net debt

	2018 £m	2017 £m
Net (increase)/decrease in cash and cash equivalents	(79.9)	266.5
Net increase/(decrease) in borrowings	48.4	322.8
Change in debt resulting from cash flows	(31.5)	589.3
Net increase/(decrease) in derivatives	91.3	(32.4)
Foreign exchange (gain)/loss on borrowings	(84.7)	97.2
Net increase in borrowings due to indexation	28.8	15.0
Amortisation of premiums, discounts and issue costs	(1.7)	(0.4)
Movement in net debt in the year	2.2	668.7
Net debt at beginning of year	5,706.0	5,037.3
Net debt at end of year	5,708.2	5,706.0

21. Derivative financial instruments

As at 31 March 2018 and 2017, the WPD Group held the following derivative financial instruments measured at fair value:

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Cross-currency swaps - cash flow hedges						
Current	3.3	-	3.3	26.9	-	26.9
Non-current	46.3	-	46.3	114.0	-	114.0
	49.6	-	49.6	140.9	-	140.9

The WPD Group entered into cross currency 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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

21. Derivative financial instruments (continued)

At 31 March 2018, the WPD Group had outstanding cross currency swap agreements in cash flow hedges against borrowings with a total principal amount of \$702.0m (2017: \$802.0m) and a swapped notional principal of £428.8m (2017: £488.9m). The hedges were assessed to be highly effective. The cross currency swaps have a remaining term ranging from 3 to 10 years (2017: 8 month to 11 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% (2017: 6.1%) and pays pound sterling interest at an average fixed rate of 6.1% (2017: 6.4%).

22. 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 2016	523.0	(62.8)	(21.0)	439.2
(Credit)/charge to the income statement	(2.6)	98.3	(7.1)	88.6
Credit to equity	-	(50.5)	(2.6)	(53.1)
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 31 March 2018	554.6	(33.8)	(22.0)	498.8

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:

	2018 £m	2017 £m
Deferred tax liabilities	637.2	603.0
Deferred tax assets	(138.4)	(128.3)
Net deferred tax liabilities	498.8	474.7

The net deferred tax liability due after more than one year is £553.2m (2017: £503.5m).

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 nil (2017: nil) in respect of non trading loss carry-forwards amounting to nil (2017: nil) that can be carried forward against future taxable income. The WPD Group did not recognise deferred income tax assets of £162.4m (2017: £162.8m) in respect of capital losses amounting to £955.4m (2017: £957.5m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. 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 24) 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 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 2018 there were 204 members with deferred benefits in the scheme (2017: 208) and 3 pensioners (2017: 3). Market value of the assets was £2.2m (2017: £2.2m).
- (b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2018 there were 3,544 members (2017: 3,228). The market value of the assets of the open section of the scheme was £73.9m (2017: £60.3m). Employer contributions to the scheme amounted to £7.6m in the year (2017: £6.7m).

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

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

	2018					
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £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

	2017					
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Present value of obligations	2,426.5	3,488.5	540.9	13.3	5.0	6,474.2
Fair value of scheme assets	(2,314.4)	(3,455.3)	(617.8)	(15.3)	-	(6,402.8)
Deficit/(surplus) of funded plan and liability/(a) recognised in the balance sheet	112.1	33.2	(76.9)	(2.0)	5.0	71.4
Represented by:						
Retirement benefit obligations	112.1	33.2	-	-	5.0	150.3
Retirement benefit assets	-	-	(76.9)	(2.0)	-	(78.9)
	112.1	33.2	(76.9)	(2.0)	5.0	71.4

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

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

	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

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

	2017					
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Current service cost	21.3	24.8	-	-	-	46.1
Administrative costs	1.7	2.1	0.4	-	-	4.2
WPUPS reimbursement agreement	-	-	(0.4)	-	-	(0.4)
Operating charge relating to defined benefit plans	23.0	26.9	-	-	-	49.9
Interest income on plan assets	(60.4)	(96.5)	(15.0)	(0.4)	-	(172.3)
Interest on plan liabilities	66.5	96.7	15.8	0.4	0.1	179.5
WPUPS reimbursement agreement	-	-	(0.8)	-	-	(0.8)
Other finance expense	6.1	0.2	-	-	0.1	6.4

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:

	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
Loss from change in demographic assumptions	-	-	2.7	0.1	-	2.8
Loss from change in financial assumptions	(29.9)	(41.2)	(5.4)	(0.1)	-	(76.6)
Experience (gains)/losses	26.2	33.6	5.0	0.1	-	64.9
WPUPS reimbursement agreement	-	-	(4.2)	-	-	(4.2)
Remeasurement losses recognised in other comprehensive income	15.3	9.9	-	(0.1)	-	25.1

	2016					
	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	(329.7)	(384.1)	(96.2)	(2.2)	-	(812.2)
Gain from change in financial assumptions	437.5	598.9	83.8	2.0	-	1,122.2
Experience gains	(22.2)	(30.5)	(16.8)	0.9	0.7	(67.9)
Change to asset ceiling	-	-	-	(0.2)	-	(0.2)
WPUPS reimbursement agreement	-	-	29.2	-	-	29.2
Remeasurement gains recognised in other comprehensive income	85.6	184.3	-	0.5	0.7	271.1

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. 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 2018			Year ended 31 March 2017		
	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	2,426.5	(2,314.4)	112.1	2,011.2	(1,785.2)	226.0
Current service cost	30.7	-	30.7	21.3	-	21.3
Administrative costs	1.7	-	1.7	1.7	-	1.7
Interest expense/(income)	60.1	(56.9)	3.2	66.5	(60.4)	6.1
	92.5	(56.9)	35.6	89.5	(60.4)	29.1
Remeasurements:						
Return on plan assets excluding amounts included in interest income	-	19.0	19.0	-	(329.7)	(329.7)
(Gain)/loss from change in financial assumptions	(29.9)	-	(29.9)	437.5	-	437.5
Experience losses/(gains)	26.2	-	26.2	(22.2)	-	(22.2)
	(3.7)	19.0	15.3	415.3	(329.7)	85.6
Contributions:						
Employers	-	-	-	-	(228.6)	(228.6)
Plan participants	4.3	(4.3)	-	4.4	(4.4)	-
	4.3	(4.3)	-	4.4	(233.0)	(228.6)
Payments from plan:						
Benefit payments	(101.3)	101.3	-	(92.2)	92.2	-
Administrative costs	(1.7)	1.7	-	(1.7)	1.7	-
	(103.0)	103.0	-	(93.9)	93.9	-
Liability/(asset) at 31 March	2,416.6	(2,253.6)	163.0	2,426.5	(2,314.4)	112.1

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

ESPS CN	Year ended 31 March 2018			Year ended 31 March 2017		
	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	3,488.5	(3,455.3)	33.2	2,930.7	(2,884.1)	46.6
Current service cost	32.6	-	32.6	24.8	-	24.8
Administrative costs	2.2	-	2.2	2.1	-	2.1
Interest expense/(income)	86.2	(85.0)	1.2	96.7	(96.5)	0.2
	121.0	(85.0)	36.0	123.6	(96.5)	27.1
Remeasurements:						
Return on plan assets excluding amounts included in interest income	-	17.5	17.5	-	(384.1)	(384.1)
(Gain)/loss from change in financial assumptions	(41.2)	-	(41.2)	598.9	-	598.9
Experience losses/(gains)	33.6	-	33.6	(30.5)	-	(30.5)
	(7.6)	17.5	9.9	568.4	(384.1)	184.3
Contributions:						
Employers	-	-	-	-	(224.8)	(224.8)
Plan participants	5.4	(5.4)	-	5.2	(5.2)	-
	5.4	(5.4)	-	5.2	(230.0)	(224.8)
Payments from plan:						
Benefit payments	(141.6)	141.6	-	(137.3)	137.3	-
Administrative costs	(2.2)	2.2	-	(2.1)	2.1	-
	(143.8)	143.8	-	(139.4)	139.4	-
Liability/(asset) at 31 March	3,463.5	(3,384.4)	79.1	3,488.5	(3,455.3)	33.2

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

WPUPS

	Year ended 31 March 2018			Year ended 31 March 2017		
	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	540.9	(617.8)	(76.9)	483.8	(439.1)	44.7
Administrative costs	0.4	-	0.4	0.4	-	0.4
Interest expense/(income)	13.3	(15.2)	(1.9)	15.8	(15.0)	0.8
	13.7	(15.2)	(1.5)	16.2	(15.0)	1.2
Remeasurements:						
Return on plan assets excluding amounts included in interest income	-	1.9	1.9	-	(96.2)	(96.2)
Loss from change in demographic assumptions	2.7	-	2.7	-	-	-
(Gain)/loss from change in financial assumptions	(5.4)	-	(5.4)	83.8	-	83.8
Experience losses/(gains)	5.0	-	5.0	(16.8)	-	(16.8)
	2.3	1.9	4.2	67.0	(96.2)	(29.2)
Contributions:						
Employers	-	-	-	-	(93.6)	(93.6)
	-	-	-	-	(93.6)	(93.6)
Payments from plan:						
Benefit payments	(26.2)	26.2	-	(25.7)	25.7	-
Administrative costs	(0.4)	0.4	-	(0.4)	0.4	-
	(26.6)	26.6	-	(26.1)	26.1	-
Liability/(asset) at 31 March	530.3	(604.5)	(74.2)	540.9	(617.8)	(76.9)

Infralec 92

	Year ended 31 March 2018			Year ended 31 March 2017		
	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	13.3	(15.3)	(2.0)	11.2	(11.2)	-
Interest expense/(income)	0.3	(0.4)	(0.1)	0.4	(0.4)	-
	0.3	(0.4)	(0.1)	0.4	(0.4)	-
Remeasurements:						
Return on plan assets excluding amounts included in interest income	-	(0.2)	(0.2)	-	(2.2)	(2.2)
Gain from change in demographic assumptions	0.1	-	0.1	-	-	-
Loss/(gain) from change in financial assumptions	(0.1)	-	(0.1)	2.0	-	2.0
Experience losses/(gains)	0.1	-	0.1	0.9	-	0.9
Change in asset ceiling	-	-	-	-	(0.2)	(0.2)
	0.1	(0.2)	(0.1)	2.9	(2.4)	0.5
Contributions:						
Employers	-	-	-	-	(2.5)	(2.5)
	-	-	-	-	(2.5)	(2.5)
Payments from plan:						
Benefit payments	(0.6)	0.6	-	(1.2)	1.2	-
	(0.6)	0.6	-	(1.2)	1.2	-
Liability/(asset) at 31 March	13.1	(15.3)	(2.2)	13.3	(15.3)	(2.0)

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. 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

	2017			
	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	2.51	2.51	2.51	2.51

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 2018	31 March 2017
Mortality table adopted	Based on S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	Based on S1PXA base tables with CMI 2011 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.7	26.6
Life expectancy for a female currently aged 60	28.8	28.7
Life expectancy at 60 for a male currently aged 40	28.1	28
Life expectancy at 60 for a female currently aged 40	30.4	30.3

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

ESPS CN

	31 March 2018	31 March 2017
Mortality table adopted	Based on S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	Based on S1PXA base tables with CMI 2011 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.7	26.6
Life expectancy for a female currently aged 60	28.8	28.7
Life expectancy at 60 for a male currently aged 40	27.7	27.6
Life expectancy at 60 for a female currently aged 40	30	29.9

WPUPS

	31 March 2018	31 March 2017
Mortality table adopted	Pensions <£24,000 pa at 31/03/13: 111% (else 78%) of S2NXA base tables with CMI 2015 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 2011 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.1	26.0
Life expectancy for a female currently aged 60	28.4	28.3
Life expectancy at 60 for a male currently aged 40	27.5	27.4
Life expectancy at 60 for a female currently aged 40	29.9	29.8

Infralec 92

	31 March 2018	31 March 2017
Mortality table adopted	100% of S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	100% of S1PXA base tables with CMI 2011 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.7	26.6
Life expectancy for a female currently aged 60	28.8	28.7
Life expectancy at 60 for a male currently aged 40	28.1	28.0
Life expectancy at 60 for a female currently aged 40	30.4	30.3

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

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%	+221.0/-201.2	+303.5/-278.3	+39.5/-36.7	+1.0/-0.9
RPI Inflation	+/-0.50%	+211.7/-194.0	+274.0/-253.7	+34.9/-32.4	+0.9/-0.8
Life expectancy	+ 1 year	113.3	151.2	25.8	0.6

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

ESPS WPD scheme assets are comprised as follows:

	31 March 2018		31 March 2017	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Equities	450.7	-	450.2	-
Absolute return	787.2	-	733.3	-
Government bonds	791.1	-	830.5	-
Property	164.7	164.7	155.8	155.8
Other	59.8	-	144.6	-
Total	2,253.5	164.7	2,314.4	155.8

ESPS CN scheme assets are comprised as follows:

	31 March 2018		31 March 2017	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Global equities	608.5	-	506.3	-
Global credit	100.7	-	95.0	-
Property	205.0	205.0	192.1	192.1
Macro-orientated	356.3	356.3	458.8	458.8
Multi strategy	749.3	-	643.5	-
LDI strategy	1,374.8	-	1,560.0	-
Other	(10.1)	-	(0.4)	-
Total	3,384.5	561.3	3,455.3	650.9

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

WPUPS scheme assets are comprised as follows:

	31 March 2018		31 March 2017	
	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market
	£m	£m	£m	£m
Equities	351.1	-	331.7	-
Government bonds	252.4	-	250.0	-
Other	1.0	-	36.1	-
Total	604.5	-	617.8	-

Infralec 92 scheme assets are comprised as follows:

	31 March 2018		31 March 2017	
	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market
	£m	£m	£m	£m
Equities	9.6	-	9.2	-
Government bonds	3.1	-	3.0	-
Corporate bonds	2.0	-	2.0	-
Other	0.6	-	1.1	-
Total	15.3	-	15.3	-

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 that an increase in inflation will increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

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

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. WPD made a £115.0m prepayment to the Scheme in respect of deficit recovery and future service contributions on 30 March 2017. Company contributions are expected to recommence from 1 April 2018 with deficit contributions of £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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

23. Retirement benefit obligations (continued)

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. WPD made a £115.0m prepayment in respect of deficit recovery and future service contributions on 30 March 2017. Company contributions are expected to recommence from 1 April 2018 with deficit contributions of £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.

The employer contribution to WPUPS during 2016/17 was £93.6m of which £80.0m was a prepayment of deficit contributions 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 Infracore 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 2019 are £111.8m for the WPD segment of the ESPS, £101.8m for the CN segment of the ESPS and £nil for both WPUPS and Infracore 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 WPUPS and Infracore 92.

24. 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 2017	76.9	39.0	14.2	3.9	4.4	138.4
Charged to income statement:						
Additional provisions	(1.6)	(1.4)	0.5	1.6	(1.3)	(2.2)
WPUPS reimbursement remeasurements	(1.5)	-	-	-	-	(1.5)
Utilised during year	0.5	(1.2)	-	(0.6)	(1.3)	(2.6)
At 31 March 2018	74.3	36.4	14.7	4.9	1.8	132.1

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

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
Current	-	1.0	8.2	0.5	3.1	12.8
Non-current	76.9	38.0	6.0	3.4	1.3	125.6
At 31 March 2017	76.9	39.0	14.2	3.9	4.4	138.4

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

24. Provisions (continued)

(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 23).

(ii) Asset retirement obligations relate to an estimate of the costs of dismantling and removing items of property, plant and equipment at the end of their useful life and are expected to be settled over the next 70 years.

(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.

25. Called-up share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
1,657,592,372 (2017: 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.

26. Capital and reserves

	2018 £m	2017 £m
Share capital	1,657.6	1,657.6
Merger reserve	(963.1)	(963.1)
Hedging reserve	(17.9)	(11.3)
Retained earnings	3,627.6	3,153.9
	4,304.2	3,837.1

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

27. 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.

28. Commitments

Capital commitments

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

	2018 £m	2017 £m
Property, plant and equipment	55.5	56.7

Operating lease commitments - WPD Group as lessee

The WPD Group leases various properties under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewable rights. The WPD Group also leases plant and machinery under non-cancellable operating leases which are largely very short term.

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

	2018 £m	2017 £m
Within one year	1.9	3.8
In the second to fifth years inclusive	5.2	7.5
After five years	9.4	4.7
	16.5	16.0

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:

	2018 £m	2017 £m
Within one year	8.5	10.6
In the second to fifth years inclusive	22.7	23.4
After five years	27.3	25.0
	58.5	59.0

Guarantees and indemnities

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

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2018

29. 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 their accounts may be obtained from their 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 8.

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. During the year 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 £9.1m (2017: £7.7m) 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 24) and matches the gross asset/liability recorded under IAS 19 (Note 23).

Parent Company financial statements of Western Power Distribution plc
Company balance sheet

As at 31 March 2018

	Note	2018 £m	2017 £m
Fixed assets			
Investments:			
Shares in subsidiary undertakings	4	2,876.0	2,876.0
Loans to group undertakings	4	145.5	164.5
		3,021.5	3,040.5
Current assets			
Derivative financial instruments:			
Due within one year		3.3	26.9
Due in greater than one year		46.3	114.0
Debtors	5	527.3	784.0
Cash at bank		10.3	3.0
		587.2	927.9
Creditors - amounts falling due within one year	6	(292.7)	(494.9)
Net current assets		294.5	433.0
Total assets less current liabilities		3,316.0	3,473.5
Creditors - amounts falling due after more than one year	6	(1,073.5)	(1,151.8)
Net assets		2,242.5	2,321.7
Capital and reserves			
Called up share capital	7	1,657.6	1,657.6
Hedging reserve	8	(4.0)	(4.9)
Profit and loss account		588.9	669.0
Equity shareholders' funds		2,242.5	2,321.7

The Company reported a profit for the financial year ended 31 March 2018 of £12.6m (2017: £25.5m loss) and other comprehensive income of £0.9m (2017: £0.8m).

The financial statements of the Company on pages 87 to 95 were approved by the Board of Directors on 19 July 2018 and signed on its behalf by:

R A Symons
Chief Executive

I R Williams
Finance Director

Company statement of changes in equity

For the year ended 31 March 2018

	Share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016	1,657.6	(5.7)	1,008.3	2,660.2
Loss for the year	-	-	(25.5)	(25.5)
Other comprehensive profit	-	0.8	-	0.8
Total comprehensive income/(loss) for the year	-	0.8	(25.5)	(24.7)
Equity dividends paid	-	-	(313.8)	(313.8)
At 31 March 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

Notes to the Company financial statements

For the year ended 31 March 2018

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 2018 were authorised for issue by the board of directors on 19 July 2018 and the balance sheet was signed on the board's behalf by RA Symons and I R Williams. Western Power Distribution plc is a public limited company incorporated and domiciled in England and Wales.

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 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 Company's financial statements are presented in Sterling and all values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

2. Significant accounting policies

Basis of preparation

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, 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 1 to 86.

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 due to the strength of its balance sheet.

Foreign currencies

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

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

Investments - shares

Investments in shares in subsidiary undertakings are recorded at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. The impairment, if any, is charged to the profit and loss account.

Notes to the Company financial statements (continued)

For the year ended 31 March 2018

2. Significant accounting policies (continued)

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 tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

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 account.

Dividends

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

Financial assets

Financial assets are classified as loans and receivables; financial assets at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; held-to-maturity financial assets; or as available-for-sale financial assets, as appropriate. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other 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.

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

Loans and receivables

Loans and receivables are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

Financial assets at fair value through profit or loss

Financial assets 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 statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

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.

Held-to-maturity investments

Held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Notes to the Company financial statements (continued)

For the year ended 31 March 2018

2. Significant accounting policies (continued)

Impairment of loans and receivables

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the profit and loss account.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include trade and other payables, accruals, most items of finance debt and derivative financial instruments. 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 profit or loss. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

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.

Financial liabilities measured at amortised cost

All other financial liabilities are initially recognized 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 using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised in profit or loss.

This category of financial liabilities includes trade and other payables and finance debt.

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.

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.

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.

Notes to the Company financial statements (continued)

For the year ended 31 March 2018

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

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. Fixed asset investments

	Subsidiary undertakings £m	Parent Company debt £m	Total £m
Cost			
At 1 April 2017	2,876.0	164.5	3,040.5
Amortisation of premium	-	(1.3)	(1.3)
Exchange rate movement	-	(17.7)	(17.7)
At 31 March 2018	2,876.0	145.5	3,021.5
Net book value at 31 March 2018	2,876.0	145.5	3,021.5

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 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
Surf 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	Investment company	100
WPD Midlands Properties Limited	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

Notes to the Company financial statements (continued)

For the year ended 31 March 2018

4. Fixed asset investments (continued)

^ Incorporated in Guernsey.

All undertakings are registered in England and Wales unless stated.

Except for WPD Distribution Network Holdings Limited, which is owned 67.1% directly and 32.9% indirectly by subsidiaries, and PPL UK Investments Limited which is 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 and WPD Limited is Marsh Management Services Limited, PO Box 34, St Martins House, Le Bordage, St Peters Port, Guernsey, GY1 4AU.

5. Debtors	2018 £m	2017 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	519.6	777.0
Other debtors	2.4	2.6
Prepayments and accrued income	0.4	0.9
Deferred tax asset	4.9	3.5
	527.3	784.0
Amounts owed by Group undertakings	2018 £m	2017 £m
Inter-company Notes receivable from:		
PPL WEM Limited (1)	383.8	476.7
WPD Distribution Network Holdings Limited (2)	-	2.7
WPD Distribution Network Holdings Limited (3)	-	60.0
WPD Distribution Network Holdings Limited (4)	-	230.0
WPD Distribution Network Holdings Limited (4)	130.0	-
Interest on inter-company Notes receivable from:		
PPL WEM Limited	5.6	7.0
WPD Distribution Network Holdings Limited	0.1	0.5
Inter-company accounts	0.1	0.1
	519.6	777.0

(1) Accrues interest at a fixed rate of 5.0% per annum.

(2) Accrues interest at a rate of 3 month libor plus a margin of between 1.15% and 1.65% based on the company's credit rating.

(3) Accrues interest at a rate of 3 month libor plus a margin of between 0.85% and 1.50% based on the company's credit rating.

(4) 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.

Notes to the Company financial statements (continued)

For the year ended 31 March 2018

6. Creditors	2018 £m	2017 £m
Amounts falling due within one year:		
Syndicated credit facility (1)	142.7	159.9
Term loan facility (2)	130.0	230.0
7.250% US\$100m bonds due 2017 (5)	-	81.6
Amounts owed to Group undertakings	1.1	1.5
Accruals and deferred income	18.9	21.9
	292.7	494.9
Amounts falling due after more than one year:		
5.375% US\$500m bonds due 2021 (3)	377.1	430.0
7.375% US\$255m bonds due 2028 (4)	200.2	226.3
3.625% GB£500m bonds due 2023	496.2	495.5
	1,073.5	1,151.8

(1) The amounts borrowed on the Company's £210.0m syndicated credit facility at 31 March 2018 and 31 March 2017 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 2018, the Company had available £68.6m (2017: £51.1m) undrawn in respect of which all conditions precedent had been met. The unused capacity reflects the amount borrowed in GBP of £141.4m (2017: £158.9m) as of the date borrowed.

(2) On 28 March 2017, the Company entered into a £230.0m nine month term facility agreement with HSBC Bank and Mizuho Bank. On 29 March 2017, the Company borrowed the full loan amount under the facility. Proceeds of the borrowing were used to make an advance payment of WPD's pension contribution for the year ending 31 March 2018. At 31 March 2017 interest on the facility accrued at a rate of 1.51%, being libor plus a margin of between 0.9% and 2.0% based on the Company's credit rating.

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.

(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 \$100m 7.250% notes due 15 December 2017 (now matured) and 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. As a consequence, the Company and PPLUK are jointly and severally, and fully and unconditionally, liable on the PPLUK Bonds. Under the terms of the reimbursement agreement, where PPLUK has given notice of its intention to make payments to the holders of the PPLUK Bonds, the Company will make payments to PPLUK 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.

Notes to the Company financial statements (continued)

For the year ended 31 March 2018

7. Called-up share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
1,657,592,372 (2017: 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

	2018 £m	2017 £m
At 1 April	(4.9)	(5.7)
Reclassification adjustments for losses on cash flow hedges included in profit or loss	1.1	1.1
Income tax effect	(0.2)	(0.3)
At 31 March	(4.0)	(4.9)

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 year 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 Company recorded interest receivable of £8.5m (2017: £6.6m) on the investment for the period.

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