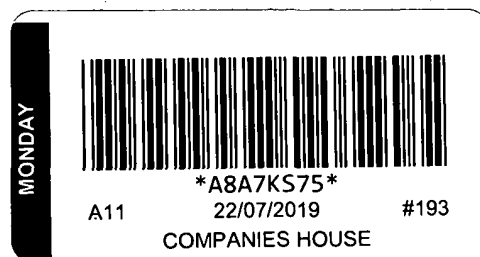


Registered Number: 2366985

**WESTERN POWER DISTRIBUTION (SOUTH WALES) plc**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 March 2019**



**WESTERN POWER**   
**DISTRIBUTION**

*Serving the Midlands, South West and Wales*

## **Western Power Distribution (South Wales) plc**

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## Strategic report

For the year ended 31 March 2019

The directors present their annual report and the audited financial statements of Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales"), company number 2366985, for the year ended 31 March 2019.

### Ownership

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

### Business model

WPD South Wales is an electricity Distribution Network Operator ("DNO"), delivering electricity to approximately 1.1 million customers over an area of 11,800 square kilometres in South Wales and employing over 1,000 staff.

The 1.1 million customers are registered with licensed electricity suppliers, who in turn pay WPD South Wales for distributing electricity across its network. Our costs are regulated and make up around 17% of a domestic customer's bill, which they pay to their supplier.

What we do comprises four key tasks:



We keep the lights on  
by operating our  
network assets  
effectively



We maintain  
equipment  
so that the network is in  
a condition to remain  
reliable



We fix the network  
if equipment gets  
damaged or is faulty



We connect  
customers  
by upgrading existing  
networks or building  
new ones

WPD South Wales' network comprises approximately 18,000 km of overhead lines, 18,000 km of underground cable and 41,000 transformers. In 2018/19 WPD South Wales distributed 1,903 megawatts of electricity.

### Group background

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

In addition to the DNO activity, the WPD Group also consists of other ancillary businesses including WPD Smart Metering Limited, WPD Telecoms Limited and South Western Helicopters Limited. The primary purpose of these businesses is to support the network related activities of WPD. WPD also owns property companies to facilitate the management of non-network and investment properties of the Group.

### Regulation

WPD South Wales is a monopoly regulated by the Gas and Electricity Markets Authority, which operates through Ofgem.

## Strategic report (continued)

For the year ended 31 March 2019

### Regulation (continued)

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

<https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1>

The operations are regulated under the distribution licence which sets the requirements that WPD South Wales 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 WPD South Wales is allowed to earn, there are incentives to innovate, and incentives relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions. The achievement or not of these targets can result in revenue penalties or rewards relating to these activities.

The WPD Group 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 Group DNOs, ahead of the other five licensed distributor groups. WPD Group's modified licences took effect from 1 April 2015.

Our RIIO-ED1 business plan is available at below:

<https://www.westernpower.co.uk/customers-and-community/our-riioed1-business-plan>

### Long term strategy

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

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

#### *- Understanding the load related needs of the network*

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

#### *- Adapting to change*

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

## **Strategic report (continued)**

For the year ended 31 March 2019

### **Long term strategy (continued)**

#### **- Adapting to change (continued)**

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

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

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

#### **- Investment in technology and innovation**

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

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

### **Key goals**

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

#### ***Safety***

Safety is the most important priority at WPD South Wales. The Company continuously promotes safety, both within the business and also externally to groups such as school children, land owners and construction operators.

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

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

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

Our detailed safety policy can be found at:

<https://www.westernpower.co.uk/customers-and-community/health-safety>

## **Strategic report (continued)**

For the year ended 31 March 2019

### **Key goals (continued)**

#### ***Network performance & security***

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

#### ***Financial stability***

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

#### ***Environment***

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

Every member of staff is made aware of the Company'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.

More detailed information on our environmental goal could be found in our published report available at:

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

#### ***Stakeholder value and engagement***

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

##### ***- Customers***

WPD South Wales strongly believes that customer satisfaction is the key to the future success of the business.

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

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

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

## Strategic report (continued)

For the year ended 31 March 2019

### Key goals (continued)

#### *Stakeholder value and engagement (continued)*

##### - Employees

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

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

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

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

##### - Suppliers

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

##### - Regulators

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

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

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

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

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

Another key regulator for WPD is Natural Resources Wales ("NRW"), which monitors areas such as pollution prevention, habitat conservation and other environmental matters. WPD continuously works together with NRW to improve its environmental performance.

## Strategic report (continued)

For the year ended 31 March 2019

### Key goals (continued)

#### Stakeholder value and engagement (continued)

##### - Shareholder

WPD South Wales is ultimately owned by PPL Corporation. WPD South Wales is committed to providing its shareholder with long term, sustainable value.

### Key performance indicators (KPIs)

WPD South Wales utilises KPIs to assess progress against the overall strategy and key goals.

KPI

Performance and comments

Safety

Accident rate

**Lost time accidents**

Year	Lost time accidents
2016/17	1
2017/18	0
2018/19	0

**Non lost time accidents**

Year	Non lost time accidents
2016/17	3
2017/18	11
2018/19	6

The total number of accidents to staff decreased from 11 in 2017/18 to 6 in 2018/19. Electricity distribution carries inherent safety risks, the directors are committed to the highest levels of safety in all areas. All accidents are investigated and we ensure that all our planned inspection and maintenance programmes are completed during the year.

In addition WPD monitors the overall rate of accident per 100 employees (as reported to Ofgem). The accident rate for WPD Group for 2018/19 is 0.86 (2017/18: 0.87), outperforms the RIIO-ED1 target of 1.6 (a reduction of 10% over price control prior to RIIO-ED1). Further details on our performance reporting to Ofgem regarding safety can be found at the link below:

<https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1/safety>

Customer minutes lost (CML)

**CML**

Year	Target CML	Actual CML
2016/17	33.6	25.7
2017/18	33.4	25.9
2018/19	33.4	24.8

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

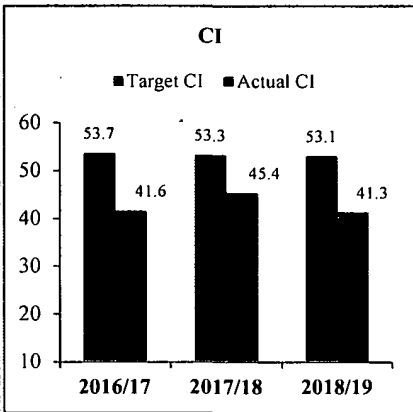
Network performance & security



## Strategic report (continued)

For the year ended 31 March 2019

### Key performance indicators (KPIs) (continued)

KPI		Performance and comments								
Network performance & security	Number of customer interruptions (CI)		CI represents supply interruptions experienced by connected customers, per 100 customers. Adjustment for exceptional one off events that are outside the control of DNOs is allowed by Ofgem. The targets are defined by Ofgem at each DNO level. Year on year WPD is performing better than its targets as we are focused on ensuring complete network reliability for our customers.							
	Other measures (WPD Group)	<ul style="list-style-type: none"><li>- In 2018/19 88.01% (2017/18: 88.5%) of customers had their power restored within an hour of a high voltage fault, the target being 87.5% (2017/18: 85%).</li><li>- One of the guaranteed standards of performance (GSOPs) set by Ofgem is a reduction in the number of customers left without electricity for more than 12 hours. The number of customers without electricity for more than 12 hours was 26 (2017/18: 52), an improvement of over 99% on our 2012/13 benchmark performance. Customers received a set payment where we failed to achieve the GSOP.</li></ul>								
	Revenue	<table><tr><th>2018/19</th><th>2017/18</th></tr><tr><th>(£m)</th><th>(£m)</th></tr><tr><td>259.2</td><td>245.8</td></tr></table>	2018/19	2017/18	(£m)	(£m)	259.2	245.8	<p>The majority of WPD South Wales' revenue is fixed across the current price control period. Ofgem sets the revenues at a level that covers reasonable costs and allows a reasonable rate of return. In addition to the base level of revenue that a DNO can earn, there are incentive measures including customer service outputs, network outputs and innovation, which constitute allowed revenue.</p>	
2018/19	2017/18									
(£m)	(£m)									
259.2	245.8									
Financial stability	Profit before taxation ("PBT")	<table><tr><th>2018/19</th><th>2017/18</th></tr><tr><th>(£m)</th><th>(£m)</th></tr><tr><td>110.7</td><td>107.2</td></tr></table>	2018/19	2017/18	(£m)	(£m)	110.7	107.2	<p>As part of regulatory process, Ofgem sets the allowed rate of return within each price control, which for RIIO-ED1 is set at 6.4%. As evident from the level of capital expenditure below, WPD South Wales invests a significant proportion of its profits back into the networks to ensure that we continue to provide an efficient, reliable and secure service to our customers.</p>	
	2018/19	2017/18								
(£m)	(£m)									
110.7	107.2									

## Strategic report (continued)

For the year ended 31 March 2019

### Key performance indicators (KPIs) (continued)

KPI		Performance and comments	
Financial stability	<b>Fixed asset additions</b>	<b>2018/19</b>	<b>2017/18</b>
		<b>(£m)</b>	<b>(£m)</b>
	Tangible fixed asset additions	146.7	152.4
	<b>Regulatory Asset Value ("RAV")</b>	<b>2018/19</b>	<b>2017/18</b>
		<b>(£m)</b>	<b>(£m)</b>
		1,129.4	1,059.0
	<b>Gearing ratio</b>	<b>2018/19</b>	<b>2017/18</b>
		<b>(£m)</b>	<b>(£m)</b>
	Net debt*	653.9	621.5
	RAV	1,129.4	1,059.0
		57.9%	58.7%
	* refer to note 18 on page 61 for calculation of net debt		

WPD South Wales operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure, as evident from extent of our capital expenditure. Due to the age of the network and technological advancements significant investment is required in capital related activities. During RIIO-ED1 period to date we have invested £585m in capital related activities.

RAV is a regulatory concept to represent assets with a long term life. It is essentially equivalent to the net book value of the fixed assets of the business, only calculated in regulatory terms using methodology provided by Ofgem. It is an important measure for all DNOs as the allowed revenue in any year includes a return on RAV and amortisation of RAV as determined by Ofgem. Other important measures such as gearing ratios and recoverable amounts of DNO's with respect to impairment calculations are calculated using RAV.

It is not possible to perform a reconciliation between RAV and IFRS measures as RAV is a regulatory measure. The differences between IFRS and regulatory rules have built up over many years and cannot be reconciled.

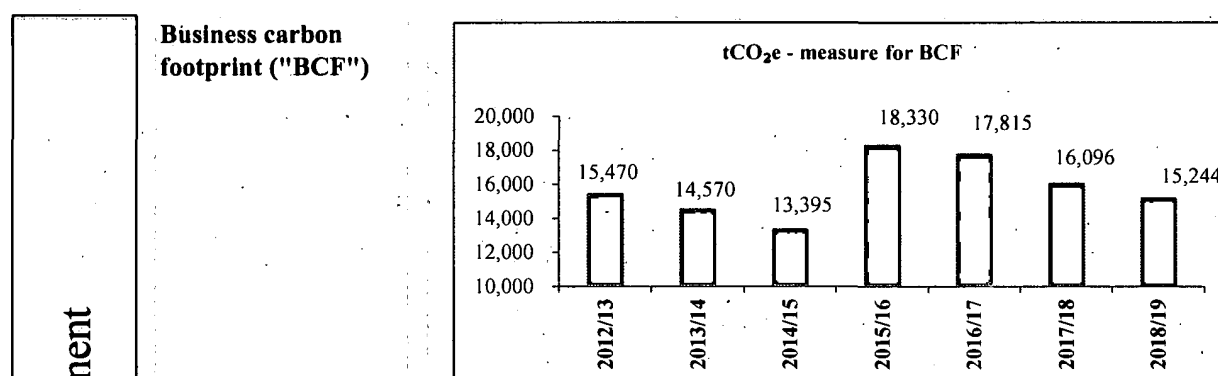
Gearing for the Company is calculated as the ratio of net debt to RAV. The Gearing ratio is monitored in relation to the rolling credit facility covenants for several of the WPD companies and is used as a key internal measure. To comply with bank covenants as well Ofgem conditions, the gearing ratio for WPD South Wales does not exceed 65%.

## Strategic report (continued)

For the year ended 31 March 2019

### Key performance indicators (KPIs) (continued)

	KPI	Performance and comments	
		2018/19 (£m)	2017/18 (£m)
Financial stability	<b>Interest cover</b>		
	PBT	110.7	107.2
	Interest payable	36.7	37.8
	Depreciation	35.2	33.2
	Amortisation- intangible assets	0.4	0.2
	Amortisation- customer contributions	(6.6)	(7.0)
	Earnings before interest, taxation, depreciation, and amortisation ("EBITDA")	176.4	171.4
	Interest payable	36.7	37.8
	<b>Interest cover</b>	<b>4.8</b>	<b>4.5</b>
A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for the Company. It is also used as a key internal indicator of the financial health of the DNO. In order to comply with bank covenants, the interest cover ratio can not fall below 3:1; our interest cover ratio is at an acceptable level and shows sufficient level of earnings to cover interest payments.			



## Environment

### Business carbon footprint ("BCF")

Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO<sub>2</sub>") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO<sub>2</sub>e"). For calculations WPD South Wales follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") reporting protocol and ISO14064-1.

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

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

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

## Strategic report (continued)

For the year ended 31 March 2019

### Key performance indicators (KPIs) (continued)

	KPI	Performance and comments																				
Environment	<b>SF6 emissions</b> <b>(emissions as % of SF6 bank)</b>	<p>SF6 gas is used throughout our industry as an insulating medium in switchgear. Although it provides many benefits, it is a potent greenhouse gas. There are currently no viable alternatives to SF6. We continue to monitor our SF6 emissions.</p> <p>The amount of SF6 lost emitted is expressed as a percentage of the overall 'bank' of switchgear containing SF6, as this will vary over the period of RIIO-ED1. The target is based on an average of emissions between 2009/10 and 2010/11.</p>																				
		<div data-bbox="598 667 1369 1144"> <p style="text-align: center;"><b>SF6 % Leakage</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Actual % leakage</th> <th>Target % leakage</th> </tr> </thead> <tbody> <tr> <td>2013/14</td> <td>0.27%</td> <td>0.40%</td> </tr> <tr> <td>2014/15</td> <td>0.87%</td> <td>0.40%</td> </tr> <tr> <td>2015/16</td> <td>0.53%</td> <td>0.40%</td> </tr> <tr> <td>2016/17</td> <td>0.45%</td> <td>0.40%</td> </tr> <tr> <td>2017/18</td> <td>0.57%</td> <td>0.40%</td> </tr> <tr> <td>2018/19</td> <td>0.25%</td> <td>0.40%</td> </tr> </tbody> </table> </div> <p>Overall the level of leakage is reducing over time as older units are replaced with new units which also contain lower levels of SF6. When replacing switchgear, we give priority to the switchgear with the highest leak rates. Within RIIO-ED1, we have committed to replacing any 11kV distribution assets that show signs of leakage and any higher voltage assets that have leaked three times. When a leak becomes apparent, we locate its source so that a strategy can be developed to manage the situation, taking into account the potential for repairs and the lead times for replacement switchgear.</p>	Year	Actual % leakage	Target % leakage	2013/14	0.27%	0.40%	2014/15	0.87%	0.40%	2015/16	0.53%	0.40%	2016/17	0.45%	0.40%	2017/18	0.57%	0.40%	2018/19	0.25%
Year	Actual % leakage	Target % leakage																				
2013/14	0.27%	0.40%																				
2014/15	0.87%	0.40%																				
2015/16	0.53%	0.40%																				
2016/17	0.45%	0.40%																				
2017/18	0.57%	0.40%																				
2018/19	0.25%	0.40%																				

## Strategic report (continued)

For the year ended 31 March 2019

### Key performance indicators (KPIs) (continued)

Environment

KPI

Performance and comments

### Fluid cable losses

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

Losses in litres

■ Actual losses

Year	Actual losses
2015/16	938
2016/17	400
2017/18	270
2018/19	860
2019/20	840

The losses from WPD South Wales' 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.

WPD Group's current target is a 75% reduction over the RIIO-ED1 period based on the baseline year of 2012/13.

### Other measures

#### - Environmental management standard

In May 2017, WPD South Wales gained certification to the new ISO14001:2015 environmental management standard. The latest six monthly surveillance audits were undertaken in April and November 2018 with no major non-conformances raised.

## Strategic report (continued)

For the year ended 31 March 2019

### Key Performance Indicators (KPIs) (continued)

KPI	Performance and comments								
<i>Customers</i>									
<b>Overall customer satisfaction (WPD Group)</b>	<div data-bbox="576 483 991 898"> <table border="1"> <caption>Customer satisfaction score out of 10</caption> <thead> <tr> <th>Year</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>2016/17</td> <td>8.9</td> </tr> <tr> <td>2017/18</td> <td>8.93</td> </tr> <tr> <td>2018/19</td> <td>9.07</td> </tr> </tbody> </table> </div> <div data-bbox="1007 461 1426 909"> <p>As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connections quotations and delivery, interruptions and general enquiries. For WPD's four licence areas around 22,000 customers are surveyed per year. For the regulatory year 2018/19, the WPD Group has been rated the number one DNO for customer satisfaction for the eighth consecutive year.</p> </div>	Year	Score	2016/17	8.9	2017/18	8.93	2018/19	9.07
Year	Score								
2016/17	8.9								
2017/18	8.93								
2018/19	9.07								
<b>Stakeholder engagement incentive (WPD Group)</b>	<p>Ofgem also compared the speed of response that a DNO call centre provides and the WPD Group is consistently identified as the top performer with an average speed of response below 1.58 seconds.</p> <p>WPD has maintained its position as the top performing DNO group in the Stakeholder Engagement Incentive Award Scheme (a key element of Ofgem's Broad Measure of Customer Satisfaction), held since its introduction in 2011/12. Most recently in 2017/18 WPD was again rated first place in the industry (outperforming every DNO, gas and transmission network) with a score of 8.75 (2016/17: 8.53) out of 10. This was worth £6.72m (17/18 prices) and will be applied to 2019/20 revenues across the four DNOs. WPD entered three written submissions, hosted a one day audit of the Consumer Vulnerability part of the submission and this was then followed by a question and answer session with an Ofgem-appointed judging panel of experts.</p>								
<i>Employee</i>									
<b>Employee turnover ratio (WPD Group)</b>	<div data-bbox="600 1469 1102 1839"> <table border="1"> <caption>Employee turnover ratio %</caption> <thead> <tr> <th>Year</th> <th>Ratio</th> </tr> </thead> <tbody> <tr> <td>2016/17</td> <td>3.38%</td> </tr> <tr> <td>2017/18</td> <td>4.07%</td> </tr> <tr> <td>2018/19</td> <td>4.23%</td> </tr> </tbody> </table> </div> <div data-bbox="1158 1458 1426 1877"> <p>The turnover ratio includes retirements and the reason for a slight increase year on year is due to more employees reaching the retirement stage. On an overall basis, the Company has a very low employee turnover ratio, indicating high levels of satisfaction and motivation of staff.</p> </div>	Year	Ratio	2016/17	3.38%	2017/18	4.07%	2018/19	4.23%
Year	Ratio								
2016/17	3.38%								
2017/18	4.07%								
2018/19	4.23%								

Stakeholder value & engagement

## Strategic report (continued)

For the year ended 31 March 2019

### Key performance indicators (KPIs) (continued)

KPI	Performance and comments																		
Stakeholder value & engagement	<p><i>Employee</i></p> <p><b>Gender pay gap (WPD Group)</b></p> <div data-bbox="600 461 1382 779"> <table border="1"> <caption>Mean hourly pay gap %</caption> <thead> <tr> <th>Year</th> <th>Mean hourly pay gap %</th> </tr> </thead> <tbody> <tr> <td>2016/17</td> <td>9%</td> </tr> <tr> <td>2017/18</td> <td>8.70%</td> </tr> </tbody> </table> <table border="1"> <caption>Median hourly pay gap %</caption> <thead> <tr> <th>Year</th> <th>Median hourly pay gap %</th> </tr> </thead> <tbody> <tr> <td>2016/17</td> <td>10.5%</td> </tr> <tr> <td>2017/18</td> <td>9.60%</td> </tr> </tbody> </table> </div> <p>WPD's median gender pay gap for the year ended 31 March 2018 is 8.3% below the national gender gap and 17.9% below its industry gender pay gap. Therefore, in relative terms, WPD's gender pay gap is positioned positively compared to its UK wide industry segment. This is based on the latest available data.</p> <p>Further information about WPD gender pay gap could be found at: <a href="https://www.westernpower.co.uk/useful-documents">https://www.westernpower.co.uk/useful-documents</a></p> <p><b>Other measures (WPD Group)</b></p> <p><i>- Employee satisfaction</i></p> <p>WPD's 2018 staff survey was distributed to all staff. 84% of those who participated believe WPD is a good place to work.</p> <p><i>Suppliers</i></p> <p><b>Payment performance</b></p> <div data-bbox="592 1227 991 1585"> <table border="1"> <caption>Average no. of payment days</caption> <thead> <tr> <th>Period</th> <th>Average no. of payment days</th> </tr> </thead> <tbody> <tr> <td>Sep 18</td> <td>21</td> </tr> <tr> <td>Mar 19</td> <td>21</td> </tr> </tbody> </table> </div> <p>WPD South Wales reports on its payment performance every six months.</p> <p>Of invoices paid:</p> <ul style="list-style-type: none"> <li>- 86% are within 30 days</li> <li>- 13% are within 31 to 60 days</li> <li>- 1% are in 60 days or more</li> </ul> <p>This is based on the latest available data.</p>	Year	Mean hourly pay gap %	2016/17	9%	2017/18	8.70%	Year	Median hourly pay gap %	2016/17	10.5%	2017/18	9.60%	Period	Average no. of payment days	Sep 18	21	Mar 19	21
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Period	Average no. of payment days																		
Sep 18	21																		
Mar 19	21																		

## **Strategic report (continued)**

For the year ended 31 March 2019

### **Future developments**

The directors consider the following areas of most significance in the short to medium term:

#### ***Transition to DSO***

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

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

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

Details on DSO Strategy can be found at the link below:

<https://www.westernpower.co.uk/dso-strategy>

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

[www.westernpower.co.uk/Connections/ICE.aspx](http://www.westernpower.co.uk/Connections/ICE.aspx)

#### ***Low carbon networks/Network innovation competition***

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

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



## **Strategic report (continued)**

For the year ended 31 March 2019

### **Future developments (continued)**

#### ***Low carbon networks/Network innovation competition (continued)***

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 Group has registered 40 projects under NIA covering a broad range of topics. Further details of innovation activities can be found at the below link:

[www.westernpower.co.uk/innovation](http://www.westernpower.co.uk/innovation)

#### ***RIIO-ED2***

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

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

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

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

WPD's RIIO-ED2 stakeholder engagement plan details are available at the link below:

<https://www.westernpower.co.uk/introduction-and-our-riio-ed2-engagement-plan>

#### ***Other political developments***

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

## Strategic report (continued)

For the year ended 31 March 2019

### Future developments (continued)

#### *Other political developments (continued)*

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

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

#### **Risk management and controls**

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

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

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

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

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

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

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

## Strategic report (continued)

For the year ended 31 March 2019

### Risk management and controls (continued)

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

	Risk	Mitigating actions
Safety	<p><b>On site accidents:</b> Due to the nature of the business there is an inherent safety risk associated with unsafe working practices.</p>	<ul style="list-style-type: none"> <li>- WPD South Wales has robust safety policies and procedures in place to ensure a safe working environment. There is a system for reporting near misses and incidents and policies are reviewed and amended accordingly to avoid any future recurrence.</li> <li>- The safety team actively supports managers with their safety responsibilities and provides assistance to enable them to maintain a clear focus on safety. During the Autumn of 2018 the Safety Team provided a package of presentations to support managers throughout WPD as part of the '2018 WPD Safety Week' programme. The package included an update for staff on the Company's health and safety statistics, a review of near miss and risk assessment procedures, planning emergency arrangements, vehicle condition checks, and site and office housekeeping.</li> <li>- Regular safety site visits are undertaken to ensure that all safety policies and procedures are being followed and implemented. Site safety visits undertaken during the year were 5,032 versus a target of 3,524.</li> </ul>
Network performance & security	<p><b>Network disruptions:</b> Events such as weather conditions, third party damage etc. may cause disruptions, which in turn can impact results both directly through the timing of recovery relating to lower units delivered on which income is charged, and also through the system of penalties and rewards that Ofgem has in place relating to customer service levels.</p>	<ul style="list-style-type: none"> <li>- WPD South Wales has comprehensive emergency plans for network emergencies such as Black Start. Black Start is the recovery from a partial or country wide loss of electricity supply. WPD sits on a number of nationwide industry groups, along with Government Departments ("BEIS") and Ofgem to prepare for such events. These groups facilitate a consistent approach to resilience and response to network emergencies across the industry. WPD South Wales has regular training sessions with its Network Control Centre Engineers to exercise a response to a Black Start.</li> <li>- Established restoration plans are in place and reviewed with National Grid and contracted Power Stations.</li> <li>- Area operational teams undertake desktop exercises to ensure local resilience plans are appropriate.</li> <li>- Considerable sums are spent on routine maintenance for network assets including tree cutting costs. Assets are managed to an accredited asset management standard, ISO55001 to support the right decision making with respect to asset maintenance and replacement.</li> <li>- In addition to normal equipment stocks, WPD also keeps a small number of additional strategic spares and is part of the National Grid strategic spares group.</li> <li>- WPD South Wales has a resilient IT infrastructure with multi-site running with fault tolerant/mirrored systems.</li> <li>- Flood plans are in place for major substations.</li> <li>- There are reciprocal arrangements in place with other network operators for backup support through NEWSAC (North East West South Area Consortium).</li> </ul>

## Strategic report (continued)

For the year ended 31 March 2019

### Risk management and controls (continued)

	Risk	Mitigating actions
Network performance & security	<p><b>Cyber breach threat:</b> Unauthorised access to our key networks and systems.</p>	<ul style="list-style-type: none"> <li>- Stringent policies and procedures are in place to provide controls around network security, proactive threat intelligence gathering, asset management, data backups and incident response.</li> <li>- A dedicated and qualified team is in place that continually reviews and monitors our cyber security position and reporting capabilities.</li> <li>- WPD limits direct connection of WPD's corporate network to the internet, direct cloud based services and personal devices.</li> <li>- All data considered to be 'in transit' is secured using a variety of methods and techniques including Hypertext Transfer Protocol Secure ("HTTPS"), Secure File Transfer Protocol ("SFTP") and Lightweight Directory Access Protocol ("LDAP").</li> <li>- Regular security drills are performed involving the Information Resources department and business teams.</li> <li>- All servers are backed up for both operational and disaster recovery purposes and the data is secured off-site. This facilitates full recovery of each system once the appropriate replacement hardware or hosting capacity has been sourced. Disaster recovery testing is performed on a regular basis.</li> </ul>
Financial stability	<p><b>Interest rate risk:</b> WPD South Wales has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, which exposes it to interest rate risk.</p> <p><b>Credit rate risk:</b> A customer or counterparty to a financial instrument will fail to perform and pay the amount due causing financial loss to the Company.</p>	<ul style="list-style-type: none"> <li>- WPD South Wales' interest rate risk management policy includes trying to achieve the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows.</li> <li>- An element of the long-term debt is index linked which creates a natural hedge against the Company's regulated income, which is also index linked.</li> <li>- WPD South Wales also uses forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.</li> <li>- WPD South Wales is exposed to credit risk on its billed and unbilled portion of customer contributions in relation to any capital work undertaken. WPD South Wales maintains credit policies and procedures with respect to counterparties. Depending on the creditworthiness of the counterparty, the Company may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees.</li> <li>- WPD South Wales has minimal credit risk in relation to debtors pertaining to revenue from providing distribution use of system services ("DUoS"). DUoS debtors are protected by Ofgem regulations, provided credit management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the Distribution and Connection Use of System Agreement ("DCUSA").</li> </ul>

## Strategic report (continued)

For the year ended 31 March 2019

### Risk management and controls (continued)

	Risk	Mitigating actions
Financial stability	<b>Inflation risk:</b> The WPD South Wales' index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI.	WPD South Wales' regulated assets ('RAV') 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.
	<b>Impact of Brexit:</b>	<ul style="list-style-type: none"> <li>- WPD South Wales has evaluated the impact of Brexit on its operations, including review of all technical notices issued by the UK Government offering advice to businesses on a 'no deal' Brexit.</li> <li>- Potential inventory shortage due to restrictions between UK and EU borders has been identified as one of the key operational risks for WPD South Wales. In response to this risk, management has identified and ordered in bulk, critical stocks that merit stockpiling and has taken steps to secure additional supply for storage on site or at UK based suppliers.</li> <li>- Uncertainty around Brexit has resulted in the weakening of sterling; however the Company's revenues and assets are principally sterling denominated, thus minimising any foreign currency risk for the Company. Any foreign currency debt is fully hedged by cross currency swaps.</li> </ul>
Environment	<b>Regulatory changes:</b> Changes in legislation relating to environmental and other matters are not adopted by WPD South Wales.	<ul style="list-style-type: none"> <li>- WPD South Wales has a dedicated regulation and compliance department with skilled personnel that track any regulatory changes and provide advice in relation to interpretation and compliance of those changes.</li> <li>- There is regular engagement with the WPD Board on political and regulatory developments which may impact the Group. The Board monitors management's progress in ensuring compliance with changes to legislation.</li> </ul>

## Strategic report (continued)

For the year ended 31 March 2019

### Risk management and controls (continued)

	Risk	Mitigating actions
Environment	<p><b>Negative impact of network assets on the environment:</b> Due to the nature of equipment used in the industry, network assets may have a harmful impact on the environment.</p>	<ul style="list-style-type: none"> <li>- Use of best technology to minimise the impact of network assets on the environment, such as the use of Perfluorocarbon Trace ("PFT") technology within WPD South Wales reduces the effect on the total annual fluid losses.</li> <li>- Frequent assessment and careful monitoring of all its network assets specifically assets like SF6 equipment, which produce SF6 gas linked to potential global warming. WPD South Wales carefully monitors its SF6 equipment and employs the external ENA Engineering Recommendation for the reporting of SF6 banks, emissions and recoveries.</li> <li>- Following best practices and complying with various guidelines in connection with environmental practices such as: <ul style="list-style-type: none"> <li>a) G92/1 guidelines for best practice in relation to Electric and Magnetic Fields ("EMFs") in the Design and Management of Low Voltage Distribution Network,</li> <li>b) BEIS Code of Practice on the Optimal Phasing of High Voltage Double Circuit Power,</li> <li>c) WPD complies with the public exposure recommendations contained within the 1989 ICNIRP (International Commission on Non-ionising Radiation Protection) Guidelines on Extremely Low Frequency Electromagnetic Fields,</li> <li>d) Occupational exposure requirements specified within the Control of Electromagnetic Fields of Work Regulations 2016.</li> </ul> </li> </ul>
Stakeholder value & engagement	<p><b>Customer dissatisfaction:</b> Failure to meet the required level of customer satisfaction performance.</p>	<ul style="list-style-type: none"> <li>- WPD has a customer panel that meets four times a year and members, who represent a wide range of customers and other key stakeholder groups, help us keep up to speed with the issues affecting our customers. Through the panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. It plays an important role in helping WPD develop its key priorities. The panel is attended by WPD's Chief Executive and other directors, demonstrating the commitment at every level to proactively engage with customers.</li> <li>- Ofgem requires us to design, establish and resource a new Customer Engagement Group ("CEG") as part of RIIO-ED2's enhanced engagement. The WPD Group was the first to set up a new CEG - a group of 15 members who will scrutinise our Business Plan and provide assurance to Ofgem that the plan and the engagement used to create it are robust.</li> <li>- Annually WPD hosts workshops to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. This year a record 330 stakeholders from a range of different backgrounds (including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors) attended six workshops. Improvement actions are identified as a result of the workshops and are subsequently addressed and delivered by WPD. A new online portal in place this year means even stakeholders who cannot attend can view content and videos and take part in the consultations.</li> </ul>

## Strategic report (continued)

For the year ended 31 March 2019

### Risk Management and Controls (continued)

	Risk	Mitigating actions
Stakeholder value & engagement	<p><b>Lack of skilled employees:</b> Failure to attract, retain and to develop our employees.</p>	<ul style="list-style-type: none"> <li>- WPD maintains good practices and safe working conditions.</li> <li>- WPD's employees have access to pension schemes (Contribution schemes for the new members).</li> <li>- WPD has benchmarked terms and conditions for all employees.</li> <li>- Employees are kept informed of WPD's goals, objectives, performance and plans, and their effect on them as employees through monthly business updates, regular team briefings, as well as through WPD's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest.</li> <li>- A series of roadshow presentations by the directors is conducted each year to ensure that all staff are aware of, and can contribute to, WPD's goals.</li> <li>- Various training programs are offered under the Trainee Development Scheme and Technical Apprentice Scheme.</li> <li>- Succession plans are in place for key roles within the organisation.</li> </ul>
	<p><b>Reliance on suppliers:</b> WPD South Wales relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery.</p>	<ul style="list-style-type: none"> <li>- There are sufficient alternative suppliers for cable laying, tree cutting etc. such that, should an existing supplier be unable to continue to make supplies, there will be no significant long-term impact on WPD South Wales' ability to operate the network.</li> <li>- Most of the electricity which enters WPD South Wales' network is carried on the National Grid's grid supply points and thus the Company is dependent on National Grid. National Grid is regulated by Ofgem and thus the risk of a major failure is considered very remote.</li> <li>- All strategic contracts are regularly reviewed by the purchasing team to ensure business continuity.</li> </ul>
	<p><b>Regulatory risk:</b> WPD South Wales' revenue is regulated and is subject to a review at the end of each price control period. Thus the Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the next RIIO-ED2.</p>	<ul style="list-style-type: none"> <li>- WPD deploys significant resources in engaging with Ofgem on all new publications.</li> <li>- WPD is actively involved in the RIIO-ED2 consultations.</li> <li>- WPD is evolving plans for development of RIIO-ED2 modelling, building on RIIO-ED1 work and the current annual forecasting process.</li> <li>- WPD engages with its shareholder on all changes and encourages investor dialogue between PPL, its shareholders and Ofgem.</li> </ul>

## **Strategic report (continued)**

For the year ended 31 March 2019

### **Corporate and social responsibility**

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

#### ***Social and community***

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

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

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

#### ***Vulnerable customers***

WPD South Wales 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 the Company or when their supply is interrupted. Specifically help is provided for vulnerable customers during power cuts and where possible advice is provided to enable them to be prepared should a power cut occur.

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

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

#### ***Fuel poverty and energy affordability***

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

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



## **Strategic report (continued)**

For the year ended 31 March 2019

### **Corporate and social responsibility (continued)**

#### ***Social and community (continued)***

##### ***Fuel poverty and energy affordability (continued)***

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

Details on our priority services can be found at:

<https://www.westernpower.co.uk/customers-and-community/priority-services>

##### ***Deaf awareness chartermark***

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

##### ***Taxation***

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

WPD South Wales values an open working relationship with HM Revenue & Customs and keeps them aware of any major business developments.

The WPD Board takes ultimate responsibility for the management of taxation affairs in the UK, including the management of risk, the compliance process and the control environment in which the tax department works.

For our tax strategy refer to the link below:

<https://www.westernpower.co.uk/about-us/financial-information>

##### ***Human rights***

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

For our Modern Slavery Act 2015 statements refer to the link below:

<https://www.westernpower.co.uk/modern-slavery-act>

##### ***Anti-corruption and anti-bribery***

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

## Strategic report (continued)

For the year ended 31 March 2019

### Non-financial information statement

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

- Business model

Refer to page 1.

- Environment

Refer to page 4 for details on our policy regarding the environment.

Refer to pages 9, 10 and 11 for details of impact of our activities on the environment and our performance in this area.

Refer to page 19 and 20 for our principal risks in relation to the environment and our actions to mitigate those risks.

- Employees

Refer to page 5 for details on our policies regarding employees.

Refer to pages 12 and 13 for our performance in relation to employee satisfaction.

Refer to page 21 for our principal risk in relation to employees and our actions to mitigate that risk.

- Social matters

Refer to pages 22 and 23 in relation to details on our policies and activities in relation to our social responsibilities

- Human rights

Refer to page 23.

- Anti corruption and anti bribery matters

Refer to page 23.

By Order of the Board



P Swift

Chief Executive Officer

18 July 2019

**Western Power Distribution (South Wales) plc**

Avonbank

Feeder Road

Bristol

BS2 0TB

## **Director's report**

For the year ended 31 March 2019

The directors present their annual report on the affairs of Western Power Distribution (South Wales) plc, together with financial statements and auditor's report, for the year ending 31 March 2019.

### **Company's registered number**

The Company's registered number is 2366985.

### **Ownership**

WPD South Wales is an indirect, wholly-owned subsidiary of Western Power Distribution plc, which is owned by PPL Corporation, an electricity utility company of Allentown, Pennsylvania, US.

There were no transactions between WPD South Wales and the ultimate owner.

### **Results, dividends and share issue**

The profit for the financial year 2019 was £92.5m (2018: £88.5m).

The Company also reports other comprehensive gains, which were posted directly to capital and reserves, of £7.0m (2018: £0.2m loss). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

In 2019 £19.4m dividends were paid by the Company (2018: £46.9m).

### **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.

All debt at WPD South Wales is denominated in sterling and therefore there is no currency risk exposure.

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

### ***Liquidity and going concern***

On a day-to-day basis, WPD South West provides liquidity to the whole of WPD with balances with other group companies being settled periodically. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2019, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £245.0m maturing in July 2021, of which none was drawn. In addition, it had uncommitted facilities of £100.0m of which £5.0m can only be used for the issue of letters of credit; at 31 March 2019 no borrowings had been drawn and letters of credit of £3.5m were issued.

The Company has net current liabilities of £13.3m. The Company's net current liabilities will be settled with a combination of cash flows from operating activities, borrowings from the WPD Group undertakings, and issuances of long-term debt. Additionally confirmation has been obtained from a parent undertaking that it will provide financial support to the Company for not less than 12 months from the date of approval of the financial statements.

## **Director's report (continued)**

For the year ended 31 March 2019

### **Financial risk management objectives and policies (continued)**

#### *Liquidity and going concern (continued)*

After consideration, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future and at least for a period of 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the parent company's ability to provide support, the relatively stable and regulated nature of the business, the forecast long term business plan, and the anticipated ability of the Company to be able to raise additional long term debt in the future.

#### *Dividend policy*

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

### **Strategic report**

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

- an indication of future developments in the business - see pages 14-16;
- an indication of activities of the Company in the field of research and development - see page 15;
- a statement on the policy for disabled employees - see page 5;
- employee policies - see page 5;
- greenhouse gas (carbon) emissions - see page 9.

### **Directors and their interests**

The directors who served during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

RA Symons, Chief Executive (deceased 7 November 2018)

P Swift, Chief Executive (appointed 7 November 2018)

IR Williams, Finance Director

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

G Halladay, Operations Director (appointed 14 January 2019)

ME Fletcher, non-executive independent director

AJ Cardew, non-executive independent director

## **Director's report (continued)**

For the year ended 31 March 2019

### **Directors and their interests (continued)**

During and at the end of the financial year, no director was interested in any contract of significance in relation to the Company's business.

Insurance in respect of directors and officers is maintained by WPD's ultimate parent, PPL Corporation. The insurance is third party qualifying insurance and is subject to the conditions set out in the companies acts and remains in ultimate force at the date of signing the Annual Report and Financial Statements.

### **Subsequent events**

Subsequent to the year end, on 17 June 2019, the Company paid an interim dividend of £9.3m to WPD Distribution Network Holdings Limited.

### **Statement of disclosure to independent auditor**

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

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

### **Independent auditor**

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

By Order of the Board



P Swift  
Chief Executive Officer

18 July 2019

**Western Power Distribution (South Wales) plc**

Avonbank  
Feeder Road  
Bristol BS2 0TB

## **Directors' responsibilities statement**

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

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

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

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

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

## **Independent auditor's report**

**to the members of Western Power Distribution (South Wales) plc**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Western Power Distribution (South Wales) plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosed Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet;
- the statement of cash flows; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council (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 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

We identified the following key audit matter in the current year:

- Capitalisation of overheads.

##### Materiality

The materiality that we used in the current year was £5.5m (2018: £5.4m) which was determined on the basis of 5% of profit before tax.

##### Scoping

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

## **Independent auditor's report**

**to the members of Western Power Distribution (South Wales) plc (continued)**

### **Summary of our audit approach (continued)**

#### Significant changes in our approach

Uncertain tax positions were presented as a key audit matter in the prior year but have not been included in the current year as we no longer consider this to meet the criteria. The remaining key audit matter consistent with the prior year.

### **Conclusions relating to going concern**

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

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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 related to the capitalisation of engineering indirect costs and corporate overheads.

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

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

Given the magnitude of overheads capitalised in the business the impact could be material. Total engineering indirect costs and corporate overheads are £65.8m in the year (2018: £69.9m), of which £45.7m (2018: £44.9m) has been capitalised to fixed assets.

Refer to note 2 'Significant accounting policies' and note 3 'Critical accounting judgements and key sources of estimation uncertainty' in the financial statements for further discussion of the policy and judgements in relation to the capitalisation of overheads.



## **Independent auditor's report**

**to the members of Western Power Distribution (South Wales) plc (continued)**

### **Key audit matters - Capitalisation of overheads (continued)**

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

#### *Key observations*

Based on the work performed we conclude that the capital expenditure recorded is appropriate.

### **Our application of materiality**

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

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

Materiality: £5.5m (2018: £5.4m)

Basis for determining materiality: 5% of the profit before tax. This is consistent with the previous year basis.

Rationale for the benchmark applied: Profit before tax is determined to be the key metric of the users of the financial statements

We agreed with the Board of Directors that we would report all audit differences in excess of £276,750, 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 audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

### **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.

## **Independent auditor's report**

**to the members of Western Power Distribution (South Wales) plc (continued)**

### **Other information (continued)**

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

**We have nothing to report in respect of these matters.**

### **Responsibilities of directors**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

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

#### *Identifying and assessing potential risks related to irregularities*

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

- enquiring of management and internal audit, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance.
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud.
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

## **Independent auditor's report**

### **to the members of Western Power Distribution (South Wales) plc (continued)**

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

##### *Identifying and assessing potential risks related to irregularities (continued)*

- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: capitalisation of corporate overheads.
- obtaining an understanding of the legal and regulatory framework that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations we considered in this context included the relevant laws and regulations applicable to the Company (including its components) and the sector it operates in such as UK Companies Act, Listing Rules, pensions legislation, tax legislation. In addition, compliance with terms of the Company's operating licence as set out by the energy regulator, Ofgem, were fundamental to the Company's ability to continue as a going concern.

##### *Audit response to risks identified*

As a result of performing the above, we identified capitalisation of overheads as a key audit matter. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters. As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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

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

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

#### **Report on other legal and regulatory requirements**

##### *Opinions on other matter 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 Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Director's report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatement in the Strategic report or the Director's report.

## **Independent auditor's report**

**to the members of Western Power Distribution (South Wales) plc (continued)**

### **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 in respect of the following matters if, in our opinion:

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

**We have nothing to report in respect of these matters.**

#### *Directors' remuneration*

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

**We have nothing to report in respect of these matters.**

### **Other matters**

#### *Auditor tenure*

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

#### *Consistency of the audit report with the additional report to the Board of Directors*

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

### **Use of our report**

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

Delyth Jones

Delyth Jones, Senior Statutory Auditor

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

19 July 2019

## Profit and loss account

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
<b>Turnover</b>	4	<b>259.2</b>	245.8
Operating expenses	5	(111.3)	(99.9)
<b>Operating profit</b>	6	<b>147.9</b>	145.9
Income from fixed asset investments		0.1	-
Profit on sale of fixed assets		0.1	0.1
<b>Profit before interest and tax</b>		<b>148.1</b>	146.0
Interest receivable and similar income	7	0.4	0.1
Interest payable and similar charges	7	(36.7)	(37.8)
Net interest expense relating to pensions and other post-retirement benefits	21	(1.1)	(1.1)
<b>Profit before tax</b>		<b>110.7</b>	107.2
Tax on profit	8	(18.2)	(18.7)
<b>Profit for the financial year</b>		<b>92.5</b>	88.5

All activities relate to continuing operations.

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

# Statement of comprehensive income

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
<b>Profit for the year</b>		<b>92.5</b>	<b>88.5</b>
<b>Other comprehensive gain/(loss):</b>			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>			
Reclassification adjustments for gains on cash flow hedges included in profit or loss (interest payable)		(0.6)	(0.7)
Income tax effect		0.1	0.1
		(0.5)	(0.6)
<i>Other comprehensive gain not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gains/(losses) on defined benefit pension plans	21	41.1	(1.8)
Reimbursement agreement relating to WPUPS pension scheme	21	(26.4)	1.5
Income tax effect		(7.2)	0.7
		7.5	0.4
<b>Other comprehensive gain/(loss) for the year, net of tax</b>		<b>7.0</b>	<b>(0.2)</b>
<b>Total comprehensive income for the year, net of tax, attributable to equity holder of the parent</b>		<b>99.5</b>	<b>88.3</b>

**Statement of changes in equity**  
For the year ended 31 March 2019

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
At 1 April 2017		291.7	23.2	5.1	5.9	300.5	626.4
Profit for the year		-	-	-	-	88.5	88.5
Other comprehensive (loss)/income		-	-	-	(0.6)	0.4	(0.2)
<b>Total comprehensive income for the year</b>		-	-	-	(0.6)	88.9	88.3
Equity dividends paid	9	-	-	-	-	(46.9)	(46.9)
At 31 March 2018		291.7	23.2	5.1	5.3	342.5	667.8
Change in accounting policy - IFRS 9		-	-	-	-	-	-
1 April 2018		291.7	23.2	5.1	5.3	342.5	667.8
Profit for the year		-	-	-	-	92.5	92.5
Other comprehensive (loss)/income		-	-	-	(0.5)	7.5	7.0
<b>Total comprehensive income for the year</b>		-	-	-	(0.5)	100.0	99.5
Equity dividends paid	9	-	-	-	-	(19.4)	(19.4)
<b>At 31 March 2019</b>		<b>291.7</b>	<b>23.2</b>	<b>5.1</b>	<b>4.8</b>	<b>423.1</b>	<b>747.9</b>

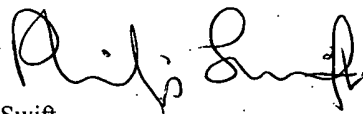
**Balance sheet**


As at 31 March 2019

	Note	2019 £m	2018 £m
<b>Non-current assets</b>			
Tangible fixed assets	12	1,922.2	1,816.2
Intangible assets	13	3.8	2.2
Trade and other receivables	15	0.1	0.1
		1,926.1	1,818.5
<b>Current assets</b>			
Stocks	14	0.4	2.1
Trade and other receivables	15	52.8	53.0
Cash at bank and in hand	16	4.6	33.2
		57.8	88.3
<b>Creditors</b>			
Amounts falling due within one year	17	(71.1)	(72.6)
<b>Net current (liabilities)/assets</b>		<b>(13.3)</b>	<b>15.7</b>
<b>Total assets less current liabilities</b>		<b>1,912.8</b>	<b>1,834.2</b>
<b>Creditors</b>			
Amounts falling due after more than one year	17	(1,027.1)	(1,007.4)
<b>Provisions for liabilities</b>			
Deferred tax	20	(113.0)	(93.3)
Reimbursement agreement re WPUPS	19	(97.9)	(74.2)
Other	19	(7.9)	(5.7)
<b>Pension</b>			
Asset	21	81.0	76.4
Liability	21	-	(62.2)
<b>Net assets</b>		<b>747.9</b>	<b>667.8</b>
<b>Capital and reserves</b>			
Called-up share capital	22	291.7	291.7
Share premium account	23	23.2	23.2
Capital redemption reserve	23	5.1	5.1
Hedging reserve	23	4.8	5.3
Profit and loss account	23	423.1	342.5
<b>Total shareholder's funds</b>		<b>747.9</b>	<b>667.8</b>

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

The financial statements of the Company (registered number 2366985) on pages 35 to 76 were approved and authorised for issue by the Board of Directors on 18 July 2019 and were signed on its behalf by:

  
P Swift  
Chief Executive

  
I R Williams  
Finance Director



## Statement of cash flows

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
<b>Operating activities</b>			
Profit for the year		92.5	88.5
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax expense		18.2	18.7
Finance costs		37.8	38.9
Finance revenue		(0.4)	(0.1)
Depreciation of tangible fixed assets	6	35.2	33.2
Amortisation of customer contributions		(6.6)	(7.0)
Amortisation of intangible assets		0.4	0.2
Gain on disposal of tangible fixed assets		(0.1)	(0.1)
Difference between pension contributions paid and amounts recognised in the profit and loss account		(29.5)	12.6
Increase/(decrease) in provisions		2.2	(2.1)
Working capital adjustments:			
Decrease/(increase) in inventories		1.7	(0.8)
Increase in trade and other receivables		(0.1)	(1.9)
Increase/(decrease) in trade and other payables		3.1	(2.4)
Interest paid		(35.5)	(35.9)
Interest received		0.4	0.1
Income taxes paid		(9.1)	(2.1)
<b>Net cash from operating activities</b>		<b>110.2</b>	<b>139.8</b>
<b>Investing activities</b>			
Purchase of tangible fixed assets		(141.6)	(147.0)
Purchase of intangible assets		(2.0)	(1.1)
Customers' contributions received		21.6	28.7
Proceeds from sale of tangible fixed assets		0.4	0.3
<b>Net cash used in investing activities</b>		<b>(121.6)</b>	<b>(119.1)</b>
<b>Financing activities</b>			
Proceeds from long-term borrowings		-	31.1
Movement in balances with Group undertakings		2.2	8.8
Dividends or equivalent distributions paid		(19.4)	(46.9)
<b>Net cash used in financing activities</b>		<b>(17.2)</b>	<b>(7.0)</b>
<b>Net (decrease)/increase in cash at bank and in hand</b>		<b>(28.6)</b>	<b>13.7</b>
Cash at bank and in hand at beginning of year		33.2	19.5
<b>Cash at bank and in hand at end of year</b>	16	<b>4.6</b>	<b>33.2</b>

## **Notes to the financial statements**

For the year ended 31 March 2019

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

The financial statements of Western Power Distribution (South Wales) plc ("the Company") for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 18 July 2019 and the balance sheet was signed on the Board's behalf by P Swift and IR Williams. The Company is a public limited company, limited by shares and incorporated and registered in England and Wales. The address of the Company's registered office is shown on page 76.

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

### **2. Significant accounting policies**

#### ***Basis of preparation***

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

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

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in note 26.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value such as net realisable value in IAS 2 or value in use in IAS 36.

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

The principal accounting policies adopted are set out below.

#### ***Going concern***

The directors have prepared the financial statements on 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. This is discussed further under 'Financial risk management objectives and policies' within the Director's report.

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### Group financial statements

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

#### Impact of new International Financial Reporting Standards

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

#### IFRS 9

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

##### (i) Classification and measurement

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

Financial Assets and Financial Liabilities - 1 April 2018	Loans and receivables £m	Amortised cost £m	Fair Value through P&L £m	Total £m
Closing Balance 31 March 2018 - IAS 39	86.2	-	-	86.2
Reclass Cash at Bank to Amortised Cost*	(1.2)	1.2	-	-
Reclass short-term deposits to FVTPL**	(32.0)	-	32.0	-
Reclass Trade and other receivables to Amortised Cost*	(50.8)	50.8	-	-
Opening Balance 1 April 2019 - IFRS 9	2.2	52.0	32.0	86.2

\* These reclassifications have no impact on the measurement categories.

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

##### (ii) Impairment of Financial Instruments

###### Trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables including accrued income. This resulted in an increase of the loss allowance on 1 April 2018 by £36,000. Debtors pertaining to revenue from providing distribution use of system services ("DUoS") are protected by Ofgem regulations and thus are subject to minimal credit risk, resulting in an immaterial impact of IFRS 9 on the Company ECL.

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *Impact of new International Financial Reporting Standards (continued)*

##### IFRS 15

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

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

##### *Foreign currencies*

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

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

##### *Turnover recognition*

##### *Distribution Use of System ("DUoS") Revenue*

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

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

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

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

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

Where turnover received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery; 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.

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *Turnover recognition (continued)*

##### *Finance revenue*

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

##### *Rental income*

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

##### *Customer contributions*

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

##### *Other operating income and expense*

Other operating income and expense includes 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.

##### *Financial assets*

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

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

##### *Debt instruments at amortised cost*

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

##### *Financial assets at FVTPL*

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

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *Impairment of financial assets*

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

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

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

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

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

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

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

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

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

#### *Cash at bank and in hand*

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

#### *Cash and cash equivalents*

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

#### *Financial liabilities*

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

## **Notes to the financial statements**

For the year ended 31 March 2019

### **2. Significant accounting policies (continued)**

#### ***Financial liabilities (continued)***

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

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

##### ***Financial liabilities measured at amortised cost***

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

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

This category of financial liabilities includes trade and other creditors, accruals, and borrowings.

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

##### ***Contributions***

Contributions receivable in respect of tangible fixed assets are treated as deferred income, which is credited to the profit and loss account 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 profit and loss account as they accrue, on an effective rate basis.

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *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 South Wales 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 profit and loss account on a straight-line basis over the lease term.

#### *Tangible fixed assets*

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

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

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

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

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

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

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

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



## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *Intangible assets*

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

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

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

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

#### *Computer software*

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

#### *Impairment of tangible fixed assets and intangible assets*

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

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

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

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

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *Stocks*

Stocks are valued 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;
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

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.

#### *Pension benefits*

The Company participates in three defined benefit pension plans, the WPD Group segment of the industry-wide Electricity Supply Pension Scheme ("ESPS"), the Infracore 1992 Pension Scheme ("Infracore 92") and the Western Power Utilities Pension Scheme ("WPUPS"). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. Neither the Infracore 92 nor the WPUPS schemes have active members.

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

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *Pension benefits (continued)*

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 deficit. However, as another WPD Group company (PPL WPD Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated under provisions in the balance sheet and matches the gross asset recorded under IAS 19.

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

Remeasurement 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. WPUPS reimbursement in relation to remeasurement of net defined benefit liability or asset are also recognised within other comprehensive income.

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

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

#### *Share-based payments*

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*

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

## Notes to the financial statements

For the year ended 31 March 2019

### 2. Significant accounting policies (continued)

#### *Dividend distribution*

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

#### *Borrowing costs*

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

### 3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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 Company's accounting policies

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

#### *Capitalisation of overheads - Nature of costs capitalised*

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

## Notes to the financial statements

For the year ended 31 March 2019

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

#### *Uncertain tax positions*

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

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

#### Key sources of estimation uncertainty

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

#### *Capitalisation of overheads - capitalisation rate*

Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the income statement with a portion being capitalised using an appropriate rate. The capitalisation rate is based on analysis of total labour cost, split between capital and expense. The rate is reviewed in detail annually and a reasonableness test is performed in light of total capital spend during the year. Information on sensitivity to the rate is as below:

	2019	2018
	Profit and loss account	Profit and loss account
	+/- £m	+/- £m
Change in rate +/- 1%	0.2	0.2

#### *Pension obligations*

The Company has a commitment, mainly through the ESPS, to pay pension benefits. The cost of these benefits and the present value of the Company's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees and the discount rate at which the future pension payments are discounted. Based on advice from external actuaries, the Company uses estimates for all these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and management's judgement regarding future expectations. Refer to note 21 for sensitivity information.

## Notes to the financial statements

For the year ended 31 March 2019

### 4. Segmental reporting

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

Revenue from its five largest customers amounted to £76.0m, £42.0m, £30.5m, £28.3m and £23.6m (2018: £79.4m, £34.7m, £31.5m, £34.4m and £27.4m).

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

### 5. Operating expenses

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

	2019 £m	2018 £m
Employee costs (note 10)	23.0	23.0
Depreciation (note 6)	35.2	33.2
Amortisation of intangible assets (note 6)	0.4	0.2
Amortisation of customer contributions (note 6)	(6.6)	(7.0)
Property rates	13.4	13.4
Other operating expenses	45.9	37.1
Operating expenses	111.3	99.9

### 6. Operating profit

	2019 £m	2018 £m
Operating profit is stated after charging/(crediting):		
Depreciation *	35.2	33.2
Amortisation of intangible assets	0.4	0.2
Operating lease rentals:		
Plant, machinery and equipment	0.6	0.4
Land and buildings	0.5	1.0
Amortisation of customer contributions	(6.6)	(7.0)
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.1	0.1
Non audit fee	-	-

\* Depreciation is stated net of depreciation capitalised of £5.3m (2018: £5.0m) in respect of equipment consumed during the construction of the electricity network.

## Notes to the financial statements

For the year ended 31 March 2019

### 7. Net interest expense

	2019 £m	2018 £m
<b>Interest receivable</b>		
Interest on loans to other WPD undertakings	(0.3)	(0.1)
Other	(0.1)	-
<b>Total interest receivable</b>	<b>(0.4)</b>	<b>(0.1)</b>
<b>Interest payable</b>		
Interest payable on other loans	37.7	38.3
Less: interest capitalised	(1.0)	(0.5)
<b>Total interest payable</b>	<b>36.7</b>	<b>37.8</b>
<b>Net interest expense</b>	<b>36.3</b>	<b>37.7</b>

Interest in 2019 was capitalised at a rate of 3.8% (2018: 2.2%), based on the yield on the Company's borrowings.

### 8. Tax

Tax charged to the profit and loss account:

	2019 £m	2018 £m
<b>Current tax:</b>		
UK corporation tax on profits for the year (see below)	6.0	12.3
Adjustment in respect of prior years	(0.3)	0.1
<b>Deferred tax (note 20):</b>		
Origination and reversal of temporary differences	12.7	6.5
Impact of tax rate change	(0.3)	(0.1)
Adjustment in respect of prior years	0.1	(0.1)
<b>Tax expense in the profit and loss account</b>	<b>18.2</b>	<b>18.7</b>

## Notes to the financial statements

For the year ended 31 March 2019

### 8. Tax (continued)

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

	2019 £m	2018 £m
Profit before tax	110.7	107.2
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	21.1	20.4
Effects of:		
Expenses not deductible and income not taxable for tax purposes	(0.2)	0.2
Group relief received at non-standard rates	(2.2)	(1.7)
Impact of tax rate change	(0.3)	(0.1)
Adjustment to tax charge in respect of prior years	(0.2)	(0.1)
Total tax expense reported in the profit and loss account	18.2	18.7

The total taxation expense as a percentage of profit before income tax gives an effective tax rate of 16.4% (2018: 17.4%) compared to the standard rate of 19% (2018: 19%) due to the effects of the items stated above. Expenses not deductible and income not taxable have been netted off as individually they are not material. Currently tax losses surrendered to the Company ("group relief") by PPL affiliates not owned by the immediate parent undertaking are not paid for and therefore the Company benefits by the tax value of these losses. The impact of the tax rate change is due to the tax rate applicable to the future years when the majority of deferred taxation temporary differences are expected to reverse being lower than the tax rate applicable to the current year. Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HM Revenue & Customs and additional group relief received from PPL affiliates for no payment.

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

	2019 £m	2018 £m
Deferred tax:		
On cash flow hedges	(0.1)	(0.1)
On re-measurement of pension liabilities	7.2	(0.7)
Total tax charge/(credit) in the statement of other comprehensive income	7.1	(0.8)



## Notes to the financial statements

For the year ended 31 March 2019

### 8. Tax (continued)

#### *UK corporation tax on profits for the year*

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

	2019 £m	2018 £m
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	21.1	20.4
Adjustments:		
Depreciation and amortisation (note i)	(2.2)	(2.4)
Pensions (note ii)	(10.2)	(3.8)
Other timing adjustments (note iii)	(0.2)	(0.1)
Other adjustments (note iv)	(0.3)	(0.1)
Corporation tax payable on profits before group relief	8.2	14.0
Group relief (note v):		
Losses received from other group companies payable at standard rate	(0.4)	(0.7)
Losses received from other group companies for free	(2.2)	(1.7)
Corporation tax payable on profits after group relief	5.6	11.6
The current tax charge on profits for the year is split as follows:		
Corporation tax payable to HM Revenue & Customs	5.6	11.6
Group relief payable to other group companies	0.4	0.7
	6.0	12.3

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

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

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

## Notes to the financial statements

For the year ended 31 March 2019

### 8. Tax (continued)

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

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

#### *Change in corporation tax rate*

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

### 9. Dividends

	2019 £m	2018 £m
Dividends on equity shares:		
Interim dividends - 3.3 pence per share (2018: 8.0 pence per share)	19.4	46.9

### 10. Employee benefit expense

Employee benefit expense, including director's remuneration, was as follows:

	2019 £m	2018 £m
Wages and salaries	51.3	49.9
Social security costs	5.9	5.8
Pension costs	12.4	12.9
	69.6	68.6
Less: amounts capitalised	(46.6)	(45.6)
Charged to the profit and loss account	23.0	23.0

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

The average number of employees during the year was 1,036 (2018: 1,039). All employees work for the network distribution activity. The number of staff and costs shown include a proportion of other WPD DNO staff who work in part for WPD South Wales, and exclude a proportion of WPD South Wales staff who work in part for other WPD DNOs.

## Notes to the financial statements

For the year ended 31 March 2019

### 11. 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.

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

(i) Base salary also includes benefits in kind.

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

(iii) As a result of changes in tax applicable to UK pensions, two of the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 21). Thus WPD no longer contributes for ongoing service to the ESPS in respect of these executive directors. Instead and subject to their service contract, WPD pays cash compensation to them individually equivalent to the value of WPD's contribution into the ESPS that would have been made had they remained active members (as determined by external actuaries). The remaining two executive directors are accruing ESPS service and WPD is contributing for ongoing service.

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

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

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

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

## Notes to the financial statements

For the year ended 31 March 2019

### 12. Tangible fixed assets

	Leasehold improvements £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
<b>Cost</b>					
At 1 April 2018	0.2	2,487.8	38.8	17.7	2,544.5
Additions	3.9	133.8	4.7	4.3	146.7
Disposals and retirements	-	-	(2.6)	(1.5)	(4.1)
At 31 March 2019	4.1	2,621.6	40.9	20.5	2,687.1
<b>Depreciation</b>					
At 1 April 2018	-	704.3	16.5	7.5	728.3
Charge for the year	0.1	33.2	5.1	2.1	40.5
Disposals and retirements	-	-	(2.6)	(1.3)	(3.9)
At 31 March 2019	0.1	737.5	19.0	8.3	764.9
<b>Net book value</b>					
At 31 March 2019	4.0	1,884.1	21.9	12.2	1,922.2
At 31 March 2018	0.2	1,783.5	22.3	10.2	1,816.2

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

	2019 £m	2018 £m
Freehold	138.6	127.4
Short leasehold	0.1	0.1

Leasehold improvements above relate to a non-network property held on a long term lease.

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2019 to £15.0m (2018: £12.3m) and land at a cost of £44.7m (2018: £40.8m).

Included in additions are staff costs of £46.6m (2018: £45.6m).

## Notes to the financial statements

For the year ended 31 March 2019

### 13. Intangible assets

	Computer software £m
<b>Cost</b>	
At 1 April 2018	2.6
Additions	2.0
At 31 March 2019	4.6
<b>Amortisation</b>	
At 1 April 2018	0.4
Charge for the year	0.4
At 31 March 2019	0.8
<b>Carrying amount</b>	
At 31 March 2019	3.8
At 31 March 2018	2.2

### 14. Stocks

	2019 £m	2018 £m
Raw materials and consumables	0.4	2.0
Work in progress	-	0.1
	0.4	2.1

The cost of stocks recognised as an expense during the year was £1.2m (2018: £1.5m).

## Notes to the financial statements

For the year ended 31 March 2019

### 15. Trade and other receivables

	2019 £m	2018 £m
<b>Current receivables</b>		
Trade receivables	41.4	39.6
Amounts owed by other WPD undertakings	9.2	9.5
Accrued income	0.6	1.7
Prepayments	1.6	2.2
<b>Total current receivables</b>	<b>52.8</b>	<b>53.0</b>
<b>Non-current receivables</b>		
Prepayments	0.1	0.1
<b>Total trade and other receivables</b>	<b>0.1</b>	<b>0.1</b>

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

### 16. Cash at bank and in hand

	2019 £m	2018 £m
Cash at bank	0.2	1.2
Short-term bank deposits	4.4	32.0
<b>Cash at bank and in hand</b>	<b>4.6</b>	<b>33.2</b>

Short-term deposits are measured at FVTPL.

The four WPD DNOs have access to an uncommitted facility from which any DNO can draw but which in aggregate cannot exceed £20.0m; no borrowings had been drawn against this facility as at 31 March 2019 (2018: £nil).

For the purposes of the cash flow statement, cash at bank and in hand comprise the following at 31 March:

	2019 £m	2018 £m
<b>Cash at bank and in hand</b>	<b>4.6</b>	<b>33.2</b>

## Notes to the financial statements

For the year ended 31 March 2019

### 17. Creditors

	2019 £m	2018 £m
Amounts falling due within one year:		
Payments received on account	16.8	19.0
Trade creditors	5.4	3.6
Amounts owed to other WPD undertakings	3.4	1.5
UK corporation tax	2.3	5.9
Other taxation and social security	9.4	8.4
Other creditors	11.5	11.5
Deferred contributions	6.6	6.9
Accruals and deferred income	15.7	15.8
	71.1	72.6
Amounts falling due after more than one year:		
Deferred contributions	372.0	354.2
Unsecured borrowings:		
£150m 9.25% Eurobonds 2020	149.8	149.7
£225m 4.804% bonds 2037	220.7	220.5
£200m 5.75% bonds 2040	197.5	197.4
£50m 0.10% indexed linked bonds 2029	55.4	54.5
£30m 0.10% indexed linked bonds 2036	31.7	31.1
	1,027.1	1,007.4

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

Unsecured borrowings are stated net of unamortised issue costs of £6.0m (2018: £6.4m). These costs, together with the interest expense, are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount. All interest on bonds is paid annually.

### 18. Net debt

	2019 £m	2018 £m
Long-term borrowings	655.1	653.2
Amounts owed to other WPD undertakings	3.4	1.5
Less: Cash at bank and in hand	(4.6)	(33.2)
Net debt	653.9	621.5

## Notes to the financial statements

For the year ended 31 March 2019

### 18. Net debt (continued)

#### Reconciliation of cash flows to net debt

	2019 £m	2018 £m
Net increase/(decrease) in cash and cash equivalents	28.6	(13.7)
Net increase/(decrease) in amounts owed to other WPD undertakings	1.9	(1.1)
Net increase in long-term borrowings	-	31.1
Change in debt resulting from cash flows	30.5	16.3
Net increase in borrowings due to indexation	1.8	2.1
Amortisation of premiums, discounts and issue costs	0.1	0.2
Movement in net debt in the year	32.4	18.6
Net debt at beginning of year	621.5	602.9
Net debt at end of year	653.9	621.5

### 19. Provisions for liabilities

	Deferred taxation (Note 20) £m	Reimbursement agreement re WPUPS £m	Asset retirement obligations £m	Other £m	Total £m
At 1 April 2018	93.3	74.2	4.7	1.0	173.2
Arising during the year	19.7	23.7	0.4	2.0	45.8
Utilised during the year	-	-	(0.1)	(0.1)	(0.2)
At 31 March 2019	113.0	97.9	5.0	2.9	218.8

Detail in respect of the reimbursement agreement re WPUPS is included in note 21.

Asset retirement obligations ("AROs") 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. The effect of discounting on AROs is not material and is therefore not shown separately.

Other provisions at 31 March 2019 substantially relate to uninsured losses and an expected settlement of liabilities relating to the Electricity Association Technology Limited ("EATL") of £0.7m relating primarily to a pension deficit relating to that company. The liability in respect of the EATL is being settled over a period of approximately nine years; the directors expect the remaining provisions to be settled within the next two years.



## Notes to the financial statements

For the year ended 31 March 2019

### 20. Deferred tax

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

	Accelerated capital allowances £m	Retirement benefit obligation/ £m	Other £m	Total £m
At 1 April 2017	95.8	4.4	(12.3)	87.9
Charge/(credit) to the profit and loss account	3.8	(2.3)	4.8	6.3
Credit to equity	-	(0.8)	(0.1)	(0.9)
At 1 April 2018	99.6	1.3	(7.6)	93.3
Charge to the profit and loss account	4.0	4.8	3.7	12.5
Charge/(credit) to equity	-	7.3	(0.1)	7.2
<b>At 31 March 2019</b>	<b>103.6</b>	<b>13.4</b>	<b>(4.0)</b>	<b>113.0</b>

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

	2019 £m	2018 £m
Deferred tax liabilities	121.7	113.8
Deferred tax assets	(8.7)	(20.5)
<b>Provision for deferred tax at 31 March</b>	<b>113.0</b>	<b>93.3</b>

The net deferred tax liability due after more than one year is £119.6m (2018: £105.5m).

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments

#### Introduction

The Company participates in three defined benefit schemes, the WPD Group segment of the Electricity Supply Pension Scheme ("ESPS"), the Infralec 1992 Pension Scheme ("Infralec 92"), and the Western Power Utilities Pension Scheme ("WPUPS").

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

Effective 1 April 2010, the WPD Group segment of the ESPS was closed to new members except in very limited circumstances. Existing members are unaffected. A defined contribution scheme is being offered to new employees.

The Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales. The assets are held in a trustee administered fund. It has no active members.

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 deficit. However, as another WPD Group company (PPL WPD Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet (note 19) and matches the gross asset recorded under IAS 19.

The asset or liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligations at the end of the reporting period less the fair value of the plan assets. The defined benefit obligations are calculated annually by independent actuaries, Aon Hewitt Limited, using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are determined 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 to 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 Company. The majority of pensions in payment receive inflationary increases in line with the RPI (Retail Price 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 scheme's legal documentation.

The net defined benefit cost and net surplus or deficit of the ESPS plan have been allocated to WPD South West and WPD South Wales in accordance with pensionable salaries, currently 37.7% (2018: 38.3%) to WPD South Wales. The figures below show the proportion allocated to WPD South Wales.

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

The amounts recognised in the WPD South Wales' balance sheet are determined as follows:

	2019			
	ESPS £m	WPUPS £m	Infralec 92 £m	Total £m
Present value of obligations	932.7	525.4	13.4	1,471.5
Fair value of scheme assets	(913.2)	(623.3)	(16.0)	(1,552.5)
Surplus of funded plan and liability	19.5	(97.9)	(2.6)	(81.0)

	2018			
	ESPS £m	WPUPS £m	Infralec 92 £m	Total £m
Present value of obligations	925.5	530.3	13.2	1,469.0
Fair value of scheme assets	(863.3)	(604.5)	(15.4)	(1,483.2)
Deficit/(surplus) of funded plan and liability	62.2	(74.2)	(2.2)	(14.2)

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

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

	2019			
	ESPS £m	WPUPS £m	Infralec 92 £m	Total £m
Current service cost	11.3	-	-	11.3
Administrative costs	0.5	0.4	-	0.9
Past service cost and gains and losses on settlements*	1.0	4.2	0.2	5.4
WPUPS reimbursement agreement	-	(4.6)	-	(4.6)
Operating charge relating to defined benefit plans	12.8	-	0.2	13.0
Interest income on plan assets	(22.3)	(15.2)	(0.4)	(37.9)
Interest on plan liabilities	23.5	13.3	0.3	37.1
WPUPS reimbursement agreement	-	1.9	-	1.9
Other finance expense	1.2	-	(0.1)	1.1

\* Following the High Court ruling in October 2018, a Guaranteed Minimum Pension ("GMP") equalisation is required and various methods are permissible for the same. £5.2m represents the Company's estimate of likely additional pension liabilities using the default Method C2 for equalising for the effect of GMP.

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

	2018			
	ESPS £m	WPUPS £m	Infralec 92 £m	Total £m
Current service cost	11.9	-	-	11.9
Administrative costs	0.7	0.4	-	1.1
WPUPS reimbursement agreement	-	(0.4)	-	(0.4)
Operating charge relating to defined benefit plans	12.6	-	-	12.6
Interest income on plan assets	(22.0)	(15.2)	(0.4)	(37.6)
Interest on plan liabilities	23.2	13.3	0.3	36.8
WPUPS reimbursement agreement	-	2.0	-	2.0
Other finance expense	1.2	-	(0.1)	1.1

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

Analysis of the amount recognised in other comprehensive income:

	2019			
	ESPS £m	WPUPS £m	Infralec 92 £m	Total £m
Gain on plan assets excluding amounts included in interest income	(34.5)	(33.6)	(0.8)	(68.9)
Gain from change in demographic assumptions	(35.6)	(18.6)	(0.5)	(54.7)
Loss from change in financial assumptions	51.3	26.6	0.7	78.6
Experience losses/(gains)	5.0	(0.8)	0.1	4.3
Change in percentage allocation rate	(0.4)	-	-	(0.4)
WPUPS reimbursement agreement	-	26.4	-	26.4
Remeasurement gain recognised in other comprehensive income	(14.2)	-	(0.5)	(14.7)

	2018			
	ESPS £m	WPUPS £m	Infralec 92 £m	Total £m
Loss/(gain) on plan assets excluding amounts included in interest income	7.3	1.9	(0.2)	9.0
Gain from change in financial assumptions	(11.5)	(5.4)	(0.1)	(17.0)
Experience losses	10.0	5.0	0.1	15.1
Change in percentage allocation rate	(5.3)	-	-	(5.3)
WPUPS reimbursement agreement	-	(1.5)	-	(1.5)
Remeasurement loss/(gain) recognised in other comprehensive income	0.5	-	(0.2)	0.3

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

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

#### WPD South Wales segment of ESPS

	Year ended 31 March 2019			Year ended 31 March 2018		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	925.5	(863.3)	62.2	939.1	(891.2)	47.9
Current service cost	11.3	-	11.3	11.9	-	11.9
Administrative cost	0.5	-	0.5	0.7	-	0.7
Interest expense/(income)	23.5	(22.3)	1.2	23.2	(22.0)	1.2
Past service cost and gains and losses on settlements	1.0	-	1.0	-	-	-
	36.3	(22.3)	14.0	35.8	(22.0)	13.8
Remeasurements:						
(Gain)/loss on plan assets excluding amounts included in interest income	-	(34.5)	(34.5)	-	7.3	7.3
Gain from change in demographic assumptions	(35.6)	-	(35.6)	-	-	-
Loss/(gain) from change in financial assumptions	51.3	-	51.3	(11.5)	-	(11.5)
Experience losses	5.0	-	5.0	10.0	-	10.0
Change in percentage allocation rate	(15.0)	14.6	(0.4)	(10.2)	4.9	(5.3)
	5.7	(19.9)	(14.2)	(11.7)	12.2	0.5
Contributions:						
Employer	-	(42.6)	(42.6)	-	-	-
Plan participants	1.6	(1.6)	-	1.7	(1.7)	-
	1.6	(44.2)	(42.6)	1.7	(1.7)	-
Payments from plan:						
Benefit payments	(39.8)	39.8	-	(38.8)	38.8	-
Administrative costs	(0.5)	0.5	-	(0.6)	0.6	-
	(40.3)	40.3	-	(39.4)	39.4	-
Acquired in a business combination**	3.9	(3.8)	0.1	-	-	-
<b>Liability/(asset) at 31 March</b>	<b>932.7</b>	<b>(913.2)</b>	<b>19.5</b>	<b>925.5</b>	<b>(863.3)</b>	<b>62.2</b>

## Notes to the financial statements

For the year-ended 31 March 2019

### 21. Pension commitments (continued)

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

#### WPUPS

	Year ended 31 March 2019			Year ended 31 March 2018		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	530.3	(604.5)	(74.2)	540.8	(617.7)	(76.9)
Administrative cost	0.4	-	0.4	0.4	-	0.4
Interest expense/(income)	13.3	(15.2)	(1.9)	13.3	(15.2)	(2.0)
Past service cost and gains and losses on settlement	4.2	-	4.2	-	-	-
	17.9	(15.2)	2.7	13.7	(15.2)	(1.6)
Remeasurements:						
(Gain)/loss on plan assets excluding amounts included in interest income	-	(33.6)	(33.6)	-	1.9	1.9
(Gain)/loss from change in demographic assumptions	(18.6)	-	(18.6)	2.7	-	2.7
Loss/(gain) from change in financial assumptions	26.6	-	26.6	(5.4)	-	(5.4)
Experience (gains)/losses	(0.8)	-	(0.8)	5.0	-	5.0
	7.2	(33.6)	(26.4)	2.4	1.9	4.3
Contributions:						
Employer	-	-	-	-	-	-
Payments from plan:						
Benefit payments	(29.6)	29.6	-	(26.2)	26.2	-
Administrative costs	(0.4)	0.4	-	(0.4)	0.4	-
	(30.0)	30.0	-	(26.6)	26.6	-
<b>Liability/(asset) at 31 March</b>	<b>525.4</b>	<b>(623.3)</b>	<b>(97.9)</b>	<b>530.3</b>	<b>(604.5)</b>	<b>(74.2)</b>

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

#### Infraléc 92

	Year ended 31 March 2019			Year ended 31 March 2018		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	13.2	(15.4)	(2.2)	13.4	(15.4)	(2.0)
Interest expense/(income)	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Past service cost and gains and losses on settlement	0.2	-	0.2	-	-	-
	0.5	(0.4)	0.1	0.3	(0.4)	(0.1)
Remeasurements:						
Gain on plan assets excluding amounts included in interest income	-	(0.8)	(0.8)	-	(0.2)	(0.2)
(Gain)/loss from change in demographic assumptions	(0.5)	-	(0.5)	0.1	-	0.1
Loss/(gain) from change in financial assumptions	0.7	-	0.7	(0.1)	-	(0.1)
Experience losses	0.1	-	0.1	0.1	-	0.1
	0.3	(0.8)	(0.5)	0.1	(0.2)	(0.1)
Contributions:						
Employer	-	-	-	-	-	-
	-	-	-	-	-	-
Payments from plan:						
Benefit payments	(0.6)	0.6	-	(0.6)	0.6	-
	(0.6)	0.6	-	(0.6)	0.6	-
<b>Liability/(asset) at 31 March</b>	<b>13.4</b>	<b>(16.0)</b>	<b>(2.6)</b>	<b>13.2</b>	<b>(15.4)</b>	<b>(2.2)</b>

The significant actuarial assumptions made were as follows:

	ESPS	2019 WPUPS	Infraléc 92	ESPS	2018 WPUPS	Infraléc 92
RPI inflation	3.15%	3.15%	3.15%	0.0	3.00%	3.00%
CPI inflation	2.05%	2.05%	2.05%	0.0	1.90%	1.90%
Rate of general long-term salary increase	3.65%	N/a	N/a	0.0	N/a	N/a
RPI-linked pension increases	3.10%	3.15%	3.15%	0.0	3.00%	3.00%
CPI-linked pension increases	N/a	2.05%	N/a	N/a	1.95%	N/a
Post-88 GMP pension increases	1.90%	1.90%	1.90%	0.0	1.80%	1.80%
Discount rate for scheme liabilities	2.36%	2.36%	2.36%	0.0	2.58%	2.58%

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

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:

#### WPD South Wales segment of ESPS

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

#### WPUPS

	31 March 2019	31 March 2018
Mortality table adopted	Based on S2NXA base tables with CMI 2018 core projections and a 1.0% per annum long-term improvement rate	Based on S2NXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	25.3	26.1
Life expectancy for a female currently aged 60	27.9	28.4
Life expectancy at 60 for a male currently aged 40	26.4	27.5
Life expectancy at 60 for a female currently aged 40	28.7	29.9

#### INFRALEC 92

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



## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

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

	Change in assumption %	Impact on defined benefit obligation ESPS £m	WPUPS £m	Infralec 92 £m
Discount rate	+/-0.50%	+88.9/-77.6	+40.8/-36.5	+1.0/-0.9
RPI inflation	+/-0.50%	+84.3/-74.3	+35.0/-31.7	+0.8/-0.8
Life expectancy	+ 1 year	+43.8	+25.3	+0.6

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

WPD South Wales Segment of ESPS scheme assets are comprised as follows:

	31 March 2019		31 March 2018	
	Total	Of which not quoted in an active market £m	Total	Of which not quoted in an active market £m
Equities	200.7	-	172.6	-
Absolute return	295.9	-	301.5	-
Government bonds	334.9	-	303.0	-
Property	62.9	62.9	63.1	63.1
Other	18.8	-	23.1	-
<b>Total</b>	<b>913.2</b>	<b>62.9</b>	<b>863.3</b>	<b>63.1</b>

WPUPS scheme assets are comprised as follows:

	31 March 2019		31 March 2018	
	Total	Of which not quoted in an active market £m	Total	Of which not quoted in an active market £m
Equities	226.5	-	351.1	-
Government bonds	395.6	-	252.4	-
Other	1.2	-	1.0	-
<b>Total</b>	<b>623.3</b>	<b>-</b>	<b>604.5</b>	<b>-</b>

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

Infralec 92 scheme assets are comprised as follows:

	31 March 2019		31 March 2018	
	Total	Of which not quoted in an active market £m	Total	Of which not quoted in an active market £m
Equities	6.4	-	9.7	-
Government bonds	5.6	-	3.1	-
Corporate bonds	3.7	-	2.0	-
Other	0.3	-	0.6	-
<b>Total</b>	<b>16.0</b>	<b>-</b>	<b>15.4</b>	<b>-</b>

There is no self-investment in the schemes.

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

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (e.g. equities) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Change in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning 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 it will aim to eliminate the schemes' deficits (as assessed on the ongoing funding basis) by 31 March 2026 for the WPD segment of the ESPS, WPUPS, and for Infralec 92.

## Notes to the financial statements

For the year ended 31 March 2019

### 21. Pension commitments (continued)

The current agreed employer contributions are 31.2% per annum of pensionable salaries for the WPD segment of the ESPS in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits, plus an additional £1.4m per annum in respect of expenses. Company deficit contributions are £32.6m per annum payable from 1 April 2018 to 31 March 2021 and £7.9m per annum payable from 1 April 2021 to March 2026.

During the 2016/17 financial year the Company made an £80.0m prepayment of deficit contributions into the WPUPS scheme covering the period 31 January 2017 to 1 April 2020. From 1 April 2020 the company 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).

During the 2016/17 financial year the Company also made a £2.5m prepayment of deficit contributions into the Infralec 92 scheme covering the period up to 31 March 2021. From 1 April 2021 to 31 March 2026 (inclusive) the Company will pay £0.2m 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 employer contributions to the schemes for the year ending 31 March 2020 are £41.9m for the WPD South Wales segment of the ESPS, and £nil for WPUPS and for Infralec 92.

The results of actuarial funding valuation as at 31 March 2019 may give rise to a revised schedule of contributions and as such the quantities 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 and around 15 years for both WPUPS and Infralec 92.

#### 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 and the following relates to the WPD Group as a whole:

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

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

## Notes to the financial statements

For the year ended 31 March 2019

### 22. Authorised and issued share capital

	2019 £	2018 £
<b>Allotted, called-up and fully paid:</b>		
583,442,224 ordinary shares of 50p each	291,721,112	291,721,112

### 23. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2017	23.2	5.1	5.9	300.5
Profit for the financial year	-	-	-	88.5
Net movement on cash flow hedges (net of tax)	-	-	(0.6)	-
Dividends paid	-	-	-	(46.9)
Actuarial losses on defined benefit pension plans (net of tax)	-	-	-	0.4
At 31 March 2018	23.2	5.1	5.3	342.5
Change in accounting policy - IFRS 9	-	-	-	-
1 April 2018	23.2	5.1	5.3	342.5
Profit for the financial year	-	-	-	92.5
Net movement on cash flow hedges (net of tax)	-	-	(0.5)	-
Dividends paid	-	-	-	(19.4)
Actuarial gains on defined benefit pension plans (net of tax)	-	-	-	7.5
<b>At 31 March 2019</b>	<b>23.2</b>	<b>5.1</b>	<b>4.8</b>	<b>423.1</b>

The share premium account arose on the issue of shares under share option schemes and the capital redemption reserve is in respect of the purchase of its own shares by the Company, both prior to 1996.

The hedging reserve relates to value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt. The interest rate derivatives were settled in prior years and the gain continues to be amortised through the profit and loss account over the term of the debt.

## Notes to the financial statements

For the year ended 31 March 2019

### 24. Contingent liabilities

#### *Legal proceedings*

WPD South Wales is party to various legal claims, actions and complaints. Although WPD South Wales 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 WPD South Wales' financial statements.

### 25. Commitments

#### *Capital commitments*

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

	2019 £m	2018 £m
Tangible fixed assets	9.1	5.8

#### *Operating lease commitments - WPD South Wales as lessee*

WPD South Wales leases various properties under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewable rights. Lease terms and rentals to be paid during the lease term are defined within the agreement. In some cases, lease rentals may be subject to a rent review on dates specified within the agreement at the then prevailing market rate. WPD South Wales also leases plant and machinery under non-cancellable operating leases which are usually very short term.

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

	2019 £m	2018 £m
Within one year	0.1	0.1
In the second to fifth years inclusive	0.3	0.2
After five years	3.3	0.1
	3.7	0.4

## **Notes to the financial statements**

For the year ended 31 March 2019

### **26. Ultimate parent undertaking**

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

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

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 entity. Copies of its accounts may be obtained from its registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

*Registered office:*

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