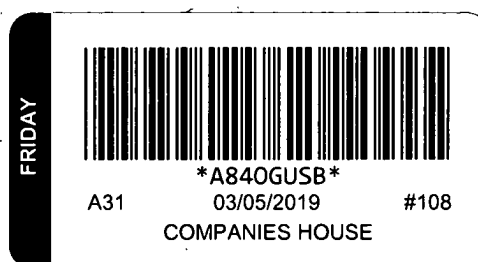


Registered number: 02373239

WPD PROPERTY INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018



WESTERN POWER 
DISTRIBUTION
Serving the Midlands, South West and Wales

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Directors' report

For the year ended 31 December 2018

The directors present their annual report and the audited financial statements of WPD Property Investments Limited (the "Company") (registered number 02373239) for the year ended 31 December 2018.

The Company has taken the small company exemption available under s415A of the Companies Act 2006.

Ownership

The Company is an indirect wholly-owned subsidiary of Western Power Distribution plc, which is owned indirectly by PPL Corporation, an electricity utility of Allentown, Pennsylvania, USA. PPL Corporation trades in the United Kingdom as Western Power Distribution plc ('WPD' and 'Group').

Principal activity and business review

The principal activity of the Company is to manage non-network properties of the Western Power Distribution plc group (the "Group").

The Company will continue to fulfil the current and anticipated property needs of the Group whilst also seeking to maximise the return from all property assets. Property which is currently vacant or under-utilised will either be brought to the market and let, possibly after further development, or will be sold.

On 6 December 2018 the Company issued 31,100,672 shares of £1 each at par to WPD Distribution Network Holdings Limited in exchange for an intercompany loan debtor. This loan debtor was offset with the intercompany loan creditor created when properties were transferred into the Company from another Group undertaking.

Future developments

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

Profit and dividends

The profit for the year is stated after reflecting the movement in fair value of the Company's investment properties and amounted to £4,645,000 (2017: £6,267,000). Dividends of £1,129,310 were paid in the year (2017: nil).

Investment properties

Investment properties are properties not used by the Company but leased to other parties, including other companies within the Group. The valuation of investment properties indicated a net increase in value of £1,180,000 (2017: £3,079,000 increase in value) in the year, which has been incorporated in the financial statements in the profit and loss account.

The Company carries its investment properties at fair value, with changes in fair value being recognised in the profit and loss account. The Company engaged independent valuation specialists to assist in determining the fair value as at 31 December 2018. For the key investment properties leased outside the WPD Group, the external valuer used a valuation technique based either on income approach or comparable method of valuation. Investment properties leased within the Group are valued externally on a rotational basis. In the intervening years the value is reviewed internally, with a sample assessed by an external valuer using the existing use basis.

Events since the balance sheet date

Subsequent to the year end, on 25 March 2019, the Company paid an interim dividend of £5,784,406 to WPD Distribution Network Holdings Limited.

Going concern

The directors have considered the principal risks and uncertainties facing the Company, and the mitigations in place to respond to these risks. Having considered these risks, the directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future due to the balance sheet position which shows net current assets of £8.3m and the expected future performance of the Company.

Directors' report (continued)

For the year ended 31 December 2018

Financial risk management

The principal risk is that the Company's investment properties will become impaired, or will become vacant. The Company's investment properties vary in type and location, thus limiting reliance on one sector or region for rental income or property value. The directors in this Company include a chartered surveyor who manages the property portfolio, further mitigating the risk.

Impact of Brexit

Following the referendum vote on 23 June 2016 and the decision to leave the European Union, there has been considerable uncertainty surrounding the outlook for the UK economy, which may potentially impact the valuation of properties in the UK. However to date, the Company has not suffered from any significant decline in the fair value of its investment properties and based on external valuations, the Company has recorded a fair value gain in its profit and loss account for the current year. The Company will continue to carefully monitor the economic trends and ensure that the valuation for its properties is based on the use of the most relevant market data.

Since the majority of the Company's revenue is from other WPD group entities based within the UK, the Company's exposure to any financial risks and to risks from the EU market place is considered minimal.

Directors and their interest

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

D C S Oosthuizen (resigned 31 March 2018)

I R Williams (appointed 1 April 2018)

D A Withers

There were no significant contracts existing during or at the end of the year with the Company in which any director is or was materially interested other than, for one director, his service contract.

Insurance in respect of directors and officers is third party qualifying insurance and is maintained by the Group's ultimate parent, PPL Corporation. The insurance is subject to the conditions set out in the Companies Act 2006 and remains in force at the date of signing the Directors' report.

Independent auditor

Elective resolutions to dispense with the holding of annual general meetings, the laying of financial statements before the Company and the appointment of an auditor annually are currently in force. The auditor, Deloitte LLP, will therefore be deemed to have been reappointed at the end of 28 days beginning with the day on which copies of this report and financial statements are sent to the members.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself 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.

Directors' report (continued)

For the year ended 31 December 2018

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



I R Williams
Director

30 April 2019

WPD Property Investments Limited
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 FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent, 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.

Independent auditors' report to the member of WPD Property Investments Limited

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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 of WPD Property Investments Limited which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditors' report to the member of WPD Property Investments Limited (continued)

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

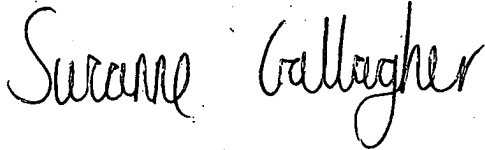
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report on these matters.

**Independent auditors' report to the member of WPD Property Investments Limited
(continued)**

Use of our report

This report is made solely to the Company's member 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 member for our audit work, for this report, or for the opinions we have formed.



Suzanne Gallagher, Senior Statutory Auditor
For and on behalf of Deloitte LLP,
Statutory Auditor,
Reading, United Kingdom

30 April 2019

Profit and loss account

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover		5,257	5,008
Operating costs		(925)	(1,301)
Increase in fair value of investment property	10	1,180	3,079
(Loss)/profit on disposal of investment property	5	(9)	507
Operating profit	4	5,503	7,293
Interest payable (net)	6	(78)	(9)
Profit before tax		5,425	7,284
Tax	8	(780)	(1,017)
Profit for the financial year		4,645	6,267

All operations are continuing.

There is no other comprehensive income for the year ended 31 December 2018 or 31 December 2017 and therefore no separate statement of comprehensive income has been prepared.

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

Balance sheet

At 31 December 2018

	Note	2018 £'000	2017 £'000
Non current assets			
Investment property	10	73,218	42,663
Current assets			
Debtors: amounts falling due within one year	11	10,062	6,376
Current liabilities			
Creditors: amounts falling due within one year	12	(1,761)	(2,314)
Net current assets		8,301	4,062
Total assets less current liabilities		81,519	46,725
Non current liabilities			
Creditors: amounts falling due after more than one year	12	(1,880)	(1,914)
Provision for liabilities	13	(688)	(477)
Net assets		78,951	44,334
Capital and Reserves			
Called up share capital	14	41,781	10,680
Profit and loss account		37,170	33,654
Total shareholder's funds		78,951	44,334

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

The financial statements of the Company (registered number 02373239) on pages 8 to 21 were approved and authorised for issued by the Board of Directors on 30 April 2019 and were signed on its behalf by:



I R Williams
Director

Statement of changes in equity

For the year ended 31 December 2018

	Note	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2017		-	27,387	27,387
Profit for the financial year		-	6,267	6,267
Total comprehensive income for the year		-	6,267	6,267
Share issue	14	10,680	-	10,680
At 31 December 2017		10,680	33,654	44,334
Profit for the financial year		-	4,645	4,645
Total comprehensive income for the year		-	4,645	4,645
Share issue	14	31,101	-	31,101
Dividend paid	9	-	(1,129)	(1,129)
At 31 December 2018		41,781	37,170	78,951

Notes to the financial statements

For the year ended 31 December 2018

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

The financial statements of WPD Property Investments Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 30 April 2019 and the balance sheet was signed on the board's behalf by I R Williams. WPD Property Investments Limited is a private limited company incorporated and registered in England and Wales. The registered address is included in Note 16.

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

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

2. Significant accounting policies

Basis of preparation

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

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 16.

The financial statements have been prepared on the historical cost basis, except for the revaluation of property that is measured at fair value at the end of the 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. The principal accounting policies adopted are set out below.

Going concern

The directors have considered the principal risks and uncertainties facing the Company, and the mitigations in place to respond to these risks. Having considered these risks, the directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future due to the balance sheet position which shows net current assets of £8.3m and the expected future performance of the Company.

Impact of new financial reporting standards

The following new standards are effective for accounting periods beginning on or after 1 January 2018:

IFRS 15

IFRS 15 "Revenue from Contracts with Customers" supersedes the current revenue recognition guidance including IAS 18 "Revenue" and the related interpretations and 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.

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Impact of new financial reporting standards (continued)

IFRS 9

IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement" and impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

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

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents the value of rents receivable for properties owned or leased, recovery of property service costs from tenants and professional services supplied provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Turnover is all in respect of sales to customers in the United Kingdom.

Rental income from property operating leases is recognised on a straight-line basis over the term of the relevant lease.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Investment properties include all properties leased to other parties, including other companies within the Group.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property is recognised in the profit and loss account in the period of derecognition.

Tax

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Pension costs

The Company participates in one defined benefit pension scheme, a section of the Electricity Supply Pension Scheme ('ESPS'), to which most employees in the Group in the South West of England and South Wales belong, and which has approximately 10,175 members. The ESPS is a group defined benefit pension plan that shares risks between entities under common control. In accordance with International Accounting standard ('IAS') 19, Employee Benefits, the scheme has been accounted for as a defined benefit scheme by Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as these businesses have legal responsibility for the plan. As there is no contractual arrangement or stated policy for charging the net defined benefit cost of the plan to individual group entities, the Company accounts for its ongoing contributions to the scheme as if it were a defined contribution scheme, and charges contributions to the profit and loss account as they become payable in accordance with the rules of the scheme.

The ESPS is closed to new members. The Company also participates in a defined contribution scheme, the Western Power Pension Scheme. Contributions to this scheme are charged to the profit and loss account as they become due.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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.

The Company as a lessee

Leases where the lessor retains substantially all of the risks and benefits of ownership of the assets are classified as operating leases and rentals payable are charged to profit and loss on a straight line basis over the lease term. Lease termination fees are allocated to the profit and loss account upon termination.

The Company as lessor

Assets leased out under operating leases are included in investment properties. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the term of the lease. Lease termination fees are allocated to the profit and loss account upon termination.

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 ('FVPTL') or as equity instruments designated at FVOCI, as appropriate. The Company's financial assets include trade debtors 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 FVPTL, 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 trade debtors and other receivables.

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Impairment of financial assets

The Company has the following financial assets that are subject to IFRS 9's expected credit loss model ('ECL'):

Trade debtors and other receivables

The Company applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables.

To measure the expected credit losses, trade debtors and other receivables have been grouped based on the days past due. The expected credit loss rates are primarily based on historical credit losses experienced. The historical loss rates are then adjusted for forward-looking information, if any, on macroeconomic factors affecting the ability of the customers to pay.

Financial liabilities

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

Financial liabilities measured at amortised cost

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

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

This category of financial assets includes trade and other payables and accruals.

Deferred government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Dividends

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

There were no critical accounting judgements. The key source of estimation uncertainty is:

Notes to the financial statements (continued)

For the year ended 31 December 2018

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

Revaluation of investment properties

The Company carries its investment properties at fair value, with changes in fair values being recognised in the profit and loss account. The Company engaged independent valuation specialists to assist in determining the fair value as at 31 December 2018. For the key investment properties leased outside of the WPD Group, the external valuer used a valuation technique based either on income approach or comparable method of valuation. Investment property leased within the Group is valued externally on a rotational basis. In the intervening years the value is reviewed internally, with a sample assessed by an external valuer using the existing use basis.

The fair value of investment properties is most sensitive to the assumptions concerning discount rate and the long term vacancy rate. Where equivalent disclosures are not presented by Western Power Distribution plc, being in respect of properties leased to other Group companies, the key assumptions used to determine the fair value of the investment properties are further explained in Note 10.

4. Operating profit

Operating profit is stated after charging/(crediting):

	2018 £'000	2017 £'000
Operating lease rentals payable - land and buildings	21	21
Amortisation of Government grants	(35)	(34)
Increase in fair value of investment property	(1,180)	(3,079)
(Loss)/profit on disposal of investment property	(9)	507

Net operating expenses include an allocation of £34,608 (2017: £39,633) in respect of Group central costs. This includes auditor's remuneration of £4,219 (2017: £3,754) for the audit of these financial statements. There were no non-audit fees in the current or prior year.

5. (Loss)/profit on disposal of investment property

	2018 £'000	2017 £'000
Gross proceeds from the sale or transfer of investment properties	1,202	1,231
Fair value of assets disposed / transferred	(1,184)	(724)
Disposal costs	(27)	-
	(9)	507

The Company sold or transferred three investment properties during 2018 (2017: five).

Notes to the financial statements (continued)

For the year ended 31 December 2018

6. Interest payable (net)

	2018 £'000	2017 £'000
Interest payable:		
On amounts owed to Group undertakings	118	18
Interest receivable:		
On amounts owed by Group undertakings	(40)	(9)
	78	9

7. Employees and directors

(a) Total employee costs during the year amounted to:

	2018 £'000	2017 £'000
Wages and salaries	177	180
Pension costs	39	45
Social security costs	21	21
	237	246

The Company participates in one defined benefit pension scheme, a section of the ESPS, to which most employees in the Group in the South West of England and South Wales belong, and which has approximately 10,175 members. The ESPS is a group defined benefit pension plan that shares risks between entities under common control. The ESPS is closed to new members. In accordance with International Accounting standard ('IAS') 19, Employee Benefits, the scheme has been accounted for as a defined benefit scheme by Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as these businesses have legal responsibility for the plan. As there is no contractual arrangement or stated policy for charging the net defined benefit cost of the plan to individual Group entities, the Company accounts for its ongoing contributions to the scheme as if it were a defined contribution scheme, and charges contributions to the profit and loss account as they become payable in accordance with the rules of the scheme.

Further details of the Group defined benefit scheme are disclosed in the consolidated financial statements of Western Power Distribution plc, which are available as disclosed in Note 16 below.

(b) The average monthly number of employees, including one executive director, during the year was:

	2018 Number	2017 Number
Management and administration	3	4

The above employees are employed under contracts of service with Western Power Distribution (South West) plc, however, their time is substantially devoted to WPD Property Investments Limited.

Notes to the financial statements (continued)

For the year ended 31 December 2018

7. Employees and directors (continued)

(c) Directors' emoluments

	2018 £'000	2017 £'000
Emoluments in respect of one director (2017: one)	104	101
Pension contributions in respect of one director (2017: one)	27	27

The above director was a member of a defined benefit pension scheme throughout both years. The other director did not receive remuneration in either the current or prior year for his services as director of the Company as they are incidental to his roles elsewhere in the Group.

8. Tax

a) Analysis of charge in the year:	2018 £'000	2017 £'000
Current tax:		
UK corporation tax on profits for the year	609	647
Adjustment in respect of prior years	(40)	(25)
Total current tax charge	569	622
Deferred tax (Note 13):		
Origination and reversal of temporary differences	200	394
Impact of change in corporation tax rate	(21)	(21)
Adjustment in respect of prior years	32	22
Total deferred tax charge	211	395
Tax charge	780	1,017

b) Reconciliation of the total tax charge

The total tax assessed for the year is different to the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before tax	5,425	7,284
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	1,031	1,402
Effects of:		
Expenses not deductible and income not taxable for tax purposes	(252)	(470)
Chargeable gains	30	137
Impact of change in corporation tax rate	(21)	(49)
Adjustment to tax charge in respect of prior years	(8)	(3)
Tax charge	780	1,017

Notes to the financial statements (continued)

For the year ended 31 December 2018

8. Tax (continued)

c) 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

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividends (2018: 2.7 pence per share, 2017: nil)	1,129	-

10. Investment property

	Leased externally			Leased to other companies in the WPD Group		Total
	Retail £'000	Office £'000	Industrial £'000	Subtotal £'000	£'000	£'000
Cost or valuation						
At 31 December 2017	5,690	5,150	5,195	16,035	26,628	42,663
Additions	-	-	-	-	8	8
Inter group transfers	-	-	-	-	30,551	30,551
Disposals	-	-	(125)	(125)	(1,059)	(1,184)
Revaluations	(221)	410	579	768	412	1,180
At 31 December 2018	5,469	5,560	5,649	16,678	56,540	73,218

The fair value of investment property comprises:

	Leased to other companies in the WPD Group			Leased to other companies in the WPD Group		
	Leased externally	2018	Total	Leased externally	2017	Total
	2018	2018	2018	2017	2017	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Freehold	16,678	55,965	72,643	16,035	26,053	42,088
Long leasehold	-	575	575	-	575	575
	16,678	56,540	73,218	16,035	26,628	42,663

Details in respect of the fair value of investment properties occupied by third parties are included in the financial statements of the Group (see Note 16). The fair values of investment property occupied by fellow Group companies, which comprise office space, storage facilities and depots, are based predominantly on valuations by external valuers; either Jones Lang La Salle Limited, Hartnell Taylor Cook or Cooke and Arkwright, with the remaining valuations carried out by a qualified surveyor who is a director of the Company (the "internal valuer"). All valuers are either members of the Royal Institution of Chartered Surveyors (MRICS) or Fellows of the Royal Institution of Chartered Surveyors (FRICS).

Notes to the financial statements (continued)

For the year ended 31 December 2018

10. Investment property (continued)

Where external valuations have not been obtained at the year-end date but have been obtained in prior years, these valuations have been updated by the internal valuer using appropriate indices. Additions in the period have been valued at cost. Properties transferred from other Group undertakings in the year were done so at fair value. The properties have been valued on an open market basis in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. The rental received from these assets is considered to be an arm's length rental and as such their current use is considered to be their highest and best use.

All of these valuations, which fall within Level 3 of the fair value hierarchy, are derived using the income capitalisation methodology whereby rents receivable are divided by an appropriate yield, taking into account the existing tenancies. The valuation assumes that all intra-group tenancy agreements will be renewed at the end of the current lease term.

The total property rental income earned by the Company from its investment properties, all of which are leased out under operating leases, amounted to £5,257,000 (2017: £5,008,000). Direct operating expenses arising on the investment properties, all of which generated rental income in the period, amounted to £682,000 (2017: £719,000).

11. Debtors - amounts falling due within one year

	2018 £'000	2017 £'000
Trade debtors	211	117
Amounts owed by Group undertakings	9,667	5,726
Prepayments and accrued income	184	533
	10,062	6,376

Amounts owed by Group undertakings are unsecured and are repayable on demand.

12. Creditors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade creditors	103	12
Amounts owed to Group undertakings	-	172
Group relief payable	1,052	1,489
Accruals and deferred income	578	598
VAT payable	28	43
	1,761	2,314
Amounts falling due after more than one year:		
Accruals and deferred income	1,880	1,914
	3,641	4,228

Amounts owed to Group undertakings are unsecured and are repayable on demand.

Notes to the financial statements (continued)

For the year ended 31 December 2018

13. Provision for liabilities

	Deferred tax	
	Investment Property	
	2018	2017
	£'000	£'000
At 1 January	477	82
Charge to profit and loss (note 8a)	211	395
At 31 December	688	477

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so.

The Company has not recognised deferred tax assets of £484,000 (2017: nil) in respect of unrealised capital losses that would arise if the investment property portfolio was sold for its value stated in Note 10 as there are not expected to be future taxable profits against which such losses may be deducted.

14. Called up share capital

	2018	2017
	£	£
Authorised, allotted, called up and fully paid		
41,780,608 Ordinary shares of £1 each (2017: 10,679,936)	41,780,608	10,679,936

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

On 6 December 2018 the Company issued 31,100,672 shares of £1 each at par to WPD Distribution Network Holdings Limited in exchange for an intercompany loan debtor. This loan debtor was offset with the intercompany loan creditor created when properties were transferred into the Company from another Group undertaking.

15. Capital and other commitments

The Company as lessor

The Company has entered into commercial property leases on its investment property portfolio, consisting of the Company's offices, shops remaining from a discontinued business, radio sites, telecom fibres and land. The leases have various terms, escalation clauses and renewable rights. The leases include a clause to enable upward revision of rental charge on a review cycle set on lease inception according to prevailing market conditions.

At the balance sheet date, the Company had contracted with tenants for the following future minimum lease payments which all relate to properties leased to third parties external to the WPD Group:

	2018	2017
	£'000	£'000
Within one year	1,366	1,672
In the second to fifth years inclusive	3,376	3,720
After five years	2,624	3,100
	7,366	8,492

Notes to the financial statements (continued)

For the year ended 31 December 2018

16. Ultimate parent undertaking

The immediate parent undertaking of WPD Property Investments Limited at the year end date was 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 that headed by Western Power Distribution plc, incorporated in England and Wales. Copies of these accounts may be obtained from Companies House or 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 party. Copies of its accounts may be obtained from their registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

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