Registered number: 02386327

WPD TELECOMS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

WESTERN POWER DISTRIBUTION

Serving the Midlands, South West and Wales

Contents

Strategic report

For the year ended 31 December 2019

The directors present their strategic report on WPD Telecoms Limited (the 'Company') (registered number 02386327) for the year ended 31 December 2019.

Review of the business

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 Group' and 'Group'), operating the electricity networks in South Wales and the South West and Midlands areas of England.

The principal activities of the Company during the year under review continued to be the provision of:

- dark optical fibre capacity;
- carrier wholesale bandwidth;
- leasing of telecommunication sites and facilities; and
- regional non-switched leased lines.

These services provide links between cable landing stations, data centres and major towns and cities in South Wales and the South West and Midlands areas of England to the rest of the United Kingdom, interconnecting with other carrier networks in Bristol, Cardiff and London. The network boasts over eighty points of presence including Bristol, Bath, Exeter, Plymouth, Land's End, Bude, Cardiff, Newport and Swansea, Birmingham, Nottingham, Leicester, Coventry, Worcester and Gloucester.

WPD Telecoms Limited products are aimed at national and international telecommunications operators including large broadband media providers. Customers include the corporate, business, educational, public health and utility sectors of the market.

The Company also operates and maintains the telecommunications network for WPD and as such a proportion of turnover is attributable to work for other companies within the Group. This will continue to be the case for the foreseeable future.

WPD Telecoms Limited operates as a Public Electronic Communications Network provider under the authorisation scheme for 'electronic communications networks and services'. Regulation is implemented and administered by the Office of Communications ('OFCOM') who have set out requirements for network providers. This includes provision of a fund for liabilities and for interconnection registration.

Through the implementation and continuous review of quality and security management systems, WPD Telecoms Limited is accredited and certified to BS/EN ISO9001:2015, ISO27001:2013. In addition, WPD Telecoms Limited holds CESG Assured Service for Telecoms (CAS-T) certification until October 2021. However, the CAS-T scheme is no longer subject to audit and will be replaced by the Telecoms Security Requirements (TSR) during 2020.

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

The Company's financial and non-financial key performance indicators ('KPIs') during the year were as follows:

	2019	2018	Change
	£'000	£'000	%
Turnover	25,161	24,162	4%
Profit before interest and tax	1,417	2,470	(43)%
Profit for the financial year	939	1,870	(50)%
Equity shareholder's funds	23,222	32,033	(28)%
	%	%	%
Bandwidth availability	99.99	100.00	0%
Dark fibre availability	100.00	100.00	0%
Faults restored within service level agreements	253	296	(15)%
Faults restored within service level agreements (%)	100	100	0%
Average restoration time (minutes)	253	242	5%

Turnover has increased by 4% due mainly to works relating to Hinkley Point C power station where major fibre works are required to allow National Grid to build new power lines to the power station. The income is fully offset in costs as the project is a recharge project, so does not translate to an increase in profit. There was a reduction in internal income as well as a lower than predicted income on sites and a reduction in bandwidth circuits. In addition there was an increase in operating costs due to the growing Telecoms Network.

Principal risks and uncertainties

Competitive Risks
In order to minimise risk, the Company operates only in the wholesale telecommunications market, has a reliable network covering key sites in the South West and Midlands of England and South Wales, and has a strong regional presence. The Company offers a high quality service at competitive prices.

Compliance to Regulation and Standards
The Company aims to be compliant with all relevant industry standards. The Company is committed to the ISO 9001 standard (quality management). The Company is also compliant with the OHSAS 18001 standard (health and safety), and the ISO 27001 standard (information security management).

Reliance on Suppliers
The Company operates mainly over networks and sites that are its own or belong to fellow subsidiaries, and relies to a small extent on BT and other connectivity providers, who themselves are regulated. Where third party fibres are used, there is a supply arrangement with that party, mitigating material risk.

Principal risks and uncertainties (continued)

Customers

In the wholesale market there is less exposure to customer 'churn', although consolidation in the market, notably for mobile phone operators and broadband providers, has seen the loss and consolidation of some contracts. The Company has significant business in the education sector and the public sector, which continue to be under pressure to reduce costs. The Company is an accredited provider for Janet (UK), which is the procurement agency for universities and higher education establishments in the United Kingdom, although acknowledges that Janet (UK) is reviewing their procurement options for the WPD Telecoms Limited service they currently use. The Company has strong direct relationships with academic establishments providing services directly on a case by case basis.

The Company has significant business with mobile network operators and is currently working with such organisations to support their increase in site share requirements to meet their challenging 5G roll out programmes. The Company is also witnessing growth in the products and services it provides to media and OTT (Over-the-top) providers as well as increased business with 'alt-net' providers (alternative broadband providers) particularly in the South West and South Wales.

Quality of Service

The service levels achieved during the year were consistently above industry standards:

- Bandwidth availability was 99.99%
- Dark fibre availability was 100%
- 100% of all faults were restored within the terms of service level agreements, in an average response time of 2 minutes and a total average restoration time of 253 minutes.

Following Appropriate Strategies

The Company's main focus remains on developing and extending its strong regional presence in the wholesale market, providing fibre, managed services and radio connectivity. To support this the Company extended its fibre network to connect to a new Midlands based enterprise data centre in Gloucester and secured data centre co-location facilities in Northampton during 2019. The Company will continue to expand the reach of its fibre network within its own geographical footprint in 2020. Funding has been secured for two notable projects, the first commencing 2020, the second in 2021.

Work has already started on a new 'North of the Severn' diverse fibre route utilising existing underground duct and overhead pylon to connect the existing South Wales fibre network to the Midlands & South West network avoiding the Severn Bridge crossing. This will deliver enhanced, secure and reliable communications for Western Power Distribution's increasing control and monitoring requirements. This new route, offering resilient connectivity in and out of South Wales will be available to customers from 2023.

In 2021, the Company will commence a rolling programme to fibre enable all of its existing hill top radio sites. This is required to support WPD's transition from DNO, Distribution Network Operator to a DSO, Distribution Systems Operator. This transition requires increasingly smart and active communication solutions to meet the demands of a Low Carbon and Digital future. The Company's wholesale market customers will also benefit from access to this fibre enabled radio site portfolio. The Company has the benefit of being able to use the electricity network of its fellow WPD companies in the South West and Midlands areas of England, and South Wales. Compliance to current security standards and a high quality of service enables the Company to attract customers who operate in the public and corporate sectors.

Principal risks and uncertainties (continued)

Liquidity and interest rate risk

Western Power Distribution (South West) plc ('WPD South West'), a fellow subsidiary, provides day to day banking for WPD, including WPD Telecoms Limited. WPD South West is a regulated electricity distribution company which must maintain an investment grade credit rating. WPD affiliates pay or receive interest to/from the Company based on the Bank of England base rate.

Capital investment and future developments

WPD Telecoms Limited fibre optic network is predominantly attached to WPD South West and Western Power Distribution (South Wales) plc's ('WPD South Wales') high voltage electricity overhead line network and extends some 1,600km across the South West peninsula of England and the Southern area of Wales. The strategy of extending and densifying the network through a rolling programme to add new and upgrade additional points of presence throughout the Midlands area of England using both third party fibre and fibre attached to WPD's network will continue throughout 2020.

WPD Telecoms Limited will continue to improve its current range of services, expand its existing operations and invest in its network in order to meet the demands of the telecommunications market through existing and new channel partners and alliance business relationships, both within and outside its geographical area. Over the coming years the Company will be looking to increase the reach and density of the existing fibre network within region offering greater opportunity to provide current and potentially new services to new and existing customers over a greater geographical area.

Section 172 statement

Refer to page 5 below for our Section 172 statement.

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

I R Williams
Director
4 December 2020

Section 172 statement
For the year ended 31 December 2019

The Directors of all UK companies must act in accordance with their duties under the Companies Act 2006. This includes a fundamental duty to promote the success of the Company for the benefit of its members as a whole. This duty has been central to the Company's decision-making processes and outcomes over many years. The Board has well-established policies defining the Board's duties and responsibilities including those under section 172.

The information below describes how, in performing their duties during the year, the Directors have had regard to the matters set out in Section 172(1) (a) to (f) of the Act, and constitutes the Board's Section 172 Statement.

Strategy and long-term decision-making

Our strategic direction detailed on page 3 of the strategic report, clearly reflects that the Board is focused on promoting the success of the Company by supporting the DNOs within the WPD Group as well as by delivering customer focused performance to external customers in a manner that is environmentally sustainable, provides long term stability and meets the needs of its key stakeholders.

Flexible and effective networking solutions is the key focus for the Board. We provide data technology in a variety of ways to deliver truly connected bespoke communications solutions that meets the needs of our customers. The Board places great emphasis on ensuring that the Company is working with the most advanced technology and infrastructure and is adapting and innovating to ensure that needs of all its customers are met effectively.

The Board devolves day-to-day management and decision-making to its senior management team, and maintains oversight of the Company's performance, and reserves specific matters for approval. Policies are in place defining the powers of delegation by the Board, the matters reserved for the Board and the areas of responsibilities and accountability of Directors. Policies have been established that define the framework within which we expect managers and employees to operate. These policies represent one of the means through which decisions on stakeholder interests are enacted.

By receiving regular updates on business objectives and performance, the Board monitors that management is acting in accordance with the agreed strategy. Processes are in place to ensure that the Board receives all relevant information to enable it to make well-judged decisions in support of the Company's long-term success.

The Board has oversight responsibility for the key risks of the Company and the Board ensures the strategic priorities of the Company are aligned to its appetite for risk.

Employee interests

Like all successful enterprises, our strength is our talented teams. Our business is built by our people and we are committed to ensuring that interests of employees are taken into consideration while promoting the success of the Company.

All our employees are effectively employees of the WPD Group and their interests are managed at the Group level.

Equal opportunity is key to the WPD Group's approach to hiring, training and promoting employees. WPD holds the British Service Standard for diversity and inclusion and 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.

Section 172 statement (continued)
For the year ended 31 December 2019

Employees Interests (Continued)
WPD also provides an ethics helpline that employees can use to report any concerns.

For details in relation to employee interests of the WPD Group, refer to the Strategic report and Corporate governance statement in the Western Power Distribution Plc Annual Report and Consolidated Financial Statements, available at the below link:

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

Stakeholder engagement
Our main stakeholder is WPD, being our key customer as well as our shareholder. Our other key stakeholders are, external customers, employees, regulators, suppliers and our ultimate shareholder, PPL.

WPD Group
The two directors of the Company are executive directors of the WPD Group. This ensures that there is active engagement with our main customer, WPD Group, on all key matters. All key information in relation to the Company is timely fed back to the WPD Group Board. The strategic direction of the Company is aligned to the WPD Group's strategy and goals.

Shareholder
PPL's senior management has regular contact and dialogue with the directors of the Company and also with Board and senior management of the WPD Group. Regular financial and regulatory update meetings are conducted with PPL's management team to provide updates on any key accounting, business, and legal issues in relation to all the entities within WPD Group.

External customers
The Company aims to meet the needs of is external customers by providing secure, resilient and high quality end to end connectivity solutions. The management within the Company engages with its external customers at an individual level to be able to create bespoke solutions for an organisation, if needed. For example, the Company is currently working with mobile network operators to support their increase in shared site requirements which would assist them in meeting their 5G network roll out targets.

Effective customer engagement is also evident from the fact that during the current year 100% of all faults were restored within the terms of services level agreement, in an average response time of 2 minutes and a total average restoration time of 253 minutes.

Performance is monitored via a Key Performance Indicator (KPIs) dashboard; this is reviewed by senior management and includes KPIs in relation to external customers and key information, if any, is fed back by the senior management to the directors of the Company in the regular update meeting.

For further details on customer engagement, refer to page 3 in strategic report.

Suppliers
The Company relies to a small extent on external suppliers such as BT and other connectivity providers. Where external suppliers are used, the company maintains open and positive communications and ensures that fair and standard industry contracts are in place with all suppliers.

Regulators
The directors aim to maintain an open and transparent relationship with the telecommunications industry regulator, Ofcom. All regular reporting to Ofcom is submitted timely and any information submitted is reviewed by the senior management to ensure the integrity of the information.

Regulators (continues)
The Company plays an active role in Ofcom's various initiatives and measures pertaining to the industry by diligently responding to consultations on all key matters.

A key member of the senior management of the Company is the chair of the Energy Network Association Strategic Telecommunications Group. This group is focused on providing strategic direction on operational telecommunication resilience, connected customer communications and smart technologies and the group provides opportunities to exchange information and best practices in the key elements of telecommunications.

In addition, the Company also actively engages with Department for Digital, Cultural, Media and Sport ('DCMS') and Department for Business Energy & Industrial Strategy ('BEIS') by participating in their initiatives and responding to any consultations and calls for evidence launched by them in relation to the telecoms Industry. One such example being, responding to DCMS's calls for evidence on the strategic project "Future Telecoms Infrastructure".

Impact on communities and environment
The service we provide is critical to the distribution network and system operations within the WPD Group as well as to our external customers as it impacts the businesses and homes of the end consumers and also impacts our communities.

The directors believe that working closely with our communities is important in creating shared value for the business, the people we serve and the communities we operate in. This is evident from the Company's participation in various working groups within the industry such as working groups within Building Digital UK ('BDUK'). BDUK is part of DCMS and is working towards providing rural broadband connectivity and eliminating the divide between availability of broadband in rural versus urban areas. Another example of this being Company's Collaboration with Joint Radio Company Ltd ('JRC') on various initiatives and telecommunications projects such as "Next Generation Wireless".

In addition since the directors of the Company are also executive directors of the WPD Group, during the year, they directly and indirectly, through the senior management team, engaged with over 40,000 stakeholders via a range of methods and delivered 300 improvement actions based on feedback received. These actions cover a variety of stakeholder groups including the important areas of vulnerable customers and smart networks. We have supported over 18,000 fuel poor customers in making £6 million annual savings and proactively made contact over 1 million customers during power cuts.

Looking to the future, since our key role is to support the network operations within the Group, we face exciting challenges as the UK works towards achieving the Government's de-carbonisation target of net-zero carbon emissions by 2050. We have long recognised the role that the electricity sector plays in contributing to the UK's ambitions towards carbon reduction. The directors remain focused on fostering an environment that supports innovation and creativity for ensuring that technology is utilised to best effect to meet the changing demands placed upon our network. This is evident from the fact that in 2021, the Company intends to commence a rolling programme to 'fibre enable' some of its key existing hill top radio sites. This will be a key step in supporting the WPD Group's transition from a network to a system operator. The Company's external customers will also benefit from access to this fibre enabled radio site portfolio.

Environmental sustainability is one of the key goals of all companies within WPD Group.

Further details on corporate social responsibility and the environmental goals of the Group are provided in the Strategic report of Western Power Distribution Plc Annual Report and Consolidated Financial Statements. These financial statements can be accessed at the link below:

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

Section 172 statement (continued)
For the year ended 31 December 2019

Reputation for high standards of business conduct

The directors aspire to develop a culture where the management and workforce is motivated to be successful for its shareholder by creating long term value and at the same time is committed to satisfying customer needs. The directors also aim for us to be a valued member of the community, which includes acting as a responsible steward of the environment.

The directors are committed to quality and security for their customers and their communities and therefore aim to be compliant with all relevant industry standards. Through the implementation and continuous review of quality and security management systems, the Company is accredited and certified to the ISO 9001 standard (quality management). The Company is also compliant with the OHSAS 18001 standard (health and safety), and the ISO 27001 standard (information security management). In addition, the Company also holds CESG Assured Service for Telecoms (CAS-T) certification. All these accreditations are testament to the directors' commitment to high standards of business conduct.

In addition, the WPD Group Board also ensures that the strategy and goals of all the entities within WPD Group support the principle of best business practices and engagement with all stakeholder groups. This aim is embedded across the business and impacts the decision making taken throughout the Group.

Details of the WPD Group's business conduct are provided in the Section 172 statement for Western Power Distribution Plc Annual Report and Consolidated Financial Statements. These financial statements can be accessed at the link below:

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

Examples of key decisions during the year

During the current year, WPD extended its fibre network to bring Indectron's Shield House, a new enterprise data centre based in Gloucester, on line. This will allow the Company's customers to access this data centre through the Company's high speed network.

This initiative highlights the commitment of the directors in ensuring that the needs of its customers and community as a whole are taken into consideration while promoting the success of the Company.

One key area that the directors consider critical to strategic growth of the Company is the need to meet the growing demand for high-capacity data centre inter connectivity and therefore expansion of our network has been a decision driven by our focus on the customer needs. The extensive reach of our network will allow businesses and our communities to access low cost, high performance internet access with extremely high resilience.

Directors' report

For the year ended 31 December 2019

The directors present their report for the year ended 31 December 2019.

Directors

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

I R Williams
P Swift (Resigned 15 January 2019)
G R Halladay (Appointed 14 January 2019)

There were no significant contracts subsisting during or at the end of the year with the Company in which any director is or was materially interested.

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.

Results and dividends

The profit for the financial year amounted to £939,000 (2018: £1,870,000). The Company declared a dividend in the financial year of £9,750,081 (2018: £nil).

Events after the balance sheet date

Subsequent to the year end, on 23 March 2020, the Company paid an interim dividend of £8,132,730 to WPD Distribution Network Holdings Limited.

On 11 March 2020, the World Health Organisation declared the outbreak of Coronavirus ("COVID-19") a pandemic. In response to the COVID-19 pandemic, globally, governments had to take a variety of extensive actions to contain the spread of the virus including quarantines, stay-at-home orders, travel restrictions, reduced operations or closures of businesses, schools and government agencies and legislative or regulatory actions to address health or pandemic related concerns. The spread of the virus and the measures to contain it have disrupted the world economies and presented extraordinary challenges to businesses, communities, workforces and markets.

The development and spread of the virus happened in 2020. The directors are of the view that it does not provide evidence of a condition existing at 31 December 2019 and thus it has been treated as a non-adjusting post balance sheet event. At 31 December 2019, there were few reported cases and minimum confirmed evidence of the extent of its spread.

Currently, the impact of economic disruption on the Company's revenue from telecommunication providers is expected to be minimal over the next 12 months, as it is mainly rent revenue based on contracts already in place and operative. There is clearly potential for some businesses to encounter financial difficulties in the future, depending on the period of lock down, which could lead to them having trouble meeting their rental obligations, or cease trading altogether. However, since the responses to this global pandemic are evolving each day, an estimate of the impact on the rental of network assets can not be made at this stage. The majority of the Company's customers are large stable telecommunication providers, providing key services to communities and thus, despite the current economic disruption, are expected to continue trading and honour their rent obligations. The Company will continue to monitor the situation.

Revenue from other companies within WPD pertains to the capital work in relation to the network. Following the COVID-19 lock down on 23 March 2020, all non essential capital work has been suspended and only essential and safety critical work is currently being conducted. This results in a decline of around 50% in revenue from other companies within the WPD group. Activities are expected to return back to normal after the end of the COVID-19 lock down restrictions.

COVID-19 may potentially have a negative impact on the fair value of tangible assets and thus be an indicator of impairment of tangible assets. However, at this stage the exact impact of COVID-19 on fair values remains unknown and so an estimate of the potential decline in fair values cannot be made.

Going concern

The directors have considered the appropriateness of adopting the going concern principle. This consideration included the fact that the Company is in a net current asset position and is financed through a cash balance of £1.4m and debtors of £13.8m. The Company's debtors solely pertain to amounts due from WPD Group undertakings and external customers. The repayment of the amounts due from WPD Group Undertakings are within the WPD Group's control.

Impacts of COVID-19 have also been taken into consideration in arriving at this conclusion. For further details refer to the disclosure of impacts of COVID-19 as included on page 9.

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.

Financial risk management

The principal financial risk to the Company is loss of contracts with external customers. The Company mitigates this risk by actively seeking new business spanning a range of product lines and industry sectors, as well as seeking to ensure customer retention is kept as high as possible by maintaining excellent standards of availability, reliability and customer service.

Refer to strategic report for further detail on the Company's principal risks and uncertainties on page 2 and 3.

Impact of Brexit

Following the European Union referendum vote on 23 June 2016, the UK formally left the EU on 31 January 2020 and is currently in the transition period which ends on 31 December 2020. There is continued uncertainty with respect to the trade agreements that are to be negotiated within the transition period; however it does not have significant operational impact for WPD Telecoms Limited. All of WPD Telecoms Limited's revenue is generated in the UK and the Company relies mainly on the parent network and assets in the UK to provide services to its customers. Thus as a UK focused business, the Company's exposure to risks from the EU marketplace is minimal.

Uncertainty around Brexit has resulted in the weakening of sterling thus creating a potential credit risk. However, since substantially all of WPD Telecoms Limited's transactions are made in sterling and the majority of receivables are repayable on demand, which pertain to WPD Group undertakings, the Company is not exposed to any significant financial risk as a result of Brexit. Nevertheless the Company will continue to monitor the implications of Brexit on its operations

Future developments

Details on the Company's future development strategy can be found in the Strategic Report under 'capital investment and future developments'.

Disabled employees
The Company gives full consideration to applications for employment from disabled persons, where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to meet this aim.

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 auditors 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 member.

Disclosure of information to the auditor
So far as each person who is 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.

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

I R Williams
Director

4 December 2020

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 the profit or loss of the Company for that year.

In preparing the 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.

Independent auditor's report to the member of WPD Telecoms Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 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 Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of WPD Telecoms Limited (the 'Company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 24.

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.

Independent auditor's report to the member of WPD Telecoms Limited (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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.

We have nothing to report in respect of these matters.

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

Suzanne Gallagher (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

4 December 2020

Profit and loss account

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	4	**25,161**	24,162
Operating expenses	5	**(23,744)**	(21,692)
Operating profit		**1,417**	2,470
Interest receivable	7	**78**	90
Interest payable	8	**(89)**	(3)
Profit before tax		**1,406**	2,557
Tax	9	**(467)**	(687)
Profit for the financial year		**939**	1,870

All operations are continuing.

There is no other comprehensive income for the years ended 31 December 2019 or 31 December 2018 other than that included in the profits above and therefore no separate statement of comprehensive income has been prepared.

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

Balance sheet
As at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Tangible assets	11	**12,437**	14,251
Right-of-use assets	12	**2,649**	-
Intangible assets	13	**3,781**	4,449
Debtors	14	**87**	249
		18,954	18,949
Current assets			
Debtors	14	**13,848**	20,235
Cash at bank	15	**1,382**	799
		15,230	21,034
Creditors			
Amounts falling due within one year	16	**(6,916)**	(6,561)
Lease liabilities	17	**(807)**	-
Net current assets		**7,507**	14,473
Total assets less current liabilities		**26,461**	33,422
Creditors			
Creditors	16	**(641)**	(796)
Lease liabilities	17	**(1,831)**	-
Provisions for liabilities			
Deferred tax	18	**(460)**	(593)
Other	19	**(307)**	-
Net assets		**23,222**	32,033
Capital and reserves			
Called-up share capital	21	**8,400**	8,400
Profit and loss account		**14,822**	23,633
Equity shareholder's funds		**23,222**	32,033

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

The financial statements of the Company (registered number 02386327) on pages 16 to 36 were approved by the Board of Directors on 4 December 2020 and were signed on its behalf by :

I R Williams
Director

Statement of changes in equity
For the year ended 31 December 2019

	Note	Called up share capital £000	Profit and loss account £000	Total £000
At 1 January 2018		**8,400**	**21,763**	**30,163**
Profit for the financial year		-	1,870	1,870
Total comprehensive income for the year		**-**	**1,870**	**1,870**
At 31 December 2018		**8,400**	**23,633**	**32,033**
Profit for the financial year		-	939	939
Total comprehensive income for the year		**-**	**939**	**939**
Dividends	10		(9,750)	(9,750)
At 31 December 2019		**8,400**	**14,822**	**23,222**

Notes to the financial statements
For the year ended 31 December 2019

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

The financial statements of WPD Telecoms Limited (the "Company") for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 4 December 2020 and the balance sheet was signed on the Board's behalf by I R Williams. WPD Telecoms Limited is a private Company limited by shares incorporated the UK and registered in England and Wales.

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 the provisions of the UK Companies Act 2006. The Company has used a true and fair view override in respect of the non-amortisation of goodwill (see Note 2).

2. Significant accounting policies

Basis of preparation

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

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in Note 24.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 thousand pounds (£'000) except when otherwise indicated. The principal accounting policies adopted are set out below.

Going concern
After consideration, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future and at least for a period of 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the overall balance sheet position which shows net current assets of £7.5m, its portfolio of contracts and cash flows from its operations.

The impacts of COVID-19 have also been taken into consideration in arriving at the going concern assumption for preparation of the financial statements. The Company's revenue from external telecommunication providers and related cash flows are not expected to be materially impacted for at least a period of next 12 months, as rent contracts are already in place and operative with rent received in advance. The capital activity within WPD is restricted to essential and safety critical work only, thus resulting in decline of revenues and cash flows. However since one of the key purpose of the Company is to support the network of the Group, despite the temporarily decline in revenues and related cash flows from WPD, the Company does not expect to be forced to cease its operations due to the economic disruption caused by COVID-19 and expects to return to normal level of capital activity for the companies within WPD, after the end of COVID-19 lock down restrictions.

For further details on COVID-19, refer to the "events after the balance sheet date" section within the Directors' report on page 9.

2. Significant accounting policies (continued)

Impact of New Financial Reporting Standards
The following new standards are effective for accounting periods beginning on or after 1 January 2019:

IFRS 16
IFRS 16 "Leases" supersedes the current lease guidance including IAS 17 "Leases" and the related interpretations and is effective for accounting periods beginning on or after 1 January 2019. IFRS 16 provides comprehensive guidance for the identification of lease arrangements for both lessee and lessor and a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, are accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset and unwinding of lease liability using an appropriate discount rate over the lease term.

The Company has adopted IFRS 16 retrospectively with effect from 1 January 2019 but has elected not to restate comparatives on initial adoption, as permitted within the Standard.

(i) Impact of the new definition of lease
The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17. The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019.

(ii) Measurement of lease liabilities
On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.07%.

In accordance with the relevant provisions of the Standard, the Company has elected not to recognise short-term leases and low value leases on the balance sheet. The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

In measuring the initial lease liability, the company has also adopted the practical expedient for accounting for operating leases with a remaining lease term of less than 12 months as at the application date, as short-term leases.

	2019
	£000
Operating lease commitments as disclosed as at 31 December 2018	**10,006**
Operating lease commitments at 31 December 2018 discounted using incremental borrowing rate	**9,203**
Contracts not assessed as leases under IFRS 16	**(5,120)**
Expired contracts	**(775)**
Contracts incorrectly included/(excluded) as operating lease commitments as at 31 December 2018	**(13)**
Lease liability recognised as at 1 January 2019	**3,295**

2. Significant accounting policies (continued)

Impact of New Financial Reporting Standards (continued)

IFRS 16 (continued)

(iii) Measurement of right-of-use asset

Right-of use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. The right-of-use assets recognised as at 1 January 2019 amount to £3.3m, which is equal to the lease liability recognised resulting in a nil impact to retained earnings.

(iv) Lessor accounting

The adoption of IFRS 16 did not result in any changes to the accounting for operating leases as a lessor.

(v) Balance sheet impact of adoption of IFRS 16 as at 31 December 2019

	2019 £000
Right-of-use-assets	**2,649**
Lease liabilities - current	**(807)**
Lease liabilities - non-current	**(1,831)**

(vi) Profit and loss impact of adoption of IFRS 16 for the year ended 31 December 2019

	2019 £000
Depreciation of right-of-use assets	**(762)**
Interest payable on lease liabilities	**(87)**
Operating rent expense	**812**
Net impact on profit before tax	**(37)**

IFRIC 23

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

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

Cash at bank

Cash at bank in the balance sheet comprises restricted funds as determined by regulatory requirements for the protection of customers based on the size of the Company's network. This amount is irrecoverable by the Company whilst it continues to trade as a communications provider.

Turnover

Turnover is measured at the fair value of the consideration received or receivable, stated net of value added tax and represents the lease activities of dark optical fibre, carrier wholesale bandwidth, communications sites and regional leased line services. It is recognised in accordance with the lease terms.

2. Significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairments.

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

Contributions received towards the cost of tangible fixed assets 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
Other land and buildings	Up to 60
Radio sites	Up to 40
Network assets	Up to 20
Vehicles	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.

Intangible assets

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

Intangible assets acquired separately from a business combination 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.

Customer contracts

The value recognised for customer contracts relating to acquired telecommunications activities is amortised over 10 years on the basis that such contracts can be terminated and there is a degree of consolidation amongst mobile operator companies. It is written off if the activity is sold.

2. Significant accounting policies (continued)

Intangible assets (continued)

Computer software
Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the 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. Carrying amount is reduced by any provision for impairment where necessary. The estimated useful life assigned to computer software is up to five years.

Goodwill
Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the Company amortised goodwill, a period of 20 years would have been chosen as its useful economic life. Profit for the year would have been £170,000 lower had goodwill been amortised on this basis.

Impairment of tangible fixed assets, right-of-use assets, intangible assets, and goodwill
The Company assesses goodwill and 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.

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.

2. Significant accounting policies (continued)

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

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

Leases

The Company as a lessee
The Company assesses whether a contract is, or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (assets with purchase price less than $5,000). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the unpaid lease payments at the commencement date, discounted by using the Company's incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. Significant accounting policies (continued)

Leases (continued)

The Company as a lessee (continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the profit and loss account in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Company as a lessor

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. When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. The Company has no finance leases..

Assets leased out under operating leases are included in tangible fixed assets and depreciated over the estimated useful lives. 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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes both lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to each component.

Taxation

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

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

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

2. Significant accounting policies (continued)

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the 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 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 9,960 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 WPD South West and WPD South Wales 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.

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. The Company's financial assets include debtors. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in the profit and loss account.

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

Debt instruments at amortised cost
Debt instruments that meet the hold-to-collect business model test and sole payment principal and interest "SPPI" contractual cash flow test are carried at amortised cost 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 amounts owed by Group undertakings, trade debtors, other debtors and accrued income.

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":

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

To measure the expected credit losses, debtors 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 creditors. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

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

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

This category of financial assets includes amounts owed to Group undertakings, trade creditors, other creditors and accruals.

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.

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

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.

Goodwill

Goodwill is not amortised but is subject, as a minimum, to annual tests for impairment. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the fair value of cash-generating units, specifically in relation to the discount rate. Estimates of fair value are consistent with market information and the WPD Group's plans and forecasts.

At 31 December 2019, the carrying value of goodwill amounted to £2,933,000 (2018: £2,933,000). Refer to Note 13 for further details on the impairment testing performed on goodwill.

There are no judgements dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

4. Turnover

Turnover represents continuing activities, all of which are considered to be one class of business. The Company operates wholly in the United Kingdom and thus all turnover is generated in the United Kingdom.

Turnover includes lease income amounting to £2,461,785 (2018: £2,684,757).

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 in the Companies Act 2006.

	2019	2018
	£000	£000
Cost of sales	**5,767**	3,572
Operating rent expense	**4,792**	5,438
Staff costs (Note 6)	**6,610**	6,666
Transport, travel and subsistence	**301**	295
Administration and other expenses	**1,774**	1,746
Bad and doubtful debts	**(24)**	-
Profit on disposal of fixed assets	**(6)**	-
Depreciation - (Note 11 and 12)	**3,151**	2,586
Amortisation of intangibles (Note 13)	**668**	660
Rent and rates	**711**	729
	23,744	21,692

Administration and other expenses include an allocation of group central costs (including auditor's remuneration of £8,252 (2018: £7,877) for auditing these financial statements). There were no non-audit fees in the current or prior year.

6. Staff costs

a) Employee costs

	2019	2018
	£000	£000
Total employee costs for the year amounted to:		
Wages and salaries	**5,090**	5,109
Pension costs (Note 20)	**940**	964
Social security costs	**608**	616
Total employee costs	**6,638**	6,689
Less allocated to capital expenditure	**(28)**	(23)
Charged to the profit and loss account	**6,610**	6,666

b) Number of employees

The average number of employees during the year was 90 (2018: 91). Employees are employed under contracts of service with affiliates; however, their time is substantially devoted to WPD Telecoms Limited.

	2019	2018
	Number	Number
Commercial	**12**	13
Operations	**78**	78
Total employees	**90**	91

c) Directors' emoluments

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

7. Interest receivable

	2019	2018
	£000	£000
On amounts owed by Group undertakings	**73**	87
On restricted funds	**5**	3
	78	90

8. Interest payable

	2019 £000	2018 £000
On amounts owed to Group undertakings	**2**	3
Interest expense on leases	**87**	-
	89	3

9. Tax

a) Analysis of charge in the year	2019 £000	2018 £000
Current tax:		
UK corporation tax on profits for the year	**603**	829
Adjustment in respect of prior years	**(3)**	1
Total current tax charge	**600**	830
Deferred tax (Note 18):		
Origination and reversal of temporary differences	**(136)**	(159)
Impact of change in corporation tax rate	**-**	16
Adjustment in respect of prior years	**3**	-
Total deferred tax credit	**(133)**	(143)
Tax charge	**467**	687

b) Reconciliation of the total tax charge

The total tax assessed for the year is different to the effective standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £000	2018 £000
Profit before tax	**1,406**	2,557
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%) :	**267**	486
Effects of:		
Expenses not deductible and income not taxable for tax purposes	**184**	184
Impact of change in corporation tax rate	**16**	16
Adjustment to tax charge in respect of prior years	**-**	1
Tax charge	**467**	687

9. Tax (continued)

c) Change in corporation tax rate

The Finance Act 2016 reduced the standard rate of corporation tax to 17% from 1 April 2020 and as this rate was enacted at the balance sheet date it has been used to calculate the provision for deferred tax with respect to those temporary differences that are expected to reverse after the effective date. Subsequently, the rate reduction effective from 1 April 2020 has been reversed and the rate will remain at 19% for the foreseeable future. This was substantively enacted on 17 March 2020.

10. Dividends

	2019 £000	2018 £000
Amounts recognised as distributions to equity holders in the year:		
Interim dividends at £1.16 per share (2018: £nil per share)	**9,750**	-

11. Tangible fixed assets

	Network assets £000	Radio sites £000	Other assets £000	Total £000
Cost				
At 1 January 2019	22,066	3,931	2,462	28,459
Additions	501	-	80	581
Disposals	(1,380)	(240)	(78)	(1,698)
Reclassification of asset categories	194	(31)	(163)	-
At 31 December 2019	**21,381**	**3,660**	**2,301**	**27,342**
Depreciation				
At 1 January 2019	11,767	1,607	834	14,208
Charge for the year	1,989	233	167	2,389
Disposals	(1,380)	(240)	(72)	(1,692)
Reclassification of asset categories	18	(18)	-	-
At 31 December 2019	**12,394**	**1,582**	**929**	**14,905**
Net book value				
At 31 December 2019	**8,987**	**2,078**	**1,372**	**12,437**
At 31 December 2018	10,299	2,324	1,628	14,251

Networks assets comprise mainly fibre optic cables and telecommunications equipment from which capacity is sold to customers under operating lease agreements. Certain items used within the business, such as computer equipment, are owned by other Group companies for which the Company is charged.

Other assets comprise mainly vehicles and property.

12. Right-of-use-assets

	2019			2018		
	Radio sites £000	**Fibres £000**	**Total £000**	Radio sites £000	Fibres £000	Total £000
At 1 January	**218**	**3,126**	**3,344**	-	-	-
Additions / (disposals)	**(35)**	**102**	**67**	-	-	-
Depreciation	**(31)**	**(731)**	**(762)**	-	-	-
At 31 December	**152**	**2,497**	**2,649**	-	-	-

13. Intangible assets

	Goodwill £000	Contracts £000	Software £000	Total £000
Cost				
At 1 January 2019 and 31 December 2019	**2,933**	**6,160**	**95**	**9,188**
Amortisation				
At 1 January 2019	-	4,675	64	4,739
Charge for the year	-	660	8	668
At 31 December 2019	-	**5,335**	**72**	**5,407**
Net book value				
At 31 December 2019	**2,933**	**825**	**23**	**3,781**
At 31 December 2018	2,933	1,485	31	4,449

Goodwill acquired through business combinations has been allocated to one cash-generating unit "CGU". This represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the CGU (including goodwill) is compared with the recoverable amount of the CGU. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be the value in use.

The recoverable amount of the Company's CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets reviewed by management covering a five-year period.

The key assumptions for the value in use calculation are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the period, and the growth rate used to extrapolate cash flows beyond the budget period.

The discount rate applied to cash flow projections is 12.0% (2018: 12.0%).

At 31 December 2019, WPD Telecom's recoverable amount exceeded its carrying amount by £23.1m (2018: £18.5m).

13. Intangible assets (continued)

Reasonable possible changes in key assumptions:	Reduction in value in use 2019 £000
0.5% increase in the discount rate to 12.5%	2,453
1.0% decrease in terminal value growth rate to 2.0% at 31 March 2023	3,394
	5,847

An increase in discount rate by 9.0% to 21.0% would cause goodwill to be impaired.

Goodwill will not be impaired even at a 0% terminal value growth rate.

14. Debtors

	2019 £000	2018 £000
Amounts falling due within one year:		
Amounts owed by Group undertakings	**8,594**	16,951
Trade debtors	**2,966**	1,402
Other debtors	**42**	14
Prepayments	**1,965**	1,409
Accrued income	**281**	459
	13,848	20,235
Amounts falling due after more than one year:		
Prepayments	**87**	249
	13,935	20,484

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

15. Cash at bank

All of the cash at bank is restricted and is not readily available for the general purposes of the Company. The restrictions relate largely to minimum cash balances that are required to be maintained for regulatory purposes.

16. Creditors

	2019 £000	2018 £000
Amounts falling due within one year:		
Amounts owed to Group undertakings	**126**	421
Group relief payable	**1,227**	1,407
Trade creditors	**231**	43
Value added tax	**387**	201
Other creditors	**-**	3
Accruals	**531**	381
Deferred income	**4,414**	4,105
	6,916	6,561
Amounts falling due after more than one year:		
Deferred income	**641**	796
	7,557	7,357

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

17. Lease liabilities

	2019 £000	2018 £000
At 1 January	**3,295**	-
Additions	**66**	-
Payments during the year	**(810)**	-
Interest expense	**87**	-
At 31 December	**2,638**	-
of which		
Current	**807**	-
Non-current	**1,831**	-

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

Short-term leases are excluded from recognition on the balance sheet. The amount of expense charged to operating rent expense pertaining to short term leases amounts to £110,000.

18. Provisions for liabilities - deferred taxation

	Accelerated capital allowances	
	2019	2018
	£'000	£'000
At 1 January	**593**	736
Credit to profit and loss	**(133)**	(143)
Effect of change in tax rate - profit and loss	**-**	-
Adjustment in respect of prior years	**-**	-
At 31 December	**460**	593

19. Other provisions

	2019	2018
	£'000	£'000
At 1 January	**-**	-
Charge to profit and loss	**307**	-
At 31 December	**307**	-

The amounts are provided in respect of a claim from a supplier.

20. Pension commitments

Defined benefit scheme
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 9,960 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.

There is no contractual agreement or stated policy for charging the net defined benefit cost and, therefore, WPD (South West) and WPD (South Wales), fellow subsidiaries of the Company that are jointly responsible for the scheme, recognise the whole of the scheme surplus or deficit in their financial statements, allocated in accordance with pensionable salaries. In accordance with IAS 19 (Revised 2011), the Company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2019 was £778,000 (2018: £819,000).

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 24 below.

Defined contribution scheme
The Company also participates in a defined contribution scheme, the Western Power Pension Scheme. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The total cost charged to income of £162,000 (2018: £145,000) represents contributions payable to this scheme by the Company at rates specified in the rules of the plan.

21. Called-up share capital

	2019	2018
	£000	£000
Allotted, called-up and fully paid		
8,400,002 (2018 : 8,400,002) ordinary shares of £1 each	**8,400**	8,400

22. Capital and other commitments

Capital commitments
There was no capital expenditure contracted for at the balance sheet date that was not recognised in the financial statements (2018: £nil).

Operating lease commitments - Company as lessor
The Company leases out rights to capacity on its fibre optic network. The leases have a lease term between 2 to 23 years and have various terms, escalation clauses and renewable rights.

Maturity analysis of operating leases at 31 December is as follows:

	2019	2018
	£000	£000
Year 1	**1,820**	4,451
Year 2	**1,321**	4,314
Year 3	**886**	3,747
Year 4	**754**	3,368
Year 5	**640**	2,500
Year 6 and onwards	**527**	10,517
	5,948	28,890

23. Events after the reporting period

Subsequent to the year end, on 23 March 2020, the Company paid an interim dividend of £8,132,730 to WPD Distribution Network Holdings Limited.

Subsequent to the year end the COVID-19 *situation continues to unfold.* We have outlined the details of the impacts of COVID-19 on the Company and its liquidity and going concern in the Directors' report.

24. Ultimate parent undertaking

The immediate parent undertaking of WPD Telecoms Limited 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 that headed by Western Power Distribution plc, incorporated in England and Wales. Copies of these financial statements may be obtained from Companies House or from the registered address: Avonbank, Feeder Road, Bristol BS2 0TB.

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 its registered address; Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

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