

**PPL WEM LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**For the year ended 31 March 2018**



**WESTERN POWER**   
**DISTRIBUTION**  
*Serving the Midlands, South West and Wales*

## **PPL WEM Limited**

### **Contents**

	<b>Page</b>
<b>Strategic report</b>	<b>1</b>
<b>Directors' report</b>	<b>3</b>
<b>Directors' responsibilities statement</b>	<b>5</b>
<b>Independent auditor's report to the member of PPL WEM Limited</b>	<b>6</b>
<b>Financial statements:</b>	
Profit and loss account	9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Notes to the financial statements	13

## Strategic report

For the year ended 31 March 2018

The directors present their annual report and audited financial statements of PPL WEM Limited (the 'Company'), company number 04066211, for the year ended 31 March 2018.

### Ownership

PPL WEM Limited is a wholly-owned indirect subsidiary of Western Power Distribution plc ('WPD') which is owned by PPL Corporation, an electricity utility of Allentown, Pennsylvania, United States of America ('US'). The principal activity of WPD and its subsidiaries (the 'WPD Group') is the distribution of electricity in the South West and Midlands regions in England, and in South Wales.

### Business review

The principal activity of the Company is that of an investment company. At 31 March 2018, the Company held a 32.9% interest in the ordinary share capital of WPD Distribution Network Holdings Limited ('DNH'). The remaining 67.1% interest is held by WPD Investment Holdings Limited, also a subsidiary of the WPD Group. DNH is an intermediate holding company in the WPD Group and owns the WPD Group's operating companies.

The Company's financial key performance indicators during the year were as follows:

	2018	2017
	£m	£m
Profit for the financial year	23.8	14.9
Available-for-sale investments	1,643.9	1,393.7

Profit for the financial year increased by £8.9m from £14.9m in 2017 to £23.8m in 2018 largely as a result of £13.2m dividends received from the Company's 32.9% interest in DNH in 2018. £4.9m dividends were received in 2017.

The increase of £250.2m in available-for-sale investments from £1,393.7m in 2017 to £1,643.9m in 2018 is solely attributable to revaluation gains on the Company's 32.9% interest in DNH. This has arisen due to an increase in the future cash flows used in the valuation model. See Note 10 for more details.

Dividends of £20.7m were paid in the year (2017: £27.6m).

### Subsequent events

Subsequent to the year end, on 15 June 2018, the Company paid an interim dividend of £70.0m to PPL UK Investments Limited.

### Principal risks and uncertainties

The principal risk is in respect of adverse movements in the fair value of the Company's investment in DNH or that it will no longer be able to distribute dividends. DNH is controlled by the Company's indirect parent undertaking WPD, which also controls the Company. The directors consider this common control helps mitigate the risk of adverse movements in the fair value of the Company. The principal risks and uncertainties for these businesses are included within the strategic report of WPD.

In 2014, WPD became a co-obligor and agreed to make all future payments on the \$460m 3.900% notes due 1 May 2016 (now matured) and the \$500m 5.375% notes due 1 May 2021 issued by the Company (the 'WEM Bonds') and entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WPD are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of the reimbursement agreement, where the Company has given notice of its intention to make payments to the holders of the WEM Bonds, WPD will make payments to the Company equal to such amounts. The Company has made no payments to the holders of the WEM Bonds under the agreement and there is no intention to do so in the future. Having in substance transferred the rights and obligations of the WEM Bonds to WPD, the Company has derecognised its obligations under the WEM Bonds and has not recognised any amounts in respect of its receivable under the reimbursement agreement.

**Strategic report (continued)**

For the year ended 31 March 2018

**Future developments**

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

By order of the Board



I R Williams

Director

19 July 2018

## **Directors' report**

For the year ended 31 March 2018

The directors present their annual report and audited financial statements for the year ended 31 March 2018.

For details of results and dividends see the Business review section of the Strategic report on page 1.

### **Directors**

The directors who served during the year and subsequently were:-

I R Williams

A J Torok

D C S Oosthuizen (resigned 31 March 2018)

R A Symons (resigned 31 July 2017)

P Swift (resigned 31 July 2017)

W H Spence (resigned 31 July 2017)

V Sorgi (resigned 31 July 2017)

S K Breininger, alternate director to V Sorgi (resigned 31 July 2017)

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

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

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

### **Going concern**

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future due to the overall position of its balance sheet and the level of forecast future cash flows with the Company's affiliates.

### **Principal risks and uncertainties**

Comment on principal risks and uncertainties is included in the Strategic report (page 1).

### **Future developments**

Comment on future development is included in the Strategic report (page 2).

### **Disclosure of information to independent auditor**

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

**Directors' report (continued)**

For the year ended 31 March 2018

**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.

By Order of the Board



I R Williams  
Director

19 July 2018

**PPL WEM 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 Financial Reporting Standard ("FRS") 101 "Reduced Disclosure Framework". The financial statements are required by law to 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;
- state whether UK applicable 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 PPL WEM 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 March 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 PPL WEM Limited which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 15.

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 of 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 auditor's report to the member of PPL WEM 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the Company's 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 member 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.

### **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.

**Independent auditor's report**  
**to the member of PPL WEM Limited (continued)**

**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.

Delyth Jones

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

## Profit and loss account

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
Income from fixed asset investments	6	13.2	4.9
<b>Profit before interest and tax</b>		<b>13.2</b>	<b>4.9</b>
Interest receivable and similar income	7	32.9	36.4
Interest payable and similar charges	7	(22.3)	(26.4)
<b>Profit before tax</b>		<b>23.8</b>	<b>14.9</b>
Tax on profit	8	-	-
<b>Profit for the financial year</b>		<b>23.8</b>	<b>14.9</b>

All operations are continuing.

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

## Statement of comprehensive income

For the year ended 31 March 2018

	Note	2018 £m	2017 £m
<b>Profit for the financial year</b>		<b>23.8</b>	<b>14.9</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Available-for-sale financial assets:			
Gains on valuation of available-for-sale investments	10	250.2	90.0
<b>Other comprehensive income for the year, net of tax</b>		<b>250.2</b>	<b>90.0</b>
<b>Total comprehensive income for the year</b>		<b>274.0</b>	<b>104.9</b>

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

**Balance sheet**

As at 31 March 2018

	Note	2018 £m	2017 £m
<b>Non-current assets</b>			
Available-for-sale investments	10	1,643.9	1,393.7
<b>Current assets</b>			
Debtors: amounts falling due within one year	11	724.8	816.0
Creditors: amounts falling due within one year	12	(389.4)	(483.7)
<b>Net current assets</b>		<b>335.4</b>	<b>332.3</b>
<b>Net assets</b>		<b>1,979.3</b>	<b>1,726.0</b>
<b>Capital and reserves</b>			
Called up share capital	13	1,050.1	1,050.1
Available-for-sale reserve	14	620.8	370.6
Profit and loss account		308.4	305.3
<b>Equity shareholder's funds</b>		<b>1,979.3</b>	<b>1,726.0</b>

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

The financial statements of the Company (registered number 04066211) on pages 9 to 20 were approved and authorised for issue by the Board of Directors on 19 July 2018 and were signed on its behalf by:



I R Williams  
Director

# Statement of changes in equity

For the year ended 31 March 2018

	Note	Called up share capital £m	Available- for-sale reserve £m	Profit and loss account £m	Total £m
<b>At 1 April 2016</b>		<b>1,050.1</b>	<b>280.6</b>	<b>318.0</b>	<b>1,648.7</b>
Profit for the financial year		-	-	14.9	14.9
Other comprehensive income		-	90.0	-	90.0
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>90.0</b>	<b>14.9</b>	<b>104.9</b>
Dividend paid	9	-	-	(27.6)	(27.6)
<b>At 31 March 2017</b>		<b>1,050.1</b>	<b>370.6</b>	<b>305.3</b>	<b>1,726.0</b>
Profit for the financial year		-	-	23.8	23.8
Other comprehensive income		-	250.2	-	250.2
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>250.2</b>	<b>23.8</b>	<b>274.0</b>
Dividend paid	9	-	-	(20.7)	(20.7)
<b>At 31 March 2018</b>		<b>1,050.1</b>	<b>620.8</b>	<b>308.4</b>	<b>1,979.3</b>

## **Notes to the financial statements**

For the year ended 31 March 2018

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

The financial statements of PPL WEM Limited (the 'Company') for the year ended 31 March 2018 were authorised for issue by the board of directors on 19 July 2018 and the balance sheet was signed on the board's behalf by I R Williams. PPL WEM Limited is a private company limited by shares, incorporated and registered in England and Wales. The registered address is included at Note 15.

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

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 hundred thousand pounds except when otherwise indicated.

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

#### **Basis of preparation**

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, 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 15.

The financial statements have been prepared on the historical cost basis modified to include the revaluation of investments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

#### **Going concern**

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

#### **Group financial statements**

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

#### **Taxation**

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

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

## **Notes to the financial statements**

For the year ended 31 March 2018

### **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.

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.

#### ***Investment income***

Investment income is included in the financial statements of the year in respect of which it is receivable.

#### ***Financial assets***

Financial assets are classified as loans and receivables, financial assets at fair value through profit or loss, held-to-maturity financial assets or as available-for-sale financial assets, as appropriate. The Company's financial assets include trade and other receivables and available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value plus directly attributable transaction costs.

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

#### ***Loans and receivables***

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

#### ***Available-for-sale financial assets***

Available for sale financial assets include investments in equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income; or determined to be impaired, at which time the cumulative loss is recognised in the profit and loss account in other operating expenses and removed from the unrealised gains and losses reserve.

#### ***Impairment of financial assets***

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed what its amortised cost would have been at the reversal date had the impairment not been recognised.



## Notes to the financial statements

For the year ended 31 March 2018

### 2. Significant accounting policies (continued)

#### *Impairment of financial assets (continued)*

In the case of equity investments classified as held for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost, where 'significant' is estimated to be around 20% of the original cost of the investment and 'prolonged' is more than 12 months. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account – is removed from other comprehensive income and recognised in the profit and loss account. Impairment losses on equity investments are not reversed through the profit and loss account; increases in their fair value after impairment are recognised directly in other comprehensive income.

#### *Financial liabilities*

Financial liabilities are classified as financial liabilities at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortised cost, as appropriate. The Company's financial liabilities include inter-company loans 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 are initially recognised at fair value. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised in profit or loss.

#### *Share capital*

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

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

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

#### Critical judgements in applying the Company's accounting policies

#### *Revaluation of available-for-sale investments*

The Company uses a value in use model to estimate the fair value of the available-for-sale investments. The use of this methodology is a key judgement.

#### *Derecognition of corporate bonds*

In 2014, Western Power Distribution plc ('WPD') became a co-obligor and agreed to make all future payments on the \$460m 3.900% notes due 1 May 2016 (now matured) and the \$500m 5.375% notes due 1 May 2021 issued by the Company (the 'WEM Bonds') and entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WPD are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of the reimbursement agreement, where the Company has given notice of its intention to make payments to the holders of the WEM Bonds, WPD will make payments to the Company equal to such amounts. The Company has made no payments to the holders of the WEM Bonds under the agreement and there is no intention to do so in the future. Having in substance, in the directors judgement, transferred the rights and obligations of the WEM Bonds to WPD, the Company has derecognised its obligations under the WEM Bonds and has not recognised any amounts in respect of its receivable under the reimbursement agreement.

## Notes to the financial statements

For the year ended 31 March 2018

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

#### Key sources of estimation uncertainty

##### *Revaluation of available-for-sale investments*

The fair value is based upon discounted future cash flows. The assumptions underlying these calculations, such as the discount rate, future revenues, the premium applied to the RAV at the end of the period, and other asset specific factors, are estimations. See Note 10 for further detail.

### 4. Operating expenses

Operating expenses comprise an allocation of a management charge from an affiliate. This includes an audit fee of £2,500 (2017: £2,400) for the audit of these financial statements.

### 5. Employees and directors

The directors did not 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. The Company has paid a management charge of £11,900 (2017: £11,700) to an affiliate which include directors' emoluments allocated to the Company as part of these management fees.

The Company had no employees during either financial year.

### 6. Income from fixed asset investments

Income from fixed asset investments is solely in respect of cash dividends received from the Company's investment in WPD Distribution Network Holdings Limited.

7. Interest	2018 £m	2017 £m
Interest receivable and similar income:		
On loans from Group undertakings	32.9	36.4
Interest payable and similar charges:		
On loans to Group undertakings	(22.3)	(26.4)
Net interest income	10.6	10.0

## Notes to the financial statements

For the year ended 31 March 2018

### 8. Tax

There was no current or deferred tax recognised in the profit and loss account in either year.

The tax assessed is different from the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018 £m	2017 £m
Profit before tax	23.8	14.9
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	4.5	3.0
Effects of:		
Income not taxable for tax purposes	(2.5)	(1.0)
Group relief received at non-standard rates	(2.0)	(2.0)
Total tax	-	-

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% effective 1 April 2020. This change has been enacted and the impact included in these financial statements.

### 9. Dividends

	2018 £m	2017 £m
Dividends paid on equity shares - 1.97p (2017: 2.63p) per £1 share	20.7	27.6

### 10. Available-for-sale investments

	£m
Fair value at 1 April 2017	1,393.7
Fair value adjustments recognised in other comprehensive income	250.2
<b>Fair value at 31 March 2018</b>	<b>1,643.9</b>

Investments held at 31 March 2018 were:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
WPD Distribution Network Holdings Limited	England & Wales	Ordinary shares	32.9%	Investment company

## Notes to the financial statements

For the year ended 31 March 2018

### 10. Available-for-sale investments (continued)

The registered office of WPD Distribution Network Holdings Limited is the same as the Company as set out on page 20.

The shares included within available-for-sale investments above represent investments in unlisted equities. The cost of the shares on acquisition was £1,023.1m. For such investments, fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

The WPD Group calculates fair value using a discounted cash flow model. The key assumptions for the value in use calculations are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the period, and the premium applied to the Regulatory Asset Value ('RAV') at the end of the period.

The future cash flows are discounted using a pre-tax rate adjusted for risks specific to the Group. The discount rate is derived from the WPD Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the Group. The key assumptions during the electricity price control period from 1 April 2015 to 31 March 2023 ('RIIO-ED1') are based on revenues allowed and cost of capital assumptions agreed at the most recent electricity price control review, together with management's expectation of the related cost and capital expenditure requirements during that period. Assumptions beyond this period are based on management's expectation of the outcome of future price control reviews. The premium applied to the RAV at the end of the period is 25%. This is based on management's estimation of the premium to RAV that may be realised at the end of the period taking into account past experience and possible future changes to achievable premiums.

The pre-tax rate used to discount the forecast cash flows is 5.4% (2017: 5.2%).

Cash flows are derived from the corporate business plan approved by the appropriate Board. For determining the value in use, cash flows for a period of 13 years have been discounted and aggregated with a terminal value, which is based on a premium to the RAV at the end of the period. A period of greater than five years has been used as the period is covered by the corporate business plan and more accurately reflects the timing of cash outflows associated with major capital replacement cycles and their subsequent recovery under regulation.

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

Reasonable possible changes in key assumptions:	Reduction in fair value £m
0.1% increase in the discount rate	36.3
1.0% decrease in the premium on the RAV	132.0
A £5.0m real reduction in projected net pre-tax cash flows in each of the 13 years used in the discounted cash flow model	71.3

#### *Fair value hierarchy*

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

## Notes to the financial statements

For the year ended 31 March 2018

### 10. Available-for-sale investments (continued)

#### *Fair value hierarchy (continued)*

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

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

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<i>Assets measured at fair value</i>				
Available-for-sale investments	-	-	1,643.9	1,643.9
<hr/>				
2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<i>Assets measured at fair value</i>				
Available-for-sale investments	-	-	1,393.7	1,393.7

During the reporting period ended 31 March 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of the Level 3 fair value measurements.

### 11. Debtors

	2018 £m	2017 £m
<b>Amounts falling due within one year</b>		
Amounts owed by Group undertakings	724.8	816.0

Amounts owed by Group undertakings comprise an intercompany note of £715.9m (2017: £806.0m) due from WPD Distribution Network Holdings Limited together with accrued interest of £8.9m (2017: £10.0m) thereon. The note accrues interest at a fixed rate of 4.25% per annum and is unsecured and repayable on demand.

### 12. Creditors

	2018 £m	2017 £m
<b>Amounts falling due within one year</b>		
Amounts owed to Group undertakings	389.4	483.7

Amounts owed to Group undertakings include an intercompany note of £383.8m (2017: £476.7m) to Western Power Distribution plc ('WPD') together with accrued interest of £5.6m (2017: £7.0m). This note accrues interest at a fixed rate of 5.0% per annum, is unsecured and repayable on demand.

## Notes to the financial statements

For the year ended 31 March 2018

### 12. Creditors (continued)

In 2014, as part of an intra-group reorganisation, WPD became a co-obligor and agreed to make all future payments on the \$460m 3.900% notes due 1 May 2016 (now matured) and the \$500m 5.375% notes due 1 May 2021 issued by the Company (the 'WEM Bonds') and entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WPD are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of the reimbursement agreement, where the Company has given notice of its intention to make payments to the holders of the WEM Bonds, WPD will make payments to the Company equal to such amounts. The Company has made no payments to the holders of the WEM Bonds under the agreement and there is no intention to do so in the future. Having in substance transferred the rights and obligations of the WEM Bonds to WPD, the Company has derecognised its obligations under the WEM Bonds and has not recognised any amounts in respect of its receivable under the reimbursement agreement.

### 13. Called up share capital

	2018 £m	2017 £m
<b>Allotted, called up and fully paid:</b>		
1,050,051,000 (2017: 1,050,051,000) ordinary shares of £1 each	1,050.1	1,050.1

### 14. Available-for-sale reserve

	2018 £m	2017 £m
At 1 April	370.6	280.6
Net gain on available-for-sale investments	250.2	90.0
<b>At 31 March</b>	<b>620.8</b>	<b>370.6</b>

The balance held in the available-for-sale reserve relates to the changes in the fair value of available-for-sale investments.

### 15. Ultimate parent undertaking

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

The smallest group in which the results of PPL WEM Limited are consolidated is that headed by Western Power Distribution plc, which is registered in England and Wales. Copies of its accounts may be obtained from the Company's registered office as stated below.

The largest group in which the results of PPL WEM Limited are consolidated is that headed by PPL Corporation incorporated in the United States, which is the ultimate parent undertaking and controlling party. Copies of its accounts may be obtained from the Company's registered address, Two North Ninth Street, Allentown, Pennsylvania, PA 18101-1179, US.

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