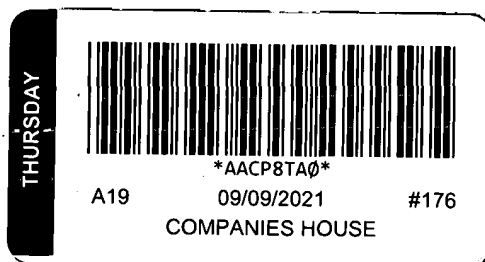


Registered number: 05540505

KELSTON PROPERTIES 2 LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2020

WESTERN POWER 
DISTRIBUTION
Serving the Midlands, South West and Wales



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Directors' report

For the year ended 31 December 2020

The directors present their annual report and the audited financial statements of Kelston Properties 2 Limited (the 'Company'), Company Registered number 05540505, for the year ended 31 December 2020. It is a member of the Western Power Distribution plc Group (the "WPD Group" or "Group"), whose principal activity is the ownership and operation of the electricity distribution network in South Wales and across the South West and Midlands areas of England.

The Company has taken the small company exemption available under s.415A and s.414B of the Companies Act 2006.

Ownership

The Company is an indirect wholly-owned subsidiary of Western Power Distribution plc, which is owned indirectly by PPL Corporation, an electricity utility of Allentown, Pennsylvania, USA. PPL Corporation trades in the United Kingdom as Western Power Distribution plc ('WPD'). The principal activity of Western Power Distribution plc and its subsidiaries (the "WPD Group") is the distribution of electricity in the South West and Midlands regions in England and in South Wales.

On 18 March 2021, PPL announced that it had reached an agreement to sell its UK investment, which includes Western Power Distribution plc, to National Grid Plc. This announcement followed the decision by PPL's Board of Directors to strategically reposition PPL as a U.S.-focused energy business. The transaction required National Grid Plc investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of the WPD Group to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

Principal activity and business review

The Company's principal activity is that of a property investment company.

The Company owns a single property at Cwmbran in South Wales that is let to a major supermarket group.

The open market value of the property at Cwmbran is assessed to be £15,660,000 at 31 December 2020 (2019: £16,500,000).

The Company will continue to seek to maximise its return from the property asset.

Future developments

There are no plans to change the principal activity of the Company. No other significant plans for the future are in place.

Profit and dividends

The loss for the financial year, which is stated after reflecting the movement in fair value of the Company's investment property, was £2,000 (2019: profit of £845,000). Dividends of £851,000 were paid in the year (2019: £762,000).

Events after the balance sheet date

Subsequent to the year end, on 23 March 2021, the Company paid an interim dividend of £1,496,531.22 to Western Power Distribution Investments Limited.

Directors' report (continued)

For the year ended 31 December 2020

Events after the balance sheet date (continued)

On 18 March 2021, PPL announced that it had reached an agreement to sell its UK investment, which includes Western Power Distribution plc, to National Grid Plc. This announcement followed the decision by PPL's Board of Directors to strategically reposition PPL as a U.S.-focused energy business. The transaction required National Grid Plc investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of the WPD Group to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

Financial risk management

The principal risk is that the Company's investment property will become impaired, or will lose rental income. The Company's sole investment property is let to a major supermarket chain on a long-term lease with a fixed income; any risk relates to the long-term future of the supermarket sector.

Impact of Coronavirus ("COVID-19")

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic. Since then, the COVID-19 crisis has presented unprecedented challenges globally and disrupted the world economies. In the past twelve months, the UK has had three separate periods of national lockdown and even in periods without lockdown some form of restrictions have been in place throughout the year, impacting businesses, communities, workforces and markets.

The Company has assessed the financial impacts of COVID-19 and considers them to be not material for the Company. This is on the basis that the Company's key activity is to manage its sole investment property, which is rented to a leading supermarket. In these unusual times, supermarkets continue to be stable businesses. Thus, the Company does not expect its regular revenue stream or its cash flows from rentals to be impacted in the foreseeable future.

COVID-19 may have potentially impacted the valuation of properties in the UK. For the year ended 31 December 2020, the investment property of the Company has been valued externally at £15.7m, which represents the highest and best use of the property in accordance with IFRS 13 Fair Value Measurement. Since the rental income for the investment property is from a stable business and is expected to remain unaffected in the foreseeable future, the Company does not expect its sole investment property to be impacted materially by uncertainties related to COVID-19.

Going concern

The directors have considered the appropriateness of adopting the going concern principle. The Company has net current assets of £1.2m. The Company's income is from its sole investment property. This property is rented to a supermarket, which continues to be a stable operational business even during COVID-19.

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.

Impact of Brexit

Following the European Union referendum vote on 23 June 2016, the UK formally left the EU on 31 January 2020, with the transition period ending on 31 December 2020. Since the sole business of the Company is the rental of an investment property in the UK, the Company is not impacted by any uncertainty in connection with access to the EU markets.

Directors' report (continued)
For the year ended 31 December 2020

Directors and their interests

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

D A Withers (resigned on 29 May 2020)
I C Smith (appointed on 22 May 2020)
I R Williams

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.

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 members.

Disclosure of information to the auditor

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

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

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



I R Williams
Director
3 September 2021

Kelston Properties 2 Limited
Avonbank
Feeder Road
Bristol
BS2 0TB

Directors' responsibilities statement

The directors are responsible for preparing the annual report and 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the member of Kelston Properties 2 Limited

Opinion

In our opinion the financial statements of Kelston Properties 2 Limited (the company):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss 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 Kelston Properties 2 Limited which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

Independent auditor's report to the member of Kelston Properties 2 Limited (continued)

Other information (continued)

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 course of 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 this gives rise to material misstatement in the financial statements themselves. 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 this regard.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements . These included Companies Act 2006, FRS 101, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty .

Independent auditor's report to the member of Kelston Properties 2 Limited (continued)

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

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in valuation of investment property. Our specific procedures performed to address the risk are described below:

- Obtaining understanding of the process and controls relating to property valuation;
- Trace the current year's property value to valuation performed by entities external valuer;
- Engaging our internal real estate specialists to evaluate the external valuation reports used by management to determine fair value; and
- Review minutes of board meetings and internal audit reports to identify any matters that could affect property valuation.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports, and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Independent auditor's report to the member of Kelston Properties 2 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime

and take advantage of the small companies' exemptions from the requirement to prepare a strategic report.

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

3 September 2021

Profit and loss account

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Turnover	4	1,073	1,082
Operating costs	5	(44)	(50)
Other operating expense - decrease in fair value of investment property	10	(840)	-
Operating profit	5	189	1,032
Interest receivable	7	5	11
Profit before tax		194	1,043
Tax	8	(196)	(198)
(Loss)/profit for the financial year		(2)	845

All operations are continuing.

There is no other comprehensive income for the year ended 31 December 2020 or 31 December 2019 and therefore no separate statement of comprehensive income has been prepared.

The accompanying notes 1 to 16 are an integral part of these financial statements.

Balance sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investment property	10	15,660	16,500
Current assets			
Debtors: amounts falling due within one year	11	1,890	1,917
Current liabilities			
Creditors: amounts falling due within one year	12	(642)	(656)
Net current assets		1,248	1,261
Total assets less current liabilities		16,908	17,761
Net assets		16,908	17,761
Capital and reserves			
Called-up share capital	13	15,000	15,000
Profit and loss account		1,908	2,761
Total shareholder's funds		16,908	17,761

The accompanying notes 1 to 16 are an integral part of these financial statements.

The financial statements of the Company (registered number 05540505) on pages 9 to 20 were approved and authorised for issue by the Board of Directors on 3 September 2021 and were signed on its behalf by:



I R Williams
Director

Statement of changes in equity

For the year ended 31 December 2020

	Note	Called-up share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2019		15,000	2,678	17,678
Profit for the financial year		-	845	845
Total comprehensive income for the year		-	845	845
Dividends	9	-	(762)	(762)
At 31 December 2019		15,000	2,761	17,761
Loss for the financial year		-	(2)	(2)
Total comprehensive loss for the year		-	(2)	(2)
Dividends	9	-	(851)	(851)
At 31 December 2020		15,000	1,908	16,908

Notes to the financial statements

For the year ended 31 December 2020

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

The financial statements of Kelston Properties 2 Limited (the "Company") for the year ended 31 December 2020 were authorised for issue by the board of directors on 3 September 2021 and the balance sheet was signed on the board's behalf by I R Williams. Kelston Properties 2 Limited is a private company limited by shares, incorporated and registered in England and Wales. The registered address is included at Note 16.

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

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

2. Significant accounting policies

Basis of preparation

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

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in Note 16.

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

The 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 financial statements 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 £1.2m and stable income from its investment property. Impacts of Covid-19 have also been taken into consideration in arriving at this conclusion. Since the Company's sole investment property is rented to a supermarket, which continues to be an operational business despite the pandemic, the Company does not consider that there is a material uncertainty casting a doubt over the entity's ability to continue as a going concern.

For further details on Covid-19, refer to the Directors' report, page 2.

Notes to the financial statements (continued)

For the year ended 31 December 2020

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 2020:

- Definition of Material - amendments to IAS 1 and IAS 8;
- Interest Rate Benchmark Reform - amendments to IFRS 9, IAS 39 and IFRS 7;
- Definition of a Business - amendments to IFRS 3;
- Amendments to References to the Conceptual Framework in IFRS Standards.

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

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. The Company's property is located in the United Kingdom.

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

Investment property

The sole property of the Company is classified as an investment property as it is rented to a third party outside the Western Power Distribution plc Group.

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

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

Taxation

The income tax expense (or credit) for the period comprises current and deferred tax. Income tax is recognised in the income statement unless it relates to an item that has been recognised in other comprehensive income, in which case it is also be recognised in other comprehensive income.

Current tax is measured at the amount expected to be payable (or recoverable) in respect of the taxable profit (or loss) for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. This includes UK corporation tax payable to HM Revenue and Customs ("HMRC") and amounts payable to (or receivable from) other UK group companies for losses and other amounts transferred between them ("group relief").

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Significant accounting policies (continued)

Taxation

Deferred tax is the tax expected to be payable (or recoverable) in future periods due to differences between the time when profits and losses are recognised in the financial statements and the time when those profits and losses are included in tax returns filed with HMRC. These temporary differences arise in the current period and then reverse in future periods. The temporary differences are calculated by comparing the carrying value of assets and liabilities at the balance sheet date with their corresponding tax bases included in tax returns.

Deferred tax is recognised on all temporary differences except:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods when the temporary differences will reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset only to the extent permitted by tax legislation.

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 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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Significant accounting policies (continued)

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 debtors. 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 debtors.

Impairment of loans and receivables

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

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss 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 are initially recognised at fair value. After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. This category of financial liabilities includes trade creditors, amounts owed to Group undertakings, accruals and other creditors.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

3. Critical accounting judgements and key sources of estimation 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.

Revaluation of investment property

The Company measures its investment property at fair value, with changes in fair values being recognised in the profit and loss account. The Company engaged independent valuation specialists to determine the fair value as at 31 December 2020. The valuation, represents the "highest and best" use of the property, in compliance with IFRS 13 Fair Value Measurements. In arriving at the valuation, tenancy details and market evidence of transaction prices for similar properties was taken into consideration.

Since the property is occupied and receives income, an investment method of valuation has been assumed and the fair value is most sensitive to the assumptions concerning yield and long-term vacancy rate of the investment property. Refer to Note 10 for further details in relation to investment properties.

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 comprises of rental income from property operating leases, recognised on a straight-line basis over the term of the relevant lease.

5. Operating profit

The operating costs consist of insurance premiums and a management charge from an affiliate. This includes auditor's remuneration of £2,206 (2019: £2,141) for the audit of these financial statements. There were no non-audit fees in the current or prior year.

6. Directors and employees

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 pays management charges of £12,585 (2019: £10,833) which include directors' emoluments. It is deemed impractical to identify the portion of directors' emoluments allocated to the Company as part of these management fees. The Company did not employ any staff during either year.

7. Interest receivable

	2020 £'000	2019 £'000
Interest receivable on loans to other Group undertakings	5	11

Notes to the financial statements (continued)

For the year ended 31 December 2020

8. Tax

a) Analysis of charge for the year:

	2020 £'000	2019 £'000
Current tax:		
UK corporation tax on profit for the year	196	198
Tax charge	196	198

b) Reconciliation of the total tax charge

The tax assessed for the year is the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below.

	2020 £'000	2019 £'000
Profit before tax	194	1,043
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	37	198
Effects of:		
Expenses not deductible for tax purposes	159	-
Tax charge	196	198

c) Change in corporation tax rate

The Finance Act 2016 reduced the standard rate of corporation tax to 17% effective from 1 April 2020 and as this rate was enacted prior to 31 December 2019 it was used in the calculations of deferred tax for the prior year, with respect to those temporary differences that were expected to reverse after the effective date. The Finance Act 2020 increased the standard rate of corporation tax to 19%, effective from 1 April 2020 and has been used in the calculations of deferred tax for the current year. The Finance (No.2) Bill 2021 published on 11 March 2021 increases the standard rate of corporation tax to 25% effective from 1 April 2023. As this rate increase was not substantively enacted at 31 December 2020, it will only affect calculations of deferred tax in future years.

9. Dividends

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividends (2020: 6p per share, 2019: 5p per share) ..	851	762

Notes to the financial statements (continued)

For the year ended 31 December 2020

10. Investment property

	£'000
Fair value	
At 1 January 2020	16,500
Decrease in fair value during the year	(840)
At 31 December 2020	15,660

The fair value of the Company's investment property at 31 December 2020 and 2019 has been arrived at on the basis of a valuation carried out at those dates by external independent valuers. The valuers for both years are regulated by the Royal Institution of Chartered Surveyors ('RICS') and follow the rules, codes, and guidance in the RICS Rules of Conduct for Firms. The valuation has been prepared in accordance with IFRS 13 Fair Value Measurements and represents the 'highest and best use' of the property.

The investment property is let on a full repairing lease under which all outgoings are the responsibility of the lessee. Insurance costs are recovered through a charge on tenants during the period of occupation.

The property rental income earned by the Company from its investment property, all of which is leased out under an operating lease, amounted to £1,073,000 (2019: £1,082,000). Direct insurance expenses arising on the investment property, all of which generated rental income in the period, amounted to £13,356 (2019: £13,553).

The historical cost of the investment property is £11.2m.

Further details in respect of the fair value of investment properties occupied by third parties are included in the financial statements of the Group.

11. Debtors - amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	1,890	1,917

Amounts owed by Group undertakings accrue interest at the Bank of England base rate of 0.10% and are unsecured and repayable on demand.

12. Creditors - amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owed to Group undertakings	19	22
Group relief payable	345	346
Accruals and deferred income	244	249
Other creditors	34	39
	642	656

Amounts owed to Group undertakings accrue interest at the Bank of England base rate of 0.10% and are unsecured and repayable on demand.

Notes to the financial statements (continued)

For the year ended 31 December 2020

13. Called-up share capital

	2020 £'000	2019 £'000
Allotted, called-up and fully paid		
15,000,000 (2019: 15,000,000) ordinary shares of £1 each	15,000	15,000

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

All shares are held by Western Power Distribution Investments Limited.

14. Operating lease arrangements**The Company as lessor**

Operating leases, in which the Company is the lessor, relates to the sole investment property owned by the Company with a lease term of 35 years from the effective date of lease. The lease includes a clause to enable upward revision of rental charges on a review cycle set on inception of the lease according to prevailing market conditions. The lessee does not have an option to purchase the property at the expiry of the lease period.

At the balance sheet date, the Company had contracted with tenants for the following future minimum lease payments:

	2020 £'000	2019 £'000
Year 1	1,069	1,069
Year 2	1,069	1,069
Year 3	1,069	1,069
Year 4	1,069	1,069
Year 5	1,069	1,069
Year 6 and onwards	3,450	4,519
	8,795	9,864

Notes to the financial statements (continued)

For the year ended 31 December 2020

15. Events after the reporting period

Subsequent to the year end, on 23 March 2021, the Company paid an interim dividend of £1,496,531.22 to Western Power Distribution Investments Limited.

On 18 March 2021, PPL announced that it had reached an agreement to sell its UK investment, which includes Western Power Distribution plc, to National Grid Plc. This announcement followed the decision by PPL's Board of Directors to strategically reposition PPL as a U.S.-focused energy business. The transaction required National Grid Plc investor approval, which was received on 22 April 2021; following Guernsey Financial Services Commission and Financial Conduct Authority approval the transaction completed on 14 June 2021. As National Grid voluntarily referred the acquisition of the WPD Group to the Competition and Markets Authority ("CMA"), the CMA is currently undertaking a merger review which may take several months to complete.

16. Ultimate parent undertaking

The immediate parent undertaking of Kelston Properties 2 Limited is Western Power Distribution Investments Limited, which is registered in England and Wales.

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

The largest group in which the results of the Company are consolidated is that headed by PPL Corporation, incorporated in the United States of America, which is the ultimate parent undertaking and controlling party. Copies of its accounts may be obtained from their registered address at Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

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