Registered Number: 2366985

WESTERN POWER DISTRIBUTION (SOUTH WALES) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2017

Serving the Midlands, South West and Wales

Western Power Distribution (South Wales) plc

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Strategic report

For the year ended 31 March 2017

The directors present their annual report and the audited financial statements of Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales"), company number 2366985, for the year ended 31 March 2017.

Business model

What we do

WPD South Wales is an electricity Distribution Network Operator ("DNO") and distributes electricity to approximately 1.1 million end users over an area of 11,800 square kilometres in South Wales. What we do is simple and comprises 4 key tasks:

- we operate our network assets effectively to 'keep the lights on';
- we maintain our assets so that they are in a condition to remain reliable;
- we fix our assets if they get damaged or if they are faulty;
- we upgrade the existing networks or build new ones to provide additional electricity supplies or capacity to our customers.

The 1.1 million end users are registered with licensed electricity suppliers, who in turn pay WPD South Wales for distributing electricity across our network. Our charges are regulated and make up around 16% of a domestic customer's bill.

WPD South Wales' network comprises approximately 17,933 km of overhead lines, 17,792 km of underground cable and 40,111 transformers.

During 2016/17, the maximum demand recorded was 1,944 megawatts (2015/16: 1,956 megawatts).

Group structure

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

Regulation

WPD South Wales is a monopoly regulated by the Gas and Electricity Markets Authority (known as "Ofgem"). The regulatory framework is based on a recently updated approach for sustainable network regulation, known as the "RIIO" model where Revenues=Incentives+Innovation+Outputs. From 1 April 2015 Ofgem set an eight year electricity price control review, known as ED1. Under the RIIO model there is a much greater emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers. A key feature of the RIIO model is that the setting of outputs that network companies are expected to deliver is much more extensive with the outputs embedded within an overall Business Plan which acts as a "contract" between the network companies and their customers. For ED1 Ofgem set WPD's allowance for the cost of equity at 6.4 per cent, which contributes to a weighted average cost of capital ("WACC") allowance of 3.9 per cent for 2015/16.

The operations are regulated under the distribution licence which sets the outputs that WPD needs to deliver for their customers and the associated revenues they are allowed to generate for the eight-year period from 1 April 2015 to 31 March 2023.

In addition to the base level of revenue which WPD South Wales is allowed to earn, there are incentives to innovate, to achieve customer services outputs relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions, and network output measures, which may result in revenue penalties or rewards.

Business model (continued)

Regulation (continued)
WPD submitted an outputs based Business Plan for the RIIO-ED1 period 2015-2023, which was accepted by Ofgem as “well justified” and could therefore “fast-track” all four WPD licensed areas, ahead of the other five licensed distributor groups. WPD’s modified licences took effect from 1 April 2015.

Business objectives
WPD's business objectives are simple. They are:

- to minimise the safety risks associated with WPD's distribution network;
- to improve the reliability of electricity supplies and to make the distribution network more resilient;
- to reduce WPD's impact on the environment and to facilitate low carbon technology;
- to consistently deliver outstanding customer service;
- to meet the needs of vulnerable customers;
- to engage with our stakeholders;
- to be efficient, effective and innovative in everything we do;
- to make a return for the shareholder.

In summary the main objective of the business is to deliver frontier levels of performance at an efficient level of cost.

Long term strategy
WPD's long term strategy is to deliver our business objectives through an efficient and scalable organisational structure that can evolve to accommodate the challenges of the future.

Efficient organisational structure
The current flat organisational structure with locally based teams of in-sourced labour has been the foundation of WPD's success. It gives responsibility to front line staff to deliver work programmes and the absence of multiple layers of management minimises costs.

There are no plans to change this successful business model.

One of the big advantages of the geographical team structure is scalability. More staff can be added to an individual team where increases in future work cluster together or additional teams can be created where there are more widespread increases in workload. These changes can be achieved quickly.

Self-sufficiency
WPD's resourcing strategy is to use in-sourced labour. This ensures that knowledge is retained, allows greater flexibility to redeploy staff where needed and builds a strong culture with staff motivated to deliver business objectives.

The development of in-house apprentice schemes, training facilities, technical knowledge, operational capability and bespoke systems increases the self-sufficiency. This allows the business to respond quickly to new requirements and obligations and have better control over succession planning.

Investment in technology and innovation
Developing better ways of doing things is encouraged throughout the business. Innovative ideas are captured, tested and rolled-out into the business on a regular basis.

Long term strategy (continued)

Investment in technology and innovation (continued)
Innovation is core to our business strategy. We published an updated Innovation Strategy on working smarter and more cost effectively. We look for innovative developments across five broad areas:

- Network performance and efficiency – searching out better processes, equipment and technology that ensure we continue to be efficient;
- Low carbon networks – supporting future electricity demand and generation requirements;
- Smart grids and meters – developing new techniques and utilising enhanced data to help develop more dynamic network control;
- Environment – reducing our business impact on the environment;
- Customer service – developing smarter ways of delivering better customer service.

Technology can provide benefits of improved performance or efficiency. The deployment of technologies is carried out in a way to ensure that compatibility is maintained. This applies equally to IT equipment, communications infrastructure and the roll out of new innovative network management techniques. This keeps costs low as fewer interfaces are required.

Understanding the long term needs of the network
Network monitoring, independent information sources and modelling techniques are used to predict investment requirements into the long term.

Asset replacement forecasts show that in the future more investment will be required to replace an ageing cable population. Monitoring of fault rates and analysis of causes will enable targeted investment programmes to be established. An example of practice where this already exists is in the replacement of Consac cables that were installed in the 1970s but have since been found to have a greater than average fault rate.

In November 2016 the Department for Business, Energy and Industrial Strategy ("BEIS") published a joint Call For Evidence with Ofgem on a Smart Flexible Energy System. New technology is changing the way we generate, distribute and consume energy, and information and communication technology will transform local energy networks from passive systems to more active smarter networks. We are working to accommodate substantial increases in low carbon technologies by providing nationally-adopted innovative solutions that enable generators to connect to our network more quickly and at reduced cost. Alongside this we are exploring the flexibility available from both power generation and demand as we develop as a Distribution System Operator ("DSO"). A DSO would be an active co-ordinator between market participants facilitating services.

Doing more than the legal minimum
As a minimum the activities carried out aim to comply with licence obligations and the Electricity Act. Where identified as being in line with our business objectives, additional activities will be carried out to provide better service or provide additional network capacity.

This approach ensures that any incremental investment above legal requirement is made to bring about clearly identified benefits to our customers, stakeholders and our business.

Adapting the network for climate change
We engage with the BEIS and the industry to identify common climate change impacts and set about implementing changes to ensure that our networks remain reliable into the long term future.

Long term strategy (continued)

Adapting the network for climate change (continued)
We have used available projected climate data to assess risks resulting from three priority areas - increased lightning activity, flooding and the impact of temperature rise on overhead lines.

Lightning activity is predicted to increase across the whole WPD area. By the end of the RIIO-ED1 period we expect activity to increase by up to 11% in the South West and East Midlands areas. The effects are being mitigated by adding lightning protection devices to the network.

Site specific flood risk assessments are used to identify the most prudent flood prevention method to adopt to protect equipment. Mitigation measures include protection of individual items, protection of buildings, protection of the site as a whole or in extreme cases site relocation.

Predicted increases in ambient temperature not only mean that thermal expansion will affect overhead line clearances but also thermal loading limits will be reached more quickly. As a result, we have introduced new overhead design requirements to increase ground clearance and have prepared new conductor ratings for overhead lines.

Stakeholder engagement
WPD regularly engage with stakeholders to ensure that our business objectives and strategy are in line with their needs and so that we can learn from our customers first hand. True improvements in customer service and business delivery come from understanding the areas where we can do better.

We use a range of engagement methods, including:

- stakeholder workshops;
- customer panel meetings;
- focus groups with domestic customers;
- 'willingness to pay stated preference' interviews with domestic and business customers;
- connections and distributed generation surgeries;
- distributed generation customer interviews.

Following stakeholder workshops we publish reports detailing all of the feedback received, as well as a WPD response outlining the conclusions we have reached and how this will impact on our plans.

Business review

The focus for the business during the year has been to continue to concentrate on the key five goals of safety, network performance, customer service, environment and business efficiency.

Key performance indicators ("KPIs")

	2016/17	2015/16	2014/15
Non-Financial			
Safety:			
Lost time accidents	**1**	2	2
Non lost time accidents	**3**	6	5
Network reliability:			
Customer minutes lost	**25.7**	26.3	30.4
Customer interruptions (per 100 customers)	**41.6**	47.4	56.5
Financial			
Total expenditure*	**£243.9m**	£244.6m	£243.5m
Debt to Regulatory Asset Value ("RAV")**	**67.0%**	58.9%	61.4%
Interest cover***	**5.0**	3.8	5.7

* Operating expenses plus capital expenditure (not including customer contributions), on both tangible and intangible assets.

** RAV is a regulatory concept to represent assets with a long term life. The regulated income in any year includes a return on RAV and amortisation of RAV as determined by Ofgem during a rate review.

*** Interest cover is calculated as profit before interest, taxation, depreciation and amortisation divided by interest payable.

Each of the five key goals are discussed in more detail in the following sections.

Safety

The safety of our staff, customers and members of the public continues to be a core value at the heart of all our business operations. Maintaining a practical and pragmatic safety culture from the "top down" remains an imperative. WPD staff continue to play an active role in many national committees and steering groups which concentrate on the future safety and training policies across the industry.

Sadly and regrettably, the safety performance was over-shadowed by a fatality to one member of staff. There were no lost time accidents in WPD South Wales in 2016/17 compared with two in 2015/16.

The number of staff involved in non-lost time accidents was 3 in 2016/17, which compares with 6 in 2015/16.

The total number of accidents to staff across WPD as a whole decreased from 80 in 2015/16 to 62 in 2016/17.

During 2016/17 the Safety Team actively supported WPD Team Managers and Distribution Managers with their safety responsibilities and provided assistance to enable them to maintain a clear focus on safety and also continued to provide support to all other areas of the business but with particular focus on the following areas of work:

- The delivery of a programme of ‘Managing Safely’ safety training courses for all technical staff across the whole business to promote a heightened awareness of risk assessment and safety management related issues.
- The development and introduction of a revised training package to ensure all staff are adequately informed of the issues related to recognition and management of asbestos containing materials.

Business review (continued)

Safety (continued)

- Continued efforts to engage with organisations that work with WPD to achieve safety with the extension of a programme of Safety Conferences for contractors to encourage sharing of best practices with regards to safe methods of working and promotion of the Health and Safety Executive ("HSE") ‘Helping GB work well' initiative.
- Work continued with emerging technologies, including the iPad, to further develop apps to assist staff with the provision of information, to provide reminders for their safety during their work activities and to introduce a new CROWN based near miss reporting system to provide a record for analysis of issues reported. CROWN is WPD's main engineering database.
- Continued support of the national joint initiative between the Electricity Networks Association ("ENA"), the HSE and Trades Union bodies under the title of ‘Powering Improvement’ with the 2016 theme being ‘Managing Occupational Ill Health Risks’ with particular focus on the provision of assistance to the WPD Occupational Health team to deliver a series of presentations promoting good mental health within the workplace.

During the Autumn of 2016 the Safety Team provided a package of presentations to support managers throughout WPD to deliver a message, as part of the 2016 ‘WPD Safety Week’ programme, to promote good occupational health within the workplace and to also highlight the most frequent causes of accident within WPD and the measures that should be implemented to help prevent them.

In March 2016 an internal audit confirmed that the combined Safety Management Systems conform to OHSAS 18001:2007 as issued by the British Assessment Bureau.

Network performance
Performance of the distribution network is measured in two key ways:

Security - the number of supply interruptions recorded per 100 connected customers ("CI"); and

Availability - the number of customer minutes lost per connected customer ("CML").

All licensees who operate a distribution system are required to report annually to Ofgem on their performance in maintaining system Security and Availability. The Quality of Service incentive scheme, also known as the Information and Incentives Scheme ("IIS") which was introduced by Ofgem in April 2002, financially incentivises all licensees including WPD with respect to both the Security and Availability of supply delivered to customers.

Network performance reported to Ofgem for the year is as follows:

	Total	Target less than
Minutes lost per customer 2016/17	25.7	
Excluded events	-	
IIS Performance 2016/17	**25.7**	**33.6**
IIS Performance 2015/16	26.3	35.4
Interruptions per 100 customers 2016/17	41.6	
Excluded events	-	
IIS Performance 2016/17	**41.6**	**53.7**
IIS Performance 2015/16	47.4	55.1

Business review (continued)

Network performance (continued)
The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD South Wales network including those caused by bad weather and other faults together with 50% of CI and CML due to pre-arranged shutdowns for maintenance and construction. The 11kV network is the principal driver of customer minutes lost, with faults on overhead lines being the major contributor. In addition to the performance reported under IIS above, 87.8% of customers off supply in South Wales as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring.

Under the IIS scheme, performance is targeted at an underlying level of improvement. DNOs are thus permitted to claim an adjustment for events during the year which they believe were exceptional and had a significant impact on the total reported performance. An exceptional event can either be caused by a large number of weather related faults or be due to a one-off event which is outside of the DNO's control. In either case, the event must meet prescribed thresholds in terms of the number of faults experienced or, for a one-off event, in terms of either the number of customers affected or the duration of the incident. If an event meets these prescribed thresholds, the DNO must notify Ofgem who will conduct an audit to determine the impact of the event. As part of the audit process the DNO must demonstrate that it mitigated against the impact of the event to the best of its ability before Ofgem will exclude the CI and CML incurred. WPD South Wales reported no exceptional events to Ofgem during the year.

Subject to Ofgem confirmation, our IIS CML and CI of 25.7 customer minutes lost and 41.6 interruptions per 100 customers for the year are within our targets of 33.6 and 53.7 respectively. The outperformance relative to the RIIO-ED1 targets set by Ofgem is particularly gratifying as the new targets are particularly tough for a DNO acknowledged by Ofgem as being a frontier performer.

Customer service
We are committed to providing excellent customer service at all times and strongly believe that customer satisfaction is the key to the future success of the business. When dealing with customers our policy is to get it right “first time, every time”. On the occasions when we fail to meet this standard, staff are encouraged to take personal responsibility for customer issues, to follow the problem through to the end, and to adopt our golden rule – "treat customers the way that we would like to be treated".

If customers are not happy with our efforts to resolve their complaint, they are able to ask The Energy Ombudsman ("Ombudsman") to review the matter. WPD South West and WPD South Wales have completed an eighth year of the statutory Energy Ombudsman Scheme with zero customer complaints upheld. WPD West Midlands and WPD East Midlands achieved a fifth year of the statutory Energy Ombudsman Scheme with zero customer complaints upheld.

WPD South Wales during the year recorded zero failures against Ofgem’s national Customer Guarantee Service Standards for network performance. We also recorded zero complaints relating to connections performance, and exceeded all of our network performance targets under the Quality of Service incentive scheme by a significant margin.

<u>Stakeholder Engagement Incentive</u>
WPD has maintained its position as the top performing DNO group in the Stakeholder Engagement Incentive Award Scheme (which is a key element of Ofgem's Broad Measure of Customer Satisfaction), held since its introduction in 2011/12. Most recently in 2015/16, WPD was again rated first place with a score of 8.75 out of 10. This is worth £6.35m in incentive income and will be applied to 2017/18 revenues across the four DNOs. WPD entered three written submissions, hosted a one day audit of the Consumer Vulnerability part of the submission and this was then followed by a question and answer session with an Ofgem-appointed judging panel of experts.

Business review (continued)

Customer service (continued)

Broad Measure of Customer Satisfaction

As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey of DNO customers who contact their DNO to report loss of supply, been notified of a planned interruption, have a general enquiry, or request a new connection (quoted and completed). This incentive has continued into the RIIO-ED1 period scored across the six performance areas. Each licence area has around 350 customers surveyed per month, so for WPD's four licence areas around 16,800 customers are surveyed per year. For the regulatory year 2016/17, WPD has been rated the number one DNO for customer satisfaction for the sixth consecutive year with an overall satisfaction rating in excess of 8.9 out of ten.

Ofgem also compared the speed of response that a DNO call centre provides and WPD are consistently identified as the top performer with an average speed of response below 1.7 seconds.

National Customer Service Excellence Standard

WPD's excellent customer service is demonstrated by its accreditation to the national Customer Service Excellence Standard ("CSE").

WPD have held the charter mark of best practice since 1992 - the only energy company in the UK to do so. The CSE assessor visits a number of locations across WPD every year. WPD undergo a stringent external assessment of our engagement activities every year. The CSE Standard seeks to ensure we are providing services that are efficient, effective, equitable and have the customer at the heart of everything we do. There is a strong focus on the quality of our engagement methods and in particular the steps we take to develop customer insight, understand users' experiences, robustly capture their feedback and measure satisfaction. The standard assesses WPD's delivery, timeliness, information, professionalism and staff attitudes.

WPD are assessed against 57 elements and have full compliance against every one. As an established holder of the charter mark, WPD are assessed as part of a three year rolling programme, where one third of the standards are reviewed annually. There are four potential outcomes ranging from 'non-compliance' to 'compliance plus' (the highest level possible, indicating best practice across all sectors). WPD was reassessed in March 2017. WPD was successfully reaccredited, and demonstrated that improvements continue to be made with compliance plus ratings for a record 38 elements, with zero partial or non-compliances. The assessor found "strong leadership and appropriate policies and procedures to support staff in delivering consistently high levels of performance" and commended WPD for its work in extending priority services to provide more tailored assistance to vulnerable customers, and its outstanding partnership arrangements and wider community activities.

British Standard for Inclusive Service Provision

In 2014, WPD became the first company in the UK to be externally assessed by the British Standards Institute as fully compliant with the BS18477:2010 British Standard for inclusive service provision. Following a full system audit in December 2016, we retained full compliance with this standard for a fourth year. BS18477 was recommended by Ofgem as part of their Vulnerable Customer Strategy review discussions. The assessment adds considerable endorsement to WPD's new social obligations programme and the services we offer to our Priority Service Register customers. WPD was assessed during a two day audit to review the accessibility of our services, literature and website, as well as WPD's social obligations programme and vulnerable customer strategy, all associated systems and processes, Contact Centre operations and the new connections process. WPD was assessed as fully compliant in over 36 audit elements.

Business review (continued)

Customer service (continued)

British Standard for Inclusive Service Provision (continued)
In December 2016 the auditor reported that new training initiatives continue to be introduced to broaden the understanding and definition of a vulnerable customer including via organisations specialising in disability and dementia. "WPD is continually striving to initiate and maintain partnerships with a wide range of agencies in its region to provide advice and access to the priority services register. The accuracy and quality of data continues to improve through the ongoing training of field staff and the growth in the partnering programme who are both identifying new customers to be added to the priority services register."

Customer Panel and Stakeholder Workshops
The WPD Customer Panel was introduced in 2011. The panel meets four times a year and members, who represent a wide range of customers and other key stakeholder groups, help us keep up to speed with the issues affecting our customers. Members include representatives from Warm Wales, the British Red Cross, Action on Hearing Loss, Major Energy Users Council, local parish councils, B&Q, Energy Saving Trust, Severn Trent Water and National Grid. Through the Panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. It plays an important role in helping WPD develop its strategic priorities. The Panel is attended by WPD's Chief Executive and other directors, demonstrating the commitment at every level to proactively engage with customers.

In January 2017 WPD hosted its annual stakeholder workshops in Birmingham, Derby, Cheltenham, Newport in Gwent, Bristol and Plymouth. The six events were attended by 270 stakeholders from a range of different backgrounds including domestic, business, local authorities, developers/connections, environmental, energy/utility, regulatory/government and voluntary sectors. WPD has subsequently identified 39 improvement actions that WPD will be taking in order to address the stakeholder feedback received.

Since 2010 WPD has held a number of stakeholder workshops and more than 4,750 people have been engaged to help us build our Business Plan - the vast majority face-to-face. After WPD's RIIO-ED1 Business Plan was agreed, WPD maintained its relationship with stakeholders and shifted the focus on to delivery and also identifying long-term strategic priorities that may change the way networks operate in the future.

Stakeholders identified the top priorities for 2017 as keeping the lights on and building smart networks (becoming a distribution system operator or "DSO"). During 2016/17 we held 14 events, attended by over 400 stakeholders, on future networks and becoming a DSO. We also hosted a series of Webinars to explore findings in more detail.

Deaf Awareness Chartermark
WPD holds the Action on Hearing Loss (formerly RNID) 'Louder Than Words' charter mark accreditation, which assesses and endorses the accessibility of WPD's services for deaf and hard of hearing people. We are the only DNO group to have held the accreditation for 7 and 9 years respectively for WPD South Wales/WPD South West and WPD East Midlands/WPD West Midlands.

Environment
WPD is committed to conducting its business as a responsible steward of the environment. WPD plans new routes so as to minimise, as far as economically possible, their impact on the environment.

Business review (continued)

Environment (continued)
Every member of staff is made aware of WPD's environmental commitment to abide by environmental laws, regulations and corporate environmental policies, and their responsibilities for reporting any concerns on potential environmental compliance issues so that appropriate action can be taken.

Following a successful surveillance audit in January 2017, WPD maintained certification to ISO55001. This international standard for Asset Management is the successor to PAS55, against which WPD held continuous accreditation since 2006. Whilst asset management specifications, both PAS55 and ISO55001 encompass risk management, setting of and adherence to policies and procedures, and thus has relevance to control of environmental risk.

Fluid filled cables
The design of very high voltage underground cables has evolved over many years and our new cables all use a solid plastic like insulation. Old designs of 33kV and higher voltage cables used an insulating oil in ducts inside the cable. Whilst these cables are normally very reliable, in the event of a fault, or commonly damage by third parties digging the street, this oil may leak out, sometimes many hundreds of litres. In common with other DNOs, WPD works to an operating code agreed with the Environment Agency, and assesses both the condition and the environmental risk posed by the fluid filled cables which WPD owns. The losses from the WPD Group's fluid filled cables can vary from year to year dependent on the number of small leaks at disparate locations rather than high volume single events, often caused by third parties.

	Fluid losses (litres) WPD Group
2016/17	17,251
2015/16	19,580
2014/15	25,131
2013/14	16,061
2012/13	39,123

The use of Perfluorocarbon Trace ("PFT") technology within WPD reduces the effect on the total annual fluid losses. WPD continues to provide the Environment Agency with a monthly leak report as required under the joint agreement between the Environment Agency and Energy Networks Association ("ENA") Fluid Filled Cables Group. A major cable leak in South Wales accounts for 1,790 litres of the 2012/13 total and another in East Midlands for a further 10,000 litres.

SF6 gas
Sulphur hexafluoride (SF6) is a man-made gas which has had widespread use such as in double glazing, tennis balls and training shoes as well as a number of industrial applications including high voltage switchgear. Unfortunately it is also a strong greenhouse gas, with a global warming potential 23,900 times greater than carbon dioxide (CO2).

WPD carefully monitors its SF6 equipment and employs the external ENA Engineering Recommendation S38 methodology for the reporting of SF6 banks, emissions and recoveries. That ENA document, initially drafted by WPD, employs approaches set out by The Intergovernmental Panel on Climate Change ("IPCC"), set up by the World Meteorological Organisation and the United Nations Environmental Programme.

The losses from SF6 equipment in WPD South West and WPD South Wales during 2016/17 amounted to 141.1kg representing 0.47% of its bank.

WPD has been listed in the Fluorinated Greenhouse Gas Regulation 2009 as a Recognised Certification and Evaluation Body (HV Switchgear) under Regulation 33, and has certified relevant WPD staff.

Business review (continued)

Environment (continued)

Electric and magnetic fields ("EMFs")
Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the US and the UK have reviewed this issue. The US National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence of EMFs causing adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukaemia, but that this evidence is difficult to interpret without supporting laboratory evidence. The UK National Radiological Protection Board (part of the UK Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines.

SAGE (Stakeholder Advisory Group on Extremely Low Frequency EMF), a group set up by the UK Government, has issued two reports, one in April 2007 and another in June 2010, describing options for reducing public exposure to EMF. The UK Government agreed to implement some of the recommendations within the first report, including applying optimal phasing to dual circuit transmission lines to reduce EMF emissions, where this can be carried out at low cost. The UK Government is currently considering the second SAGE report which concentrates on EMF exposure from distribution systems.

PPL Corporation and its subsidiaries, including WPD, believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities.

General
During the year, all four of our licenced areas continued to retain their certification to ISO14001:2004 - Environmental Management Systems. Two six monthly surveillance audits were undertaken in the 12 month period and no major non-conformances were raised.

WPD provides support to communities across the network area with the aim of encouraging energy conservation, promoting recycling initiatives and enhancing the landscape for wildlife. 'Keen to be Green' is the umbrella brand of community environmental activities and enables a range of groups, charities and schools to benefit from cash awarded by WPD. As part of this scheme, WPD plant in the region of 7,000 native trees annually across our network area. WPD also work with a range of nationally recognised charities including the Centre for Sustainable Energy, The Wildlife Trusts, The Conservation Volunteers and Silvanus Trust.

Business efficiency
Profit before tax increased by £38.2m compared to the previous year. Operating profit at £153.4m was £35.9m higher with turnover up by £30.6m and operating expenses down by £5.3m. Turnover in the prior year was impacted by the decrease in tariffs from the start of RIIO-ED1 and the timing of the recovery of regulated income.

Total expenditure ('totex') decreased by £0.7m. Capital costs increased by £4.6m. Totex is a key feature in the business plan submission to Ofgem as part of the price review process as it underpins the allowed revenue set; thus actual performance against the business plan is subject to close scrutiny as we are incentivised to stay within the business plan.

Business review (continued)

Business efficiency (continued)
Total net assets at 31 March 2017 were £626.4m, an increase of £104.7m on the previous year. Tangible fixed assets increased by £106.9m reflecting the fact that capital expenditure exceeds the historical cost depreciation charge. Amounts owed to other WPD undertakings decreased by £71.2m.

The pension liability decreased from £128.5m to an asset of £31.0m. Higher employer contributions and investment gain on the plan assets were partially offset by a higher loss from the change in financial assumptions, which includes the adverse effect of both an increase in inflation and the impact of a lower discount rate.

Debt to RAV
Asset cover (total net debt to regulatory asset value) is part of the rolling credit facility covenants for several of the WPD companies and is used as a key internal measure. As part of the regulatory process, Ofgem determine what they consider an appropriate debt/equity split to optimise the cost of capital and to ensure that the volume of debt in relation to RAV does not threaten the liquidity of the licensee.

Interest cover
The ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) to interest payable is part of the rolling credit facility covenants for several of the WPD companies. It is also used as a key internal measure of the financial health of the DNOs.

Capital investment
Gross capital investment on tangible fixed assets (before customers' contributions) during the year was £144.8m (2016: £141.5m) across the WPD South Wales region and included the replacement of overhead lines and switchgear together with the introduction of new technology.

A number of significant projects were undertaken during the year including:

- *Haverfordwest Grid refurbishment*
  Work was completed during 2016 to refurbish and replace end of life assets at Haverfordwest Grid substation in West Wales. The work undertaken included the change of the 60/90MVA grid transformer, and associated protection and tap change panels. In addition, the 33kV bus-bars, isolators and switches were changed at the same time to maximise the benefit of the outage time, and minimise the effect on customer security. The work affected a number of solar generation sites in as much as they had to be constrained to 50% output whilst the work was carried out, which was planned for a 10 week period. However, to minimise the period of constraint on the Distributed Generation, there was a huge effort by South Wales Project staff, working long days and weekends on this project, which resulted in a return to service almost 3 weeks earlier than expected.

- *Abertysswg Primary refurbishment*
  As part of our ED1 Asset Replacement programme it was identified through condition assessments that the two 33/11kV transformers which were more than 57 years old, circuit breakers, 33kV disconnectors, bus-bars, support structures and the associated voltage and protection control panels and battery chargers which were installed in the 1950s and 1960s all required replacement. The Project started in April 2016 and was commissioned and completed by the beginning of August. The Primary site, which was totally rebuilt, feeds over 7,000 customers and nestles within the Rhymney Valley and is susceptible to severe weather due to its elevated location. The replacement of the ageing assets also included an upgrade that will cater for improved battery resilience in the event of a Black Start situation. The site rebuild will benefit customers in the locality with improved supply reliability for the foreseeable future.

Future developments
See page 2 for details of our long term strategy.

RIIO-ED1
All four WPD DNOs were fast-tracked by Ofgem in respect of RIIO-ED1, the only DNOs selected for this process. Fast tracking affords several benefits, including the ability to collect additional revenue equivalent to 2.5% of total annual expenditures (approximately £25m per year across WPD), greater revenue certainty and a higher level of cost saving retention.

Following stakeholder engagement, in June 2015 Ofgem published a consultation proposing a new form of accounts will apply to the network operators ("NWOs") that are regulated under the RIIO framework, including WPD. The proposed RIIO accounts will replace Regulatory accounts. The aim is to improve transparency and make it easier for stakeholders to interpret the regulatory position and performance of the NWOs. Ofgem is working with NWOs, external auditors and stakeholders to develop the RIIO accounts including the Regulatory Financial Reporting Standard ("RFRS"), which specifies how the accounts should be prepared. It is Ofgem’s intention that 2017/18 will be the first year of RIIO accounts for all energy network companies.

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

The LCN Fund, totalling £500m over the period 2010-2015, was made available through annual Ofgem led competition for "flagship" demonstration projects (termed "Tier 2" projects). There was also an annual allowance allocated to each DNO (called "Tier 1" with £21m over the five years for WPD) to enable smaller demonstration projects to be developed with less regulatory oversight.

WPD has secured funding for seven Tier 2 flagship projects, worth approximately £75m, more than any other DNO group, making WPD a clear leader in network innovation. The first of these projects, Network Templates, was completed during 2013 with significant new learning which will lead to technical policy changes. The Lincolnshire Low Carbon Hub was completed in February 2015 and resulted in 48MVA of additional capacity being released to new generation customers.

Project FALCON completed in October 2015; learning from this project includes more detailed understanding of the application of various engineering techniques, an evolving roadmap about data requirements in the new world and a number of follow on projects that build on the learning from FALCON in key areas such as demand side response, asset rating and data. The SoLa Bristol Project was completed in April 2016 and has provided learning linking customer profiles, time of use tariffs and charging/discharging regimes that will inform regulation and tariff changes moving forward.

The other projects continue to make good progress with valuable learning emerging as WPD trials new solutions.

The seven Tier 2 projects are:

- 2011 – Network Templates for a Low Carbon Future – Based on LV data collected from the most extensively monitored distributed network in Europe (800 substations in South Wales and a further 3,600 network monitors in customer premises), the project has developed a new suite of customer consumption profiles that will enable us to improve our utilisation of network assets without impacting customer supply security. We also identified that about 20% more solar panels can be connected to the grid than previously estimated. Further we have identified potential to better exploit the allowed voltage variation around the nominal 230V supply.

Future developments (continued)

Future Networks - Research, Innovation and Low Carbon Networks (continued)

- 2011 – The Lincolnshire Low Carbon Hub – The project built a 33kV renewable generation ready "hub" across a large part of the East Midlands coastal region. After several technical network design challenges and a shift in government policy towards onshore wind, the project completed in February 2015. A number of commercial offers for customer generation connections have been issued at six zones spread across the WPD area using newly developed policies and charging methodologies. These have directly benefitted 18 new renewable generating sites with a combined capacity of over 200MW.
- 2012 – Flexible and Low Carbon Optimised Networks ("FALCON") – The project developed a fully interactive 11kV power flow nodal model for the city of Milton Keynes. The model (called a "SIM" – Scenario Investment Model) was populated with data on the real time state of the local grid, together with feedback from a suite of smarter grid demonstration techniques across the city. It allowed WPD to simulate the creation of an optimised investment plan based on a range of future energy scenarios. Data from the completed engineering trials was used to further build upon and improve the performance of the SIM and those results were shared at the final dissemination event in 2015. A number of the techniques tested on FALCON such as Demand Side Response contracts and engineering trials have since been refined as a part of subsequent innovation projects.
- 2012 – SoLa Bristol – The project demonstrated the concept of coordinating disparate energy controllers located at customer premises to maintain substations within capacity. The project provided valuable control logic for the future despatch and control of virtual power plants and electric vehicle charging. In this project the remote energy was stored in battery systems charged from PV (photovoltaic solar panel) systems on customer roofs. The project also included the conversion of some customer internal systems from alternating to direct current (AC to DC) to improve energy efficiency. The final report stated that although there was a benefit seen on the LV Network, it would require around 60%-70% penetration on a substation to provide significant demand reduction to justify the investment. Coupled with the high level of customer engagement required it is unlikely that a DNO will adopt such a solution.
- 2013 – FlexDGrid – The transition of the UK energy system from one of centralised energy generation to one where distributed generation plays a greater role is leading to new network challenges. In particular the introduction of CHP (combined heat and power) in urban environments is leading to a significant increase in electrical short circuit potential currents (called the "Fault Level"). This project is demonstrating innovative means of modelling, measuring and controlling fault current (short circuit current) in 10 primary substations serving the central business district of Birmingham, Britain's second largest city. The project has completed a significant element of the 'build' phase throughout 2015 and will be completed during 2017.
- 2015 – Network Equilibrium – This project will investigate the problems associated with further demand and generation integration on rural networks through a better understanding of voltage profiles and power flows. Through optimising voltage profiles at a system level and balancing power flows through the innovative use of power electronics, the existing network capacity can be fully utilised allowing an increased level of distributed generation and demand to connect to the existing network more quickly and cost effectively. Three methods will be trialled through the project: Enhanced Voltage Assessment (EVA), System Voltage Optimisation (SVO) and Flexible Power Links (FPL).

Future developments (continued)

Future Networks - Research, Innovation and Low Carbon Networks (continued)

- 2017 – Open LV – The latest project is led, following a tender for project partners, by EA Technology Limited. It is developing a substation intelligence platform which can make network data available to communities and academic institutions. It will also host a number of localised and autonomous smart grid applications, freeing capacity on local networks for low carbon technology new connections.

WPD completed 10 projects under DPCR5's Tier 1.

From April 2015 the RIIO-ED1 arrangements differ from those in DPCR5. These broadly replicate the structure of the LCN Fund. Tier 1 projects have transitioned to the new Network Innovation Allowance ("NIA") regulatory mechanism to fund smaller innovation projects that can deliver benefits to customers as part of a RIIO-Network Licensees price control settlement. The Tier 2 competition has been replaced with the new Network Innovation Competition ("NIC"), an annual competition to fund selected flagship innovative projects that could deliver low carbon and environmental benefits to customers.

Under the new RIIO-ED1 arrangements post April 2015, WPD has registered 23 projects under NIA covering a broad range of topics, including such themes as wireless charging of electric vehicles and supporting community based energy initiatives. Further details of innovation activities can be found at www.westernpowerinnovation.co.uk.

Principal risks and uncertainties

The Company views the following risk categories as those that are the most significant in relation to WPD.

Regulatory risk

The substantial part of the Company's revenue is regulated and is subject to review every eight years. The current price control, RIIO-ED1, commenced 1 April 2015 and continues to 31 March 2023.

Under the review, Ofgem assesses the revenue and capital expenditure plans of the Company and determines what they consider an efficient level of that expenditure. Ofgem also considers the required cost of capital sufficient to encourage the required investment in the network, and determines customer service targets. WPD's management invests considerable resource in the review process and has been proactive in working with Ofgem to establish better measures of cost recording to inform future reviews.

If the Company feels that, as a result of a review it would financially be unable to continue to operate and to meet its obligations under the licence, then it has the right to refer the matter to the UK Competition and Markets Authority for a determination.

The Company's regulated income and also the RAV are to some extent linked to the movements in RPI. Reductions in RPI would adversely impact revenues and the debt/RAV ratio.

Mid-period review

A mid-period review ("MPR") of outputs is a mechanism included in the RIIO price control to help manage uncertainty. Any potential MPR would cover material changes to outputs that can be justified by clear changes in government policy and the introduction of new outputs that are required to meet the needs of customers and other network users. Ofgem has made it clear that an MPR is not an opportunity to re-open the price controls or alter incentive mechanisms, other than as required to accommodate changes to outputs. Ofgem have also ruled out making retrospective adjustments as part of an MPR. Ofgem will consult on a potential MPR for electricity distribution in autumn 2017, which if Ofgem decide to invoke would take effect in April 2019. WPD will actively participate in this consultation.

Principal risks and uncertainties (continued)

Network disruption

Disruption to the network could impact profitability both directly through the timing of recovery relating to lower units delivered on which income is charged, and also through the system of penalties and rewards that Ofgem has in place relating to customer service levels (discussed under the 'Network performance' section).

There are economic restrictions on the level of capital expenditure that can be incurred to make the network totally reliable. A certain level of risk must be accepted and this is recognised by Ofgem in its regulatory review. However, the Company believes that its network is robust. It targets capital expenditure on schemes which are assessed to have the greatest improvement to customer service levels. It also spends considerable sums on routine maintenance, including tree cutting to keep trees away from lines both for safety reasons and as trees have been proven to be a major cause of network interruptions. The Company has met Ofgem's targets for customer service.

Reliance on suppliers

WPD relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery. However, WPD considers that there are sufficient alternative suppliers such that, should an existing supplier be unable to continue to make supplies, then there will be no significant long-term impact on WPD's ability to operate the network.

Most of the electricity which enters WPD's network is carried on the national grid and enters WPD's network at a limited number of grid supply points. WPD is dependent on the national grid. However, this is also an activity regulated by Ofgem and thus the risk of a major failure is considered very remote.

Environment

Certain environmental issues are discussed in the Corporate and Social Responsibility section. There is always the risk that changes in legislation relating to environmental and other matters, including those imposed on the UK by the European Union, could result in considerable costs being incurred by the Company with no guarantee that Ofgem would allow them to be recovered through regulated income.

Interest rate risk

The Company has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, respectively.

Credit rate risk

WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands are required by their distribution licences to maintain investment grade ratings, which they have done. All four have the following long-term corporate credit ratings: Moody's Baa1 and Standard & Poor's A-.

Cash deposits are made with third parties with a high credit rating (not below a long-term rating of A/A2/A and a short-term rating of A1/P1/F1 by Standard & Poor's, Moody's and Fitch, respectively) and within strict limits imposed by the appropriate Board.

Creditworthiness of customers

Most of WPD's income is for the delivery of electricity to end-users and thus its customers are the suppliers to those end-users. It is a requirement that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement sets out how creditworthiness will be determined and, as a result, whether the supplier needs to provide collateral. The risk of a significant bad debt is thus considered low.

Principal risks and uncertainties (continued)

Pensions
Most employees are members of a defined benefit pension scheme, which also has a considerable number of members who are either retired or have deferred benefits. There are risks associated with the financial performance of the assets within the scheme and with the estimate of the liabilities of the scheme including longevity of members. Currently, ongoing service costs and a proportion of the deficit costs are recoverable through regulated income.

In March 2010 WPD South Wales and WPD South West announced that, with very limited exceptions, its defined benefit pension plan would be closed to new members. A defined contribution scheme is being offered to new employees instead. As time elapses, this will reduce WPD's exposure associated with defined benefit pension plans.

UK membership of European Union ("EU")
In March 2017, the United Kingdom government formally notified the EU of its intent to withdraw from the EU, thereby commencing negotiations on the terms of the withdrawal. Although this should have little direct impact on the Company, it may have an impact on the wider economy.

Cyber security
WPD adopts a fundamentally unique stance towards reducing the cyber security risk to the extent that, in addition to considerable resources spent on “defence in depth” cyber security controls, WPD does not permit direct connection between WPD’s corporate network and the internet, nor direct cloud based services accessed from WPD’s corporate network, nor bring your own device. It considers that the risk of major disruption to its systems or to the electricity network is very low.

Insurance arrangements
WPD has a wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey. Depending on the nature of the risk, WPD South Wales carries all or an element of the risk itself ("self insured") or it underwrites insurance with a combination of Aztec and external insurers. Insurance arrangements are reviewed in detail annually.

Insurance arrangements for the year ending 31 March 2017 relating to WPD's key risks were as follows:

- the distribution network is self insured.
- offices and depots including their contents and stock are self insured up to £500,000 for each claim and externally insured above that, subject to a maximum of £50.0m.
- combined liability covers employer's liability, public and product liability, and professional indemnity. The first £10,000 of each claim is self insured, Aztec covers the next part of the claim up to £1.0m per claim and £6.0m in total; claims exceeding these limits are externally insured subject to certain limits.
- on motor related claims, damage to own vehicles is self insured if not recoverable from a third party, as is the first £5,000 of each third party claim. Aztec cover the next part of the claim up to £1.0m for any claim and £2.3m in aggregate; claims exceeding these limits are externally insured subject to certain limits.
- claims relating to death or injury to employees whilst on WPD business or travelling on business are externally insured subject to various limits.
- external insurance is also in place (subject to limits) for loss of money, securities or property through dishonest acts by employees and for wrongful acts by pension scheme trustees.
- insurance in respect of directors and officers is maintained by WPD's US parent, PPL Corporation.
- external insurance is also in place (subject to limits) for cyber liability (costs for security/privacy breaches, defence costs in relation to regulatory breaches and other breaches) and is maintained by WPD's US parent, PPL Corporation.

Internal control environment

PPL Corporation has an audit committee that has oversight of the internal control environment across all PPL entities. The WPD Internal Audit Team completes a programme of internal audit work that provides independent assurance on internal controls. The WPD Internal Audit Team report to both the PPL Audit Committee and the Western Power Distribution plc Board. The Western Power Distribution plc Board has responsibility for internal controls across WPD entities.

PPL's Audit Committee reviews and monitors the independence of the external auditor. The responsibility to monitor the financial reporting process and statutory audit of these financial statements is assumed by the Western Power Distribution plc Board. This Board comprises executive and non-executive directors who are employees of WPD's parent PPL Corporation. The Board of WPD South Wales also includes independent directors.

The directors of the Western Power Distribution plc Board have exercised their responsibility for internal controls by establishing a system of internal controls designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material mis-statement or loss.

There are many cultural features in WPD that contribute directly to the success of the Company and the results that it has achieved. These include:

- good definition and communication of short-term business objectives and targets;
- commitment to achievement of objectives and targets;
- speedy decision-making;
- a business environment that empowers managers;
- an uncomplicated management structure that aids the flow of information both ways through the organisation.

In order for this success to occur, the control environment is one which empowers those with direct responsibility to take decisions within a clearly defined control framework. The control mechanisms have to be sufficient to limit risk but appropriate to the Company's ability to react quickly and effectively to events, therefore enabling the Company to deliver results over a sustained period of time.

It is important to have a clearly defined structure of control expectations. The controls start at director level and make it clear to everyone concerned how the business should be conducted (policy) and how far each person can go in conducting that business (authority levels). This information is communicated effectively to all levels of staff.

As WPD is owned by a US publicly quoted company, it is subject to the requirements of the US Sarbanes-Oxley Act of 2002 (the "Act"). There are two main components of the Act, SOX302 and SOX404.

Under Section 302 of this Act, senior managers affirm quarterly that disclosure controls are operating effectively and that all material information is disclosed in the financial reports.

Section 404 is an annual process which includes management's assessment the evaluation of internal controls over financial reporting. The WPD Group comply with these requirements via a two stage approach.

Internal control environment (continued)

Firstly, Company level controls which are pervasive across the Company are documented and tested. The controls cover the COSO elements of effective internal control and the 17 principles set out in the COSO 2013 integrated framework. These encompass:

- control environment
- risk assessment
- information and communication
- control activities
- monitoring.

Secondly, all the major financial processes have been documented with specific detail on the controls in place. This includes the Information Technology environment which supports the financial processes. Management monitor these controls on an ongoing basis. In addition, the controls are reviewed and tested by the Internal Audit department and any issues identified are communicated back to management and the process owners to enable improvement to the controls.

Annually, WPD's compliance with the Act is also reviewed in detail by WPD's external auditor. Good controls together with appropriate documentation must be maintained, and this is subject to testing by both internal and external auditors on an annual basis. Since inception of the Act, no control failures have been identified which merited public disclosure.

Corporate and social responsibility

Social and community issues

In the year to March 2017, we assisted 287 separate charitable and non-charitable organisations as part of a commitment of over £260,000 – the three themes of education, safety and the environment continuing to form the bedrock of our community support.

While maintaining these core themes, we continue to tailor our support to align, where appropriate, with the feedback from our stakeholder engagement and the opinion research from our customer awareness activity.

In particular, we have continued to promote WPD’s Priority Services Register at a range of events and roadshows, and we continued to develop initiatives as part of our Community Chest partnership with the Centre for Sustainable Energy ("CSE") – which promotes energy efficiency and encourages ‘fuel poor’ customers to reduce their energy consumption. To date, the initiative has helped over 200 community-run buildings save on their energy costs.

Highlights during the year have included:

- Over 500 educational safety events reached over 53,000 school children. These included school visits, crucial crew and life skills initiatives. In addition, education sponsorships included Hereford Family Arts Festival, Bath University Science event, and children’s safety initiatives like Countrytastic at Malvern and Keep Me Safe in Torfaen, South Wales.
- Our second annual community safety campaign Think Safe, Stay Safe aimed at farmers, leisure operators and land owners, reached 212,000 landowners against a target of 60,000 – using advertising, social media and leaflet mail-drops.
- Following on from an initiative in 2015, training workshops were again organised for 28 staff in our Midlands contact centre, through our partnership with Cardiff’s Hijinx Theatre Group. Training is designed to increase awareness and understanding of customers who may have difficulties communicating because of disability. The initiative won the Arts & Business (business and employee category) award.

Corporate and social responsibility (continued)

Social and community issues (continued)

- We were the Action on Hearing Loss Cymru ("AOHL") overall excellence award winner. This recognises our work to make services accessible to people with hearing loss – in particular, our text service to customers and our deaf awareness staff training.
- Re-awarded the AOHL Charter Mark for a further 12 months.
- Partnered six regional Wildlife Trusts across our network and the Forest Schools initiative in South Wales to engage children in terms of environmental education. Around 1,400 children have benefited so far this year. We also continued to provide native trees and shrubs as part of our community tree planting initiative.
- Supported 30 schools with our Cash for Schools campaign delivered through free advertising in newspaper groups across Worcestershire. The initiative provided a £25,000 cash pot.
- Continued to promote power cut and Priority Services Register advice, working with a range of organisations like East Lindsay District Council Lincolnshire, Gwent Police, Age UK, Breast Cancer Care, Cancer Research Wales, Music in Hospitals, Care & Repair, Wales Council for the Blind, Age Cymru, Gloucester Deaf Association and hospices across our region.
- Launched a new winter warmth campaign with Age Cymru to distribute 2,000 thermometers to the over 65s in South Wales.
- Supported a range of major business and community initiatives including the South Wales Chamber of Commerce awards, Rawfest young people's art festival in Newport, Lincolnshire Countryside event, Gloucestershire Air Ambulance, Leicester Young Achievers, Telford Children's Art, Pride of Northampton and Pride of Milton Keynes awards.
- Supported three major agricultural shows (Bath & West, Malvern, Royal Welsh) promoting farm safety messages, the new, single emergency number and our Priority Service Register. They attracted 17,000 visitors and 300 PSR engagements. WPD was voted best commercial stand at the Three Counties Show, Malvern.
- Supported two Welsh language initiatives – the Urdd (Welsh Youth Eisteddfod) and the science pavilion at the National Eisteddfod, Abergavenny.

Customer awareness surveys

WPD's commitment to promoting customer awareness pre-dates any of the current regulatory or government pressures on distribution businesses to sharpen their focus on stakeholder engagement.

WPD began this process in a meaningful way in 2010 with the launch of the Power for Life initiative which is designed to raise awareness of the business and to better understand and respond to customer opinion and priorities. The 2016 campaign was WPD's seventh. A key part involves testing customer awareness levels of WPD and the effectiveness of our campaign annually with pre and post initiative surveys, as well evaluating what information customers want from us and their preferred methods of receiving information. Polls have been undertaken every year since 2010, and currently involve a random sample of 2,000 people – 1,000 pre and 1,000 post campaign.

The 2016 research again suggested the campaign is effective in raising awareness, with a ten percent increase to 64% from 2015.

The feedback research from the 2015 campaign was used to shape the content of the 2016 campaign by responding to customers' preferences for power cut and contact information.

Environmental matters

See the Environmental section on page 9 to 11.

Strategic report (continued)

For the year ended 31 March 2017

Corporate and social responsibility (continued)

Environmental matters (continued)

Greenhouse gas emissions

Our greenhouse gas reporting year is to 31 March. Emissions for the Company were from:

	tCO_2e		tCO_2e per employee	
	2017	2016	**2017**	2016
Scope 1 (direct emissions)				
Operational transport	**4,277**	4,353	**4.12**	4.27
SF6 gas (see page 10 & 11)	**1,772**	2,014	**1.71**	1.98
Fuel combustion (diesel)	**368**	387	**0.35**	0.38
Buildings	**49**	29	**0.05**	0.03
	6,466	6,783	**6.23**	6.66
Scope 2 (energy indirect emissions)				
Buildings electricity	**1,310**	1,715	**1.26**	1.68
Substation electricity	**3,757**	4,215	**3.62**	4.14
Surf Telecom	**188**	200	**0.18**	0.20
	5,255	6,130	**5.06**	6.02
Total scope 1 & 2	**11,721**	12,913	**11.29**	12.68
Scope 3 (other indirect emissions)				
Business transport	**497**	789	**0.48**	0.77
Total scope 1, 2 & 3	**12,218**	13,702	**11.77**	13.45

tCO_2e = tonnes of carbon dioxide equivalent

The Company's chosen intensity measurement is tonnes of carbon dioxide equivalent per employee.

The methodology used to calculate our emissions is based on the current guidance provided from BEIS and the Department for Environment, Food and Rural Affairs ("DEFRA") Green House Gas Reporting Requirements and the UK Government conversion factors for 2016/17 Company Reporting.

Employees

The average number of employees during the year was 1,037 (2016: 1,019). These exclude a proportion of WPD South Wales staff who work in part for other WPD DNOs, and include a proportion of other WPD DNO staff who work in part for WPD South Wales.

WPD is committed to equality of opportunity in employment and this is reflected in its equal opportunities policy and employment practices. 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 WPD continues by way of making adjustments to their role and/or working environment or through retraining arranged as appropriate. It is the policy of WPD that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Corporate and social responsibility (continued)

Employees (continued)
WPD places considerable value on the involvement of its employees in its affairs. Staff are kept informed of WPD's aims, objectives, performance and plans, and their effect on them as employees through monthly business updates, regular team briefings and other meetings, as well as through WPD's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of road show presentations by the directors each year ensure that all staff are aware of, and can contribute to, WPD's corporate goals.

Human rights issues
WPD is dedicated to conducting its business with honesty, integrity and fairness. It is committed to the highest ethical standards. In support of these principles, it is the Company's policy to observe all domestic and applicable foreign laws and regulations.

In addition to conserving the human rights of its employees, WPD also considers those in relation to customers. Two specific customer groups whose needs are targeted by the Company are vulnerable customers and those in fuel poverty.

<u>Vulnerable customers</u>
WPD is required to hold a Priority Services Register ("PSR") that records details about vulnerable customers so that additional support can be provided when the customer contacts WPD or when their supply is interrupted. Bespoke services are provided by understanding the special needs of the customers.

WPD has established a dedicated team of people to proactively contact vulnerable customers and check the detail held about them. This is a process that will be repeated every two years to ensure that the register remains up to date. This will be supplemented by sharing data with other service centred organisations that hold information about vulnerable customers, provided customers give their consent and data protection allows. In the year to March 2017, WPD contacted 687,250 customers and successfully updated 230,000 records.

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

Help is provided for vulnerable customers during power cuts and where possible advice is provided to enable them to be prepared should a power cut occur.

<u>Fuel poverty and energy affordability</u>
Some customers on low incomes cannot afford to use electricity to effectively heat their properties. There is growing concern that customers will suffer as economic growth remains uncertain and austerity measures affect fuel poor customers further. Whilst WPD does not have a direct obligation to provide energy efficiency advice/support, in 2013 we introduced a social obligations strategy that is updated and reviewed by our Chief Executive annually and includes actions WPD will take to address fuel poverty by helping customers to access information and support. In recent years we have worked with expert partners such as the Centre for Sustainable Energy, the charity National Energy Action ("NEA") and with the Energy Saving Trust to provide information for our customers on the causes of and solutions for fuel poverty.

Corporate and social responsibility (continued)

Human rights issues (continued)

Fuel poverty and energy affordability (continued)
WPD has been working with the Coventry Citizens' Advice Bureau ("CAB") since 2014 to deliver an innovative fuel poverty referral scheme called 'Power Up'. The project helps customers by offering income and energy efficiency advice, such as benefits and tariffs advice and energy saving schemes. The service offers free, independent, confidential and impartial advice. The project works by partner organisations such as CAB taking referrals directly from WPD following calls proactively made to vulnerable customers as part of WPD's update of the Priority Services Register.

Building on this successful model we have replicated this project and now have four 'Power Up' referral schemes – one in each of our regions working with CAB in the Midlands, Energy Saving Trust in South Wales and the Centre for Sustainable Energy in the South West. Every customer contacted as part of WPD's PSR data cleanse is given the opportunity to be referred to a partner for support. Every project has the capacity to deliver all of the following interventions, in line with the customer's need:

1. Income maximisation (e.g. debt management)
2. Tariffs (e.g. switching tariff)
3. Energy efficiency (e.g. loft/cavity wall insulation schemes)
4. Affordable warmth (e.g. boiler replacement schemes)
5. Behavioural changes (e.g. more effectively managing heating/hot water systems).

In 2016/17, these projects supported over 6,900 fuel poor customers across WPD, leading to total annual savings of over £1,300,000 for these customers.

By Order of the Board

RA Symons
Chief Executive Officer

18 July 2017

Western Power Distribution (South Wales) plc
Avonbank
Feeder Road
Bristol
BS2 0TB

Directors' report

For the year ended 31 March 2017

Company's registered number

The Company's registered number is 2366985.

Ownership

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

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

Results, dividends and share issue

The profit for the financial year 2017 was £98.3m (2016: £73.9m).

The Company had an additional loss, which was posted directly to capital and reserves, of £33.6m (2016: £35.8m gain). This primarily relates to benefit pension plan remeasurement, net of tax.

For the year to 31 March 2017 no dividends were paid by the Company (2016: £43.4m).

In 2017, the Company issued £40.0m of share capital (2016: nil).

Political donations and expenditure

WPD is a politically neutral organisation and, during the year, made no political donations.

Financial risk management objectives and policies

WPD does not undertake transactions in financial derivative instruments for speculative purposes.

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

For further details of risks in relation to treasury operations, see the "principal risks and uncertainties" section of the Strategic report.

Liquidity and going concern

WPD South Wales, as part of the WPD Group, is supported by credit facilities at other companies within the WPD Group as described below.

On a day-to-day basis, WPD South West provides liquidity to the whole of WPD with balances with other group companies being settled periodically. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2017, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £245.0m maturing in July 2021, of which £80.0m was drawn. In addition, it had uncommitted facilities of £70.0m of which £10.0m can only be used for the issue of letters of credit; at 31 March 2017 no borrowings had been drawn and letters of credit of £3.8m issued.

In addition, at 31 March 2017 the WPD Group's parent, Western Power Distribution plc, had a £210.0m committed borrowing facility that expires in January 2022 of which all conditions precedent had been met at that date; at 31 March 2017, it had drawn £158.9m against these facilities and thus had £51.1m undrawn. The drawdown was utilised to part fund the purchase of $200m Eurobonds (issued by the Company's ultimate UK parent) at a premium of $21m from a US based fellow subsidiary of PPL. Furthermore WPD West Midlands and WPD East Midlands together had committed borrowing facilities of £600.0m, of which WPD East Midlands had drawn £125.0m as at 31 March 2017.

The four WPD DNOs also have access to an uncommitted facility from which any DNO can draw but which in aggregate cannot exceed £20m. No borrowings had been drawn against this facility as at 31 March 2017.

Financial risk management objectives and policies (continued)

Liquidity and going concern (continued)

At 31 March 2017, WPD South Wales had £619.8m (2016: £566.7m) of external debt outstanding which was all due after more than one year. It had cash and short term deposits of £19.5m (2016: £32.2m).

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 availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, and the anticipated ability of the Company to be able to raise additional long term debt in the future.

Dividend policy

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

Strategic report

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

- an indication of future developments in the business - see page 13;
- an indication of activities of the Company in the field of research and development - see page 13;
- a statement on the policy for disabled employees - see page 21;
- employee policies - see page 21 and 22;
- greenhouse gas (carbon) emissions - see page 21.

Directors and their interests

The directors who served during the year were as follows:

	Appointed
RA Symons, Chief Executive	15 September 2000
DCS Oosthuizen, Finance Director	4 January 2001
P Swift, Operations Director	1 July 2013
IR Williams, Resources and External Affairs Director	9 March 2015
WH Spence, non-executive director and Chairman, President and Chief Executive Officer PPL Corporation	16 July 2015
ME Fletcher, non-executive independent director	31 October 2011
CR Watts, non-executive independent director	1 April 2014
AJ Cardew, non-executive independent director	23 March 2017

All the directors served subsequently with the exception of CR Watts, who died on 3 July 2017.

During and at the end of the financial 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 maintained by the WPD'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.

Directors' report (continued)
For the year ended 31 March 2017

Regulatory financial statements
As a condition of its Electricity Distribution Licence, the Company is required to prepare and publish separate financial statements for its distribution business for each year ending 31 March. The Company will publish information on its website and this will also be available from the Company's registered office as shown below.

Statement of disclosure to independent auditor
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, 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.

Responsibility statements under the Disclosure and Transparency Rules
Each of the current directors listed above confirm to the best of their knowledge:

(a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
(b) the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

Independent auditor
The Company's ultimate parent undertaking, PPL Corporation, has adopted a policy of tendering for its world-wide audit services at least every ten years. This is to ensure that best practice is followed in relation to corporate governance and that fees are competitive. Following a tender exercise in 2016, PPL Corporation selected Deloitte LLP to replace Ernst & Young LLP for their various world-wide audits. These statutory financial statements are the first to be audited since the appointment of Deloitte LLP. Deloitte LLP have expressed their willingness to continue in office and a resolution proposing their re-appointment will be put before the Annual General Meeting.

By Order of the Board

RA Symons
Chief Executive Officer

18 July 2017

Western Power Distribution (South Wales) plc
Avonbank
Feeder Road
Bristol BS2 0TB

Directors' responsibilities statement

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

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

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

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

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

Independent auditor's report
to the members of Western Power Distribution (South Wales) plc

We have audited the financial statements of Western Power Distribution (South Wales) plc for the year ended 31 March 2017 which comprise the Profit and loss account, the Statement of comprehensive income, the Statement of changes in equity, the Balance sheet, the Statement of cash flows, and the related Notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 ('Reduced Disclosure Framework').

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

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic report and 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 misstatement in the Strategic report and the Directors' report.

Independent auditor's report

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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, Senior Statutory Auditor
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
24 July 2017

Profit and loss account

For the year ended 31 March 2017

	Note	**2017 £m**	2016 £m
Turnover	4	**251.2**	220.6
Operating expenses	5	**(97.8)**	(103.1)
Operating profit	6	**153.4**	117.5
Profit on sale of fixed assets		**0.1**	0.2
Profit on ordinary activities before interest and tax		**153.5**	117.7
Interest receivable and similar income	7	**-**	0.2
Interest payable and similar charges	7	**(35.6)**	(36.1)
Net interest expense relating to pensions and other post-retirement benefits	20	**(2.4)**	(4.5)
Profit on ordinary activities before tax		**115.5**	77.3
Tax on profit on ordinary activities	8	**(17.2)**	(3.4)
Profit for the financial year		**98.3**	73.9

All activities relate to continuing operations.

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

Statement of comprehensive income

For the year ended 31 March 2017

	Note	**2017** **£m**	2016 £m
Profit for the year		**98.3**	73.9
Other comprehensive loss:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Reclassification adjustments for gains on cash flow hedges included in profit or loss (interest payable)		**(0.7)**	(0.6)
Income tax effect			
Impact of tax rate change		**-**	0.1
Other		**0.2**	0.2
		(0.5)	(0.3)
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (losses)/gains on defined benefit pension plans	20	**(8.1)**	69.4
Reimbursement agreement relating to WPUPS pension scheme	20	**(29.2)**	(18.8)
Income tax effect:			
Impact of tax rate change		**2.6**	(0.7)
Other		**1.6**	(13.8)
		(33.1)	36.1
Other comprehensive (loss)/income for the year, net of tax		**(33.6)**	35.8
Total comprehensive income for the year, net of tax, attributable to equity holders of the parent		**64.7**	109.7

Statement of changes in equity
For the year ended 31 March 2017

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
At 1 April 2015	251.7	23.2	5.1	6.7	168.7	455.4
Profit for the year	-	-	-	-	73.9	73.9
Other comprehensive (loss)/income	-	-	-	(0.3)	36.1	35.8
Total comprehensive income for the year	-	-	-	(0.3)	110.0	109.7
Equity dividends paid	-	-	-	-	(43.4)	(43.4)
At 31 March 2016	251.7	23.2	5.1	6.4	235.3	521.7
Profit for the year	-	-	-	-	98.3	98.3
Other comprehensive loss	-	-	-	(0.5)	(33.1)	(33.6)
Total comprehensive income for the year	-	-	-	(0.5)	65.2	64.7
Share capital issued (Note 21)	40.0	-	-	-	-	40.0
At 31 March 2017	**291.7**	**23.2**	**5.1**	**5.9**	**300.5**	**626.4**

Balance sheet

31 March 2017

	Note	2017 £m	2016 £m
Fixed assets			
Tangible assets	12	**1,702.3**	1,595.4
Intangible assets	13	**1.3**	0.1
		1,703.6	1,595.5
Current assets			
Stocks	14	**1.3**	1.1
Debtors	15		
Amounts falling due within one year		**65.6**	74.1
Amounts falling due after more than one year		**0.1**	29.4
Cash and cash equivalents	16	**19.5**	32.2
		86.5	136.8
Creditors			
Amounts falling due within one year	17	**(76.3)**	(137.5)
Net current assets/(liabilities)		**10.2**	(0.7)
Total assets less current liabilities		**1,713.8**	1,594.8
Creditors			
Amounts falling due after more than one year	17	**(945.8)**	(866.4)
Provisions for liabilities			
Deferred tax	19	**(87.9)**	(70.9)
Reimbursement agreement re WPUPS	18	**(76.9)**	-
Other	18	**(7.8)**	(7.3)
Pension			
Asset	20	**78.9**	-
Liability	20	**(47.9)**	(128.5)
Net assets		**626.4**	521.7
Capital and reserves			
Called-up share capital	21	**291.7**	251.7
Share premium account	22	**23.2**	23.2
Capital redemption reserve	22	**5.1**	5.1
Hedging reserve	22	**5.9**	6.4
Profit and loss account	22	**300.5**	235.3
Total shareholders' funds		**626.4**	521.7

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

The financial statements of the Company (registered number 2366985) on pages 30 to 63 were approved by the Board of Directors on 18 July 2017 and were signed on its behalf by:

RA Symons
Chief Executive

DCS Oosthuizen
Finance Director

Statement of cash flows

For the year ended 31 March 2017

	Note	**2017** **£m**	2016 £m
Operating activities			
Profit for the year		**98.3**	73.9
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Tax expense		**17.2**	3.4
Finance costs		**38.0**	40.6
Finance revenue		**-**	(0.2)
Depreciation of tangible fixed assets	6	**31.4**	29.3
Amortisation of customer contributions		**(6.8)**	(6.4)
Amortisation of intangible assets		**0.1**	0.1
Gain on disposal of tangible fixed assets		**(0.1)**	(0.2)
Difference between pension contributions paid and amounts recognised in the profit and loss account		**(76.4)**	(65.3)
Decrease in provisions		**0.5**	1.6
Working capital adjustments:			
(Increase)/decrease in inventories		**(0.2)**	0.1
(Increase)/decrease in trade and other receivables		**(0.1)**	37.7
Increase in trade and other payables		**3.4**	2.5
Interest paid		**(36.1)**	(36.1)
Interest received		**-**	0.2
Income taxes paid		**(0.8)**	(11.5)
Net cash from operating activities		**68.4**	69.7
Investing activities			
Purchase of tangible fixed assets		**(138.8)**	(137.3)
Purchase of intangible assets		**(1.3)**	-
Customers' contributions received		**37.1**	30.8
Proceeds from sale of tangible fixed assets		**0.2**	0.2
Net cash used in investing activities		**(102.8)**	(106.3)
Financing activities			
Net proceeds from issue of share capital		**40.0**	-
Proceeds from long term borrowings		**52.9**	-
Movement in balances with Group undertakings		**(71.2)**	86.0
Dividends or equivalent distributions paid		**-**	(43.4)
Net cash from financing activities		**21.7**	42.6
Net (decrease)/increase in cash and cash equivalents		**(12.7)**	6.0
Cash and cash equivalents at beginning of year		**32.2**	26.2
Cash and cash equivalents at end of year	16	**19.5**	32.2

Notes to the financial statements

For the year ended 31 March 2017

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

The financial statements of Western Power Distribution (South Wales) plc ("the Company") for the year ended 31 March 2017 were authorised for issue by the Board of Directors on 18 July 2017 and the balance sheet was signed on the Board's behalf by RA Symons and DCS Oosthuizen. The Company is a public limited company incorporated and domiciled in England and Wales.

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

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in Note 25.

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 and all values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

The principal accounting policies adopted are set out below.

New International Financial Reporting Standards ("IFRS") not yet adopted

The following pronouncements have been issued but not yet adopted by the Company: IFRS 9 'Financial instruments', IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases'. The Company is evaluating these pronouncements but do not expect them to have a material effect on the financial statements. The Company expects to adopt IFRS 9 and IFRS 15 on 1 April 2018 and IFRS 16 on 1 April 2019.

Going concern

The directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future due to the strength of its balance sheet. This is discussed further under 'Financial risk management objectives and policies' within the Directors' report.

Turnover

Turnover is recognised to the extent that it is probable that economic benefits will flow to the Company and that the turnover can be reliably measured. Turnover comprises primarily use of energy system income. Turnover includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year end. Remaining sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

2. Significant accounting policies (continued)

Turnover (continued)

Where turnover received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised as such an adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Contributions

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

Finance costs

Finance expenses comprise interest payable on borrowings, accretion relating to inflation on index linked debt, the release of discount on provisions, and interest on pension scheme liabilities. Interest charges are recognised in the profit and loss account as they accrue, on an effective rate basis.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

WPD South Wales as a lessee

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the assets are classified as operating leases and rentals payable are charged to the profit and loss account on a straight line basis over the lease term.

Tangible fixed assets

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

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

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

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

2. Significant accounting policies (continued)

Tangible fixed assets (continued)

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

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

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

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

Intangible assets

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.

Stocks

Stocks are valued at the lower of cost and net realisable value which takes account of any provision necessary to recognise damage and obsolescence.

Taxation

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

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

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

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 benefits

The Company participates in three defined benefit pension plans, the WPD Group segment of the industry-wide Electricity Supply Pension Scheme ("ESPS"), the Infralec 1992 Pension Scheme ("Infralec 92") and the Western Power Utilities Pension Scheme ("WPUPS"). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. Both the Infralec 92 and WPUPS schemes do not have active members.

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

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

Net interest expense related to pension benefits represents the net change in the present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year. Net interest expense relating to pension benefits is recognised in the profit and loss account.

Remeasurement of the net defined benefit liability or asset, comprising actuarial gains or losses, and the return on plan assets (excluding amounts included in net interest described above) are recognised within other comprehensive income in the period in which they occur.

The defined benefit pension plan surplus or deficit in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on the market price information and in the case of quoted securities is the published bid price.

2. Significant accounting policies (continued)

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

Share-based payments
The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established at each balance sheet date from grant date until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the year.

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

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

Financial assets
Financial assets are classified as loans and receivables; financial assets at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; held-to-maturity financial assets; or as available-for-sale financial assets, as appropriate. The Company's financial assets include cash and cash equivalents, trade receivables, other receivables and loans. 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.

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. Trade and other debtors are recognised and carried at the lower of their original invoiced amount and recoverable amount. Provision for impairment is made through the profit and loss account when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

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 trade and other payables, accruals and interest bearing loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition.

2. Significant accounting policies (continued)

Financial liabilities (continued)
The measurement of financial liabilities depends on their classification, as follows:

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

After initial recognition, interest bearing loans 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.

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Capitalisation of overheads
Indirect costs are initially charged to the profit and loss account. A proportion are then capitalised based on an assessment of the allocation of direct costs between operating activities and those which are capitalised as they provide long term benefit.

Pension obligations
The Company has a commitment, mainly through the ESPS, to pay pension benefits. The cost of these benefits and the present value of the Company's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees, the return that the pension fund assets will generate in the time before they are used to fund the pension payments and the discount rate at which the future pension payments are discounted. Based on advice from external actuaries, the Company uses estimates for all these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and management's judgement regarding future expectations. Refer to Note 20 for sensitivity information.

4. Segmental reporting

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

Revenue from its five largest customers amounted to £86.4m, £40.0m, £31.5m, £31.4m and £27.3m (2016: £82.0m, £38.4m, £30.2m, £29.7m and £28.2m).

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

5. Operating expenses

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

	2017 **£m**	2016 £m
Employee costs (Note 10)	**20.3**	21.3
Depreciation (Note 6)	**32.3**	29.3
Amortisation of intangible assets	**0.1**	0.1
Amortisation of customer contributions	**(6.8)**	(6.4)
Property rates	**16.4**	16.2
Other operating expenses	**35.5**	42.6
Operating expenses	**97.8**	103.1

6. Operating profit

	2017 **£m**	2016 £m
Operating profit is stated after charging/(crediting):		
Depreciation *	**32.3**	29.3
Amortisation of intangible assets	**0.1**	0.1
Operating lease rentals:		
Plant, machinery and equipment	**0.3**	0.4
Land and buildings	**0.9**	1.0
Amortisation of customer contributions	**(6.8)**	(6.4)
Research and development **	**0.1**	0.1
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.1**	0.1
Non audit fee	**-**	-

* Depreciation is stated net of depreciation capitalised of £5.5m (2016: £5.5m) in respect of equipment consumed during the construction of the electricity network.

** Research and development costs above exclude expenditure on Low Carbon Network and Network Innovation Allowance projects which is capitalised together with associated funding received.

7. Net interest expense

	2017 £m	2016 £m
Interest receivable		
Interest on loans to other WPD undertakings	-	(0.1)
Other	-	(0.1)
Total interest receivable	-	(0.2)
Interest payable		
Interest payable on loans from other WPD undertakings	**0.1**	0.2
Interest payable on other loans	**35.9**	36.1
Less: interest capitalised	**(0.4)**	(0.2)
Total interest payable	**35.6**	36.1
Net interest expense	**35.6**	35.9

Interest in 2017 was capitalised at a rate of 3.0% (2016: 3.5%), based on the yield on the Company's borrowings.

8. Tax

Tax charged to the profit and loss account:

	2017 £m	2016 £m
Current tax:		
UK corporation tax on profits for the year	**(3.9)**	1.0
Adjustment in respect of prior years	**(0.3)**	(0.6)
Deferred tax (Note 19):		
Relating to the origination and reversal of timing differences	**26.7**	13.9
Impact of tax rate change	**(5.6)**	(10.8)
Adjustment in respect of prior years	**0.3**	(0.1)
Tax expense in the profit and loss account	**17.2**	3.4

The tax on the Company's profits before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 20% (2016: 20%) as follows:

Notes to the financial statements

For the year ended 31 March 2017

8. Tax (continued)

	2017 £m	2016 £m
Profit on ordinary activities before tax	**115.5**	77.3
Profit on ordinary activities before tax multiplied by standard rate of corporation tax corporation tax in the UK of 20% (2016: 20%)	**23.1**	15.4
Effects of:		
Expenses not deductible and income not taxable for tax purposes	**(0.3)**	(0.4)
Adjustment to tax charge in respect of prior years	**-**	(0.7)
Impact of tax rate change	**(5.6)**	(10.8)
Group relief received at non-standard rates	**-**	(0.1)
Total tax expense reported in the profit and loss account	**17.2**	3.4

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

	2017 £m	2016 £m
Deferred tax:		
Reclassification adjustments for gains on cash flow hedges included in profit or loss (interest payable)	**(0.2)**	(0.3)
On remeasurement (losses)/gains on defined benefit pension schemes	**(4.2)**	14.5
Total tax (credit)/expense in the statement of other comprehensive income	**(4.4)**	14.2

Change in corporation tax rate

The Finance (No 2) Act 2015 and the Finance Act 2016 reduced the standard rate of corporation tax from 20% to 19% with effect from 1 April 2017 and then to 17% effective 1 April 2020. These changes have been enacted and the impact included in these financial statements.

9. Dividends

	2017 £m	2016 £m
Dividends on equity shares:		
Interim dividends (2016: 8.6 pence per share)	**-**	43.4

Notes to the financial statements

For the year ended 31 March 2017

10. Employee benefit expense

Employee benefit expense, including directors' remuneration, was as follows:

	2017	2016
	£m	£m
Wages and salaries	**47.8**	46.2
Social security costs	**5.5**	4.6
Pension costs	**9.1**	10.2
	62.4	61.0
Less: amounts capitalised	**(42.1)**	(39.7)
Charged to the profit and loss account	**20.3**	21.3

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

The average number of employees during the year was 1,037 (2016: 1,019). All employees work for the network distribution activity. The number of staff and costs shown include a proportion of other WPD DNO staff who work in part for WPD South Wales, and exclude a proportion of WPD South Wales staff who work in part for other WPD DNOs.

11. Directors' emoluments

The service contracts for the executive directors are with WPD South West. However, the emoluments detail given in this note represents total emoluments of the directors for all services provided to WPD companies as a whole. The total costs below are apportioned between WPD South Wales, WPD South West, WPD West Midlands and WPD East Midlands.

	Highest paid director		**Total**	
	2017	2016	**2017**	2016
WPD Group	**£000**	£000	**£000**	£000
The emoluments of the executive directors comprised:				
Base salary (note i)	**594**	575	**1,518**	1,430
Performance dependent bonus (note ii)	**552**	489	**1,097**	1,039
Pension compensation allowance (note iii)	**-**	-	**808**	649
Sub-total directors' remuneration	**1,146**	1,064	**3,423**	3,118
Long term incentive plan (note iv)	**1,245**	751	**2,509**	1,456
Fees to the independent non executive directors (note vi)	**-**	-	**61**	60
	2,391	1,815	**5,993**	4,634

11. Directors' emoluments (continued)

(i) Base salary also includes benefits in kind.

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

(iii) As a result of changes in tax applicable to UK pensions, the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 20). Thus WPD no longer contributes for ongoing service to the ESPS in respect of the executive directors. Instead and subject to their service contract, WPD pays cash compensation to them individually equivalent to the value of WPD’s contribution in to the ESPS that would have been made had they remained active members (as determined by external actuaries).

(iv) Under a long term incentive plan, the executive directors were granted phantom stock options. The option price is set at the quoted share price of WPD's parent in the US, PPL Corporation, at the date the phantom options were granted. Options outstanding may be exercised during fixed periods and the gain is payable through the payroll. The values above include any payments made to the executive directors in respect of gains in value of phantom options exercised in the year. None of the executive directors were granted new options in either year; three executive directors exercised options (2016: three). In addition, the executive directors receive annually a grant of PPL Corporation shares which cannot generally be accessed for 3 years; a number of these shares is dependent on the achievement of certain criteria at PPL. The value of the shares granted in the year is shown within this line.

(v) During the year, four executive directors (2016: four) were members of the defined benefit ESPS. At 31 March 2017, the highest paid director had accrued annual pension benefits of £559,204. The benefits shown assume that an option to convert an element of the annual benefits to a lump sum payable on retirement is not exercised.

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

Notes to the financial statements

For the year ended 31 March 2017

12. Tangible fixed assets

	Leasehold improvements	Distribution network	Fixtures & equipment	Vehicles & mobile plant	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2016	0.2	2,211.4	28.9	14.4	2,254.9
Additions	-	135.8	6.3	2.7	144.8
Disposals and retirements	-	-	(2.8)	(0.5)	(3.3)
At 31 March 2017	0.2	2,347.2	32.4	16.6	2,396.4
Depreciation					
At 1 April 2016	-	643.0	11.4	5.1	659.5
Charge for the year	-	30.1	5.9	1.8	37.8
Disposals and retirements	-	-	(2.8)	(0.4)	(3.2)
At 31 March 2017	-	673.1	14.5	6.5	694.1
Net book value					
At 31 March 2017	**0.2**	**1,674.1**	**17.9**	**10.1**	**1,702.3**
At 31 March 2016	0.2	1,568.4	17.5	9.3	1,595.4

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

	2017	2016
	£m	£m
Freehold	**119.2**	108.1
Short leasehold	**0.1**	0.1

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

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2017 to £24.3m (2016: £16.7m) and land at a cost of £37.9m (2016: £36.8m).

Included in additions are staff costs of £42.1m (2016: £39.7m).

13. Intangible assets

	Computer software £m
Cost	
At 1 April 2016	0.3
Additions	1.3
Disposals and retirements	(0.1)
At 31 March 2017	1.5
Amortisation	
At 1 April 2016	0.2
Charge for the year	0.1
Disposals and retirements	(0.1)
At 31 March 2017	0.2
Carrying amount	
At 31 March 2017	**1.3**
At 1 April 2016	0.1

14. Stocks

	2017 £m	2016 £m
Raw materials and consumables	**1.2**	1.1
Work in progress	**0.1**	-
	1.3	1.1

15. Debtors

	2017 £m	2016 £m
Amounts falling due within one year:		
Trade debtors	**38.3**	38.4
Amounts owed by other WPD undertakings	**19.4**	16.0
Reimbursement agreement re WPUPS (Note 20)	**-**	16.6
Prepayments	**3.3**	3.1
UK corporation tax	**4.6**	-
	65.6	74.1

15. Debtors (continued)

	2017 £m	2016 £m
Amounts falling due after more than one year:		
Reimbursement agreement re WPUPS (Note 20)	-	29.3
Prepayments	**0.1**	0.1
	0.1	29.4

Amounts owed by other WPD undertakings are unsecured and are repayable on demand.

16. Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank	**1.0**	7.2
Short-term bank deposits	**18.5**	25.0
Cash and cash equivalents	**19.5**	32.2

The four WPD DNOs have access to an uncommitted facility from which any DNO can draw but which in aggregate cannot exceed £20.0m; no borrowings had been drawn against this facility as at 31 March 2017 (2016: £nil).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 31 March:

	2017 £m	2016 £m
Cash and cash equivalents	**19.5**	32.2

17. Creditors

	2017 £m	2016 £m
Amounts falling due within one year:		
Payments received on account	**26.1**	21.9
Trade creditors	**4.0**	3.1
Amounts owed to other WPD undertakings	**2.6**	70.4
UK corporation tax	-	0.4
Other taxation and social security	**10.1**	7.9
Other creditors	**11.7**	10.8
Deferred contributions	**6.8**	6.4
Accruals and deferred income	**15.0**	16.6
	76.3	137.5

17. Creditors (continued)

	2017	2016
	£m	£m
Amounts falling due after more than one year:		
Deferred contributions	**326.0**	299.7
Unsecured borrowings:		
£150m 9.25% Eurobonds 2020	**149.6**	149.5
£225m 4.804% bonds 2037	**220.3**	220.0
£200m 5.75% bonds 2040	**197.3**	197.2
£50m 0.10% indexed linked bonds 2029	**52.6**	-
	945.8	866.4

Amounts owed to other WPD undertakings are unsecured and are repayable on demand. Unsecured borrowings are stated net of unamortised issue costs of £6.5m (2016: £6.7m). These costs together with the interest expense are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount.

All interest on bonds is paid annually.

18. Provisions for liabilities

	Deferred taxation (Note 19)	Reimbursement agreement re WPUPS	Asset retirement obligations	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2016	70.9	-	5.3	2.0	78.2
Arising/(released) during the year	17.0	76.9	1.8	(1.2)	94.5
Utilised during the year	-	-	(0.1)	-	(0.1)
At 31 March 2017	**87.9**	**76.9**	**7.0**	**0.8**	**172.6**

Detail in respect of the reimbursement agreement re WUPS is included in Note 20.

Asset retirement obligations ("AROs") relate to an estimate of the costs of dismantling and removing items of property, plant and equipment at the end of their useful life and are expected to be settled over the next 70 years. The effect of discounting on AROs is not material and is therefore not shown separately.

Other provisions at 31 March 2017 substantially relate to uninsured losses and an expected settlement of liabilities relating to the Electricity Association Technology Limited ("EATL") of £0.6m relating primarily to a pension deficit relating to that company. The liability in respect of the EATL is being settled over a period of approximately 9 years; the directors expect the remaining provisions to be settled within the next two years.

19. Deferred tax

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

	Accelerated capital allowances £m	Retirement benefit obligation £m	Other £m	**Total £m**
At 1 April 2015	104.8	(48.0)	(3.1)	53.7
Charge to the profit and loss account	3.9	8.4	1.5	13.8
Change in corporation tax rate	(11.1)	0.1	0.2	(10.8)
Charge/(credit) to equity	-	14.5	(0.3)	14.2
At 1 April 2016	97.6	(25.0)	(1.7)	70.9
Charge/(credit) to the profit and loss account	4.5	33.6	(11.1)	27.0
Change in corporation tax rate	(6.3)	-	0.7	(5.6)
Credit to equity	-	(4.2)	(0.2)	(4.4)
At 31 March 2017	**95.8**	**4.4**	**(12.3)**	**87.9**

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

	2017 £m	2016 £m
Deferred tax liabilities	**110.5**	97.6
Deferred tax assets	**(22.6)**	(26.7)
Provision for deferred tax at 31 March	**87.9**	70.9

The net deferred tax liability due after more than one year is £93.9m (2016: £90.2m).

20. Pension commitments

Introduction

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

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

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

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

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the deficit. However, as another WPD Group company (PPL WPD Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet (Notes 15 and 18) and matches the gross liability recorded under IAS 19.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligations at the end of the reporting period less the fair value of the plan assets. The defined benefit obligations are calculated annually by independent actuaries, Aon Hewitt Limited, using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are determined in the currency in which the benefits are paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately to income.

The schemes are funded, defined benefit, final salary pension plans. The level of benefits provided depends on members' length of service and their salary at their date of leaving the Company. The majority of pensions in payment receive inflationary increases in line with the RPI (Retail Price Index) inflation. The benefit payments are from trustee-administered funds. The amount of contributions to be paid is decided jointly by the employer and the Trustees of the scheme. Assets held in trust are governed by UK regulations and practice. The schemes' investment strategy is decided by the Trustees, in consultation with the employer. The Boards of Trustees must be composed of representatives of the employer and plan participants in accordance with the scheme's legal documentation.

The net defined benefit cost and net deficit of the ESPS plan have been allocated to WPD South West and WPD South Wales in accordance with pensionable salaries, currently 38.7% (2016: 37.1%) to WPD South Wales. The figures below show the proportion allocated to WPD South Wales.

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20. Pension commitments (continued)

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

	2017			
	ESPS	**WPUPS**	**Infralec 92**	**Total**
	£m	**£m**	**£m**	**£m**
Present value of obligations	**939.1**	**540.8**	**13.4**	**1,493.3**
Fair value of scheme assets	**(891.2)**	**(617.7)**	**(15.4)**	**(1,524.3)**
Deficit/(surplus) of funded plan and liability	**47.9**	**(76.9)**	**(2.0)**	**(31.0)**

	2016			
	ESPS	WPUPS	Infralec	Total
	£m	£m	£m	£m
Present value of obligations	746.2	483.8	11.3	1,241.3
Fair value of scheme assets	(662.3)	(439.2)	(11.3)	(1,112.8)
Deficit of funded plan and liability	83.9	44.6	-	128.5

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

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

	2017			
	ESPS	**WPUPS**	**Infralec 92**	**Total**
	£m	**£m**	**£m**	**£m**
Current service cost	**8.3**	**-**	**-**	**8.3**
Administrative costs	**0.7**	**0.4**	**-**	**1.1**
WPUPS reimbursement agreement	**-**	**(0.4)**	**-**	**(0.4)**
Operating charge relating to defined benefit plans	**9.0**	**-**	**-**	**9.0**
Interest income on plan assets	**(23.6)**	**(15.0)**	**(0.4)**	**(39.0)**
Interest on plan liabilities	**26.0**	**15.9**	**0.4**	**42.3**
WPUPS reimbursement agreement	**-**	**(0.9)**	**-**	**(0.9)**
Other finance expense	**2.4**	**-**	**-**	**2.4**

20. Pension commitments (continued)

	2016			
	ESPS	WPUPS	Infralec 92	Total
	£m	£m	£m	£m
Current service cost	9.6	-	-	9.6
Administrative costs	0.6	0.4	-	1.0
WPUPS reimbursement agreement	-	(0.4)	-	(0.4)
Operating charge relating to defined benefit plans	10.2	-	-	10.2
Interest income on plan assets	(20.5)	(13.8)	(0.4)	(34.7)
Interest on plan liabilities	25.0	16.0	0.4	41.4
WPUPS reimbursement agreement	-	(2.2)	-	(2.2)
Other finance expense	4.5	-	-	4.5

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

Analysis of the amount recognised in other comprehensive income:

	2017			
	ESPS	**WPUPS**	**Infralec 92**	**Total**
	£m	**£m**	**£m**	**£m**
Loss on plan assets excluding amounts included in interest income	**(127.6)**	**(96.2)**	**(2.1)**	**(225.9)**
Gain from change in financial assumptions	**169.3**	**83.8**	**2.0**	**255.1**
Experience gains	**(8.6)**	**(16.8)**	**0.8**	**(24.6)**
Change in asset ceiling	**-**	**-**	**(0.2)**	**(0.2)**
Change in percentage allocation rate	**3.7**	**-**	**-**	**3.7**
WPUPS reimbursement agreement	**-**	**29.2**	**-**	**29.2**
Remeasurement loss recognised in other comprehensive income	**36.8**	**-**	**0.5**	**37.3**

	2016			
	ESPS	WPUPS	Infralec 92	Total
	£m	£m	£m	£m
Loss on plan assets excluding amounts included in interest income	23.0	17.0	0.5	40.5
Gain from change in demographic assumptions	(18.4)	(8.4)	(0.2)	(27.0)
Gain from change in financial assumptions	(46.2)	(20.8)	(0.4)	(67.4)
Experience gains	(9.7)	(6.6)	(0.2)	(16.5)
Change in asset ceiling	-	-	0.2	0.2
Change in percentage allocation rate	0.8	-	-	0.8
WPUPS reimbursement agreement	-	18.8	-	18.8
Remeasurement gain recognised in other comprehensive income	(50.5)	-	(0.1)	(50.6)

20. Pension commitments (continued)

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

WPD South Wales segment of ESPS

	Year ended 31 March 2017			Year ended 31 March 2016		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	**746.2**	**(662.3)**	**83.9**	814.7	(652.9)	161.8
Current service cost	**8.3**	**-**	**8.3**	9.6	-	9.6
Administrative cost	**0.7**	**-**	**0.7**	0.6	-	0.6
Interest expense/(income)	**26.0**	**(23.6)**	**2.4**	25.0	(20.5)	4.5
	35.0	**(23.6)**	**11.4**	35.2	(20.5)	14.7
Remeasurements:						
(Gain)/loss on plan assets excluding amounts included in interest income	**-**	**(127.6)**	**(127.6)**	-	23.0	23.0
Gain from change in demographic assumptions	**-**	**-**	**-**	(18.4)	-	(18.4)
Loss/(gain) from change in financial assumptions	**169.3**	**-**	**169.3**	(46.2)	-	(46.2)
Experience gains	**(8.6)**	**-**	**(8.6)**	(9.7)	-	(9.7)
Change in percentage allocation rate	**31.9**	**(28.2)**	**3.7**	4.4	(3.6)	0.8
	192.6	**(155.8)**	**36.8**	(69.9)	19.4	(50.5)
Contributions:						
Employer	**-**	**(84.2)**	**(84.2)**	-	(42.1)	(42.1)
Plan participants	**1.7**	**(1.7)**	**-**	1.7	(1.7)	-
	1.7	**(85.9)**	**(84.2)**	1.7	(43.8)	(42.1)
Payments from plan:						
Benefit payments	**(35.7)**	**35.7**	**-**	(34.9)	34.9	-
Administrative costs	**(0.7)**	**0.7**	**-**	(0.6)	0.6	-
	(36.4)	**36.4**	**-**	(35.5)	35.5	-
Liability/(asset) at 31 March	**939.1**	**(891.2)**	**47.9**	746.2	(662.3)	83.9

20. Pension commitments (continued)

WPUPS

	Year ended 31 March 2017			Year ended 31 March 2016		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	**483.8**	**(439.2)**	**44.6**	527.1	(450.1)	77.0
Administrative cost	**0.4**	**-**	**0.4**	0.4	-	0.4
Interest expense/(income)	**15.9**	**(15.0)**	**0.9**	16.0	(13.8)	2.2
	16.3	**(15.0)**	**1.3**	16.4	(13.8)	2.6
Remeasurements:						
(Gain)/loss on plan assets excluding amounts included in interest income	**-**	**(96.2)**	**(96.2)**	-	17.0	17.0
Gain from change in demographic assumptions	**-**	**-**	**-**	(8.4)	-	(8.4)
Loss/(gain) from change in financial assumptions	**83.8**	**-**	**83.8**	(20.8)	-	(20.8)
Experience gains	**(16.8)**	**-**	**(16.8)**	(6.6)	-	(6.6)
	67.0	**(96.2)**	**(29.2)**	(35.8)	17.0	(18.8)
Contributions:						
Employer	**-**	**(93.6)**	**(93.6)**	-	(16.2)	(16.2)
	-	**(93.6)**	**(93.6)**	-	(16.2)	(16.2)
Payments from plan:						
Benefit payments	**(25.9)**	**25.9**	**-**	(23.5)	23.5	-
Administrative costs	**(0.4)**	**0.4**	**-**	(0.4)	0.4	-
	(26.3)	**26.3**	**-**	(23.9)	23.9	-
Liability/(asset) at 31 March	**540.8**	**(617.7)**	**(76.9)**	483.8	(439.2)	44.6

20. Pension commitments (continued)

Infralec 92

	Year ended 31 March 2017			Year ended 31 March 2016		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	**11.3**	**(11.3)**	**-**	12.6	(11.5)	1.1
Interest expense/(income)	**0.4**	**(0.4)**	**-**	0.4	(0.4)	-
	0.4	**(0.4)**	**-**	0.4	(0.4)	-
Remeasurements:						
(Gain)/loss on plan assets excluding amounts included in interest income	**-**	**(2.1)**	**(2.1)**	-	0.5	0.5
Gain from change in demographic assumptions	**-**	**-**	**-**	(0.2)	-	(0.2)
Loss/(gain) from change in financial assumptions	**2.0**	**-**	**2.0**	(0.4)	-	(0.4)
Experience gains	**0.8**	**-**	**0.8**	(0.2)	-	(0.2)
Change in asset ceiling, excluding amounts included in interest expense	**-**	**(0.2)**	**(0.2)**	-	0.2	0.2
	2.8	**(2.3)**	**0.5**	(0.8)	0.7	(0.1)
Contributions:						
Employer	**-**	**(2.5)**	**(2.5)**	-	(1.0)	(1.0)
	-	**(2.5)**	**(2.5)**	-	(1.0)	(1.0)
Payments from plan:						
Benefit payments	**(1.1)**	**1.1**	**-**	(0.9)	0.9	-
	(1.1)	**1.1**	**-**	(0.9)	0.9	-
Liability/(asset) at 31 March	**13.4**	**(15.4)**	**(2.0)**	11.3	(11.3)	-

The significant actuarial assumptions made were as follows:

	2017			2016		
	ESPS	**WPUPS**	**Infralec 92**	ESPS	WPUPS	Infralec 92
RPI inflation	**3.00%**	**3.00%**	**3.00%**	2.65%	2.65%	2.65%
CPI inflation	**1.90%**	**1.90%**	**1.90%**	1.55%	1.55%	1.55%
Rate of general long-term salary increase	**3.75%**	**N/a**	**N/a**	3.40%	N/a	N/a
RPI-linked pension increases	**2.95%**	**3.00%**	**3.00%**	2.65%	2.65%	2.65%
CPI-lined pension increases	**N/a**	**1.95%**	**N/a**	N/a	1.65%	N/a
Post-88 GMP pension increases	**1.80%**	**1.80%**	**1.80%**	1.55%	1.55%	1.55%
Discount rate for scheme liabilities	**2.51%**	**2.51%**	**2.51%**	3.36%	3.36%	3.36%

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20. Pension commitments (continued)

Assumptions relating to future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a member at age 60:

WPD South Wales segment of ESPS

	31 March 2017	31 March 2016
Mortality table adopted	Based on S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	Based on S1PXA base tables with CMI 2011 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	**26.6**	26.5
Life expectancy for a female currently aged 60	**28.7**	28.6
Life expectancy at 60 for a male currently aged 40	**28.0**	28.0
Life expectancy at 60 for a female currently aged 40	**30.3**	30.2

WPUPS

	31 March 2017	31 March 2016
Mortality table adopted	Based on S2NXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	Based on S1NXA base tables with CMI 2011 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	**26.0**	26.0
Life expectancy for a female currently aged 60	**28.3**	28.2
Life expectancy at 60 for a male currently aged 40	**27.4**	27.4
Life expectancy at 60 for a female currently aged 40	**29.8**	29.7

INFRALEC 92

	31 March 2017	31 March 2016
Mortality table adopted	Based on S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	Based on S1PXA base tables with CMI 2011 core projections and a 1.0% per annum long-term improvement rate
Life expectancy for a male currently aged 60	**26.6**	26.5
Life expectancy for a female currently aged 60	**28.7**	28.6
Life expectancy at 60 for a male currently aged 40	**28.0**	28.0
Life expectancy at 60 for a female currently aged 40	**30.3**	30.2

20. Pension commitments (continued)

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

	Change in assumption	Impact on defined benefit obligation		
		ESPS	WPUPS	Infralec 92
	%	£m	£m	£m
Discount rate	+/-0.50%	+86.0/-79.1	+40.3/-37.9	+1.0/-1.0
RPI inflation	+/-0.50%	+81.7/-76.3	+34.6/-33.5	+0.9/-0.9
Life expectancy	+ 1 year	+46.2	+25.6	+0.7

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

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

	31 March 2017		31 March 2016	
	Total	**Of which not quoted in an active market**	Total	Of which not quoted in an active market
	£m	**£m**	£m	£m
Equities	**174.2**	**-**	127.9	-
Absolute return	**283.8**	**-**	49.7	-
Government bonds	**321.4**	**-**	151.1	-
RAFI and diversified funds (equity funds)	**-**	**-**	177.4	-
Corporate bonds	**-**	**-**	91.7	-
Property	**60.3**	**60.3**	58.5	58.5
Other	**51.5**	**-**	6.0	-
Total	**891.2**	**60.3**	662.3	58.5

WPUPS scheme assets are comprised as follows:

	31 March 2017		31 March 2016	
	Total	**Of which not quoted in an active market**	Total	Of which not quoted in an active market
	£m	**£m**	£m	£m
Equities	**331.7**	**-**	230.7	-
Government bonds	**250.0**	**-**	207.2	-
Other	**36.0**	**-**	1.3	-
Total	**617.7**	**-**	439.2	-

20. Pension commitments (continued)

Infralec 92 scheme assets are comprised as follows:

	31 March 2017		31 March 2016	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Equities	**9.3**	**-**	6.7	-
Government bonds	**3.0**	**-**	2.4	-
Corporate bonds	**2.0**	**-**	1.3	-
Other	**1.1**	**-**	0.9	-
Total	**15.4**	**-**	11.3	-

There is no self-investment in the schemes.

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

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

The schemes use government bonds, corporate bonds and cash as matching assets. The remainder of assets are used as growth assets.

The employer has agreed that it will aim to eliminate the schemes deficits (as assessed on the ongoing funding basis) by 31 March 2026 for the WPD segment of the ESPS, WPUPS, and for Infralec 92.

The current agreed employer contributions are 31.2% per annum of pensionable salaries for the WPD segment of the ESPS in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits, plus an additional £1.4m per annum in respect of expenses. The Company made a £40.0m prepayment to the WPD segment of the ESPS in respect of deficit recovery and future service contributions on 30 March 2017. Company contributions are expected to recommence from 1 April 2018 with deficit contributions of £33.5m per annum payable from 1 April 2018 to 31 March 2021 and £8.1m per annum payable from 1 April 2021 to March 2026.

20. Pension commitments (continued)

Employer contributions into WPUPS during 2016/17 was £93.6m, of which £80.0m was a prepayment of deficit contributions covering the period 31 January 2017 to 1 April 2020. From 1 April 2020 the company will pay £7.0m per annum for 6 years, payable in monthly instalments and indexed annually at RPI (with the first increase being due on 1 April 2021).

Employer contributions into Infralec 92 during 2016/17 was £2.5m which was a prepayment of deficit contributions covering the period up to 31 March 2021. From 1 April 2021 to 31 March 2026 (inclusive) the Company will pay £0.2m per annum.

Funding levels are monitored on a regular basis and the next triennial valuation is due to be completed as at 31 March 2019.

Current expected employer contributions to the scheme for the year ending 31 March 2018 are £nil for the WPD South Wales segment of the ESPS, for WPUPS and for Infralec 92.

Please note the results of actuarial funding valuation as at 31 March 2019 may give rise to a revised schedule of contributions and as such the quantities in the above paragraph may be liable to change.

The weighted average duration of the defined benefit obligation is around 18 years for the WPD segment of the ESPS and around 15 years for both WPUPS and Infralec 92.

Other scheme

WPD also operates a defined contribution scheme. The assets of the scheme are held separately from those of WPD in an independent fund administered by the scheme trustee. The scheme has two sections and the following relates to the WPD Group as a whole:

(a) a closed section with no active members. All of the active members in this scheme have transferred to the ESPS. At 31 March 2017 there were 208 members with deferred benefits in the scheme (2016: 213) and 3 pensioners (2016: 6). Market value of the assets was £2.2m (2016: £1.9m).

(b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2017 there were 3,288 members (2016: 3,015). The market value of the assets of the open section of the scheme was £60.3m (2016: £42.2m). Employer contributions to the scheme across WPD amounted to £6.7m in the year (2016: £5.6m).

21. Authorised and issued share capital

	2017	2016
	£	£
Authorised:		
1,010,000,004 ordinary shares of 50p each	**505,000,002**	505,000,002

Allotted, called-up and fully paid:
Ordinary shares of 50p each

	Number	£
At 1 April 2016	503,442,224	251,721,112
Issue of equity shares	80,000,000	40,000,000
At 31 March 2017	**583,442,224**	**291,721,112**

During March 2017 the Company issued 80,000,000 ordinary shares at par to WPD Distribution Network Holdings Limited. The proceeds were used to fund a contribution into the defined benefit pension scheme.

22. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2015	23.2	5.1	6.7	168.7
Profit for the financial year	-	-	-	73.9
Dividends paid	-	-	-	(43.4)
Net movement on cash flow hedges (net of tax)	-	-	(0.3)	-
Actuarial gains on defined benefit pension plans (net of tax)	-	-	-	36.1
At 31 March 2016	23.2	5.1	6.4	235.3
Profit for the financial year	-	-	-	98.3
Net movement on cash flow hedges (net of tax)	-	-	(0.5)	-
Actuarial losses on defined benefit pension plans (net of tax)	-	-	-	(33.1)
At 31 March 2017	**23.2**	**5.1**	**5.9**	**300.5**

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

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

23. Contingent liabilities

Legal proceedings
WPD South Wales is party to various legal claims, actions and complaints. Although WPD South Wales is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on WPD South Wales' financial statements.

24. Commitments

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

	2017	2016
	£m	£m
Tangible fixed assets	**6.3**	2.4

Operating lease commitments - WPD South Wales as lessee
WPD South Wales leases various properties under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewable rights. WPD South Wales also leases plant and machinery under non-cancellable operating leases which are usually very short term.

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

	2017	2016
	£m	£m
Within one year	**0.1**	0.1
In the second to fifth years inclusive	**0.2**	0.3
After five years	**-**	-
	0.3	0.4

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For the year ended 31 March 2017

25. Ultimate parent undertaking

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

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

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

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