

Registered Number: 9223384

**WESTERN POWER DISTRIBUTION PLC
AND SUBSIDIARY UNDERTAKINGS**

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2017



Western Power Distribution 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 plc (the "Company") and its subsidiary undertakings (the "WPD Group" or "WPD") for the year ended 31 March 2017. These are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The Company is the UK parent of the WPD Group whose principal operating activity is conducted by Western Power Distribution (South West) plc ("WPD South West"), Western Power Distribution (South Wales) plc ("WPD South Wales"), Western Power Distribution (East Midlands) plc ("WPD East Midlands"), and Western Power Distribution (West Midlands) plc ("WPD West Midlands").

Ownership

The Company is ultimately owned by PPL Corporation, an electricity utility of Allentown, Pennsylvania, United States of America.

Business model

What we do

WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands are all electricity Distribution Network Operators ("DNOs"). The four WPD DNOs distribute electricity to a total of approximately 7.8 million end users over the following regions:

	End users (million)	Area (sq km)	Region
WPD South West	1.6	14,400	South West of England
WPD South Wales	1.1	11,800	South Wales
WPD East Midlands	2.6	16,000	East Midlands of England
WPD West Midlands	2.5	13,300	West Midlands of England
	<u>7.8</u>	<u>55,500</u>	

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 7.8 million end users are registered with licensed electricity suppliers, who in turn pay the WPD Group for using its network. Our costs make up around 16% of a domestic customer's bill.

WPD's network comprises approximately:

	Overhead lines (km)	Underground cable (km)	Transformers (no.)	Maximum demand (megawatts)	
				2016/17	2015/16
WPD South West	27,907	22,459	52,458	2,653	2,594
WPD South Wales	17,933	17,792	40,111	1,944	1,956
WPD East Midlands	21,269	51,875	43,322	5,040	4,997
WPD West Midlands	23,485	41,083	50,014	4,549	4,539
Total	<u>90,594</u>	<u>133,209</u>	<u>185,905</u>		

Regulation

WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands are monopolies 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 (known as RIIO-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 and act as a "contract" between the distribution network companies and their customers.

Strategic report (continued)

For the year ended 31 March 2017

Business model (continued)

Regulation (continued)

For ED1 Ofgem set WPD's allowance for the cost of equity at 6.4%, which contributes to a weighted average cost of capital ("WACC") allowance of 3.9% for 2015/16.

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

In addition to the base level of revenue which the DNOs are 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.

WPD submitted an outputs based Business Plan for the RII0-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 licenses took effect from 1 April 2015.

Business review

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.

Strategic report (continued)

For the year ended 31 March 2017

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.

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 and protection of the site as a whole or in extreme cases site relocation.

Predicted increases in ambient temperatures 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.

Strategic report (continued)

For the year ended 31 March 2017

Long term strategy (continued)

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")

	WPD South West		WPD South Wales	
	2016/17	2015/16	2016/17	2015/16
Non-Financial				
Safety:				
Lost time accidents	2	4	1	2
Non lost time accidents	20	26	3	6
Network reliability:				
Customer minutes lost	39.7	37.5	25.7	26.3
Customer interruptions (per 100 customers)	52.5	51.4	41.6	47.4
Financial				
Total expenditure*	£380.1m	£353.3m	£243.9m	£244.6m
Debt to Regulatory Asset Value ("RAV")	69.0%	65.2%	67.0%	58.9%
Interest cover**	7.2	6.3	5.0	3.8
	WPD East Midlands		WPD West Midlands	
	2016/17	2015/16	2016/17	2015/16
Non-Financial				
Safety:				
Lost time accidents	2	2	2	2
Non lost time accidents	10	17	22	21
Network reliability:				
Customer minutes lost	22.0	21.5	32.0	32.2
Customer interruptions (per 100 customers)	44.9	44.5	59.0	65.4
Financial				
Total expenditure*	£506.3m	£511.0m	£486.0m	£490.4m
Debt to Regulatory Asset Value ("RAV")**	73.5%	65.0%	70.0%	62.7%
Interest cover***	5.7	5.2	5.0	4.2

* Operating expenses plus capital expenditure (not including customer contributions) on tangible and intangible assets. This is a key number in the business plan submitted to Ofgem.

** 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.

Strategic report (continued)

For the year ended 31 March 2017

Business review (continued)

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 of safety and training policies across the industry.

Sadly and regrettably, the safety performance was over-shadowed by one fatality to a member of staff during the year in WPD South Wales and one fatality in the prior year in WPD East Midlands. In addition, there were 2 lost time accidents in WPD South West, 0 in WPD South Wales, 2 in WPD East Midlands and 2 in WPD West Midlands. This compares with 4, 2, 1 and 2 respectively in 2015/16.

The number of non lost time accidents reported in 2016/17 was 20 in WPD South West, 3 in WPD South Wales, 10 in WPD East Midlands and 22 in WPD West Midlands. This compares with 26, 6, 17 and 21 respectively 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. The directors continue to be committed to the highest level of safety in all areas of the business.

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. The team 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.
- 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"), 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. In addition Ofgem incentivises the quality of telephone response customers receive when they contact the licensee. This is assessed by a customer survey carried out on a monthly basis.

Strategic report (continued)

For the year ended 31 March 2017

Business review (continued)

Network performance (continued)

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

	WPD South West		WPD South Wales		WPD East Midlands		WPD West Midlands	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
CML 2016/17	39.7		25.7		23.8		38.1	
Excluded events	-		-		(1.8)		(6.1)	
IIS 2016/17	39.7	43.6	25.7	33.6	22.0	39.1	32.0	53.6
IIS 2015/16	37.5	43.9	26.3	35.4	21.6	40.2	32.2	55.7
CI 2016/17	52.5		41.6		47.0		62.8	
Excluded events	-		-		(2.1)		(3.8)	
IIS 2016/17	52.5	58.9	41.6	53.7	44.9	52.1	59.0	87.1
IIS 2015/16	52.0	59.2	47.4	55.1	42.7	53.2	65.4	89.1

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD networks 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, 85.3% of customers in the WPD South West, 87.8% for WPD South Wales, 90.0% for WPD East Midlands and 91.2% for WPD West Midlands off supply 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 numbers 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 West and WPD South Wales reported no exceptional events to Ofgem during the year, while WPD East Midlands reported two and WPD West Midlands reported one.

Subject to Ofgem confirmation, the customer minutes lost and interruptions per 100 customers for the year detailed above are within the targets set. The outperformance relative to the RIIO-ED1 targets set by Ofgem is particularly gratifying as the new targets are particularly tough for DNOs acknowledged by Ofgem as being frontier performers.

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 East Midlands and WPD West Midlands achieved a fifth year of the statutory Energy Ombudsman Scheme with zero customer complaints upheld.

During the year WPD South West recorded 34 failures against Ofgem's national Customer Guarantee Service Standards for network performance, WPD South Wales recorded no failures, WPD East Midlands recorded 1 failure and WPD West Midlands recorded 15 failures. All four DNOs recorded zero failures for the year against the 37 standards relating to connections performance and also exceeded all of the network performance targets under the Quality of Service incentive scheme.

Strategic report (continued)

For the year ended 31 March 2017

Business review (continued)

Customer service (continued)

Stakeholder Engagement Incentive

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.

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 continued accreditation to the national Customer Service Excellence ("CSE") Standard.

WPD has 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 undergoes 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 is 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. BS18477 was recommended by Ofgem as part of their Vulnerable Customer Strategy review discussions. The assessment adds considerable endorsement to WPD's 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.

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."

Strategic report (continued)

For the year ended 31 March 2017

Business review (continued)

Customer service (continued)

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, University of Nottingham, 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 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.

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 across WPD, on future networks and becoming a DSO. We also hosted a series of Webinars to explore findings in more detail.

Since 2010 WPD has held a number of stakeholder workshops and more than 4,750 people have been engaged to help us build and review our Business Plan - the vast majority face-to-face. After WPD's RII0-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.

Deaf Awareness Chartermark

WPD holds the Action on Hearing Loss (formerly RNID) 'Louder Than Words' 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.

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 damaged 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 the WPD Group 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

Strategic report (continued)

For the year ended 31 March 2017

Business review (continued)

Environment (continued)

Fluid filled cables (continued)

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 single major cable leak in the East Midlands accounted for over 10,000 litres of the 2012/13 total.

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. Losses from SF6 equipment in WPD East Midlands and WPD West Midlands during the year amounted to 87.44kg, representing 0.2% 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.

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 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.

Strategic report (continued)

For the year ended 31 March 2017

Business review (continued)

Business efficiency

Profit before income tax increased by £199.0m compared to the previous year to £803.5m. Operating profit at £1,072.8m was £189.7m higher with revenue up by £184.0m and operating costs down by £5.5m. Revenue 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') within the DNOs increased by £17.4m. Operating costs reduced by £5.5m and capital expenditure increased by £22.5m. 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.

Total net assets at 31 March 2017 were £3,837.1m, an increase of £147.6m on the previous year. Property, plant and equipment increased by £772.7m reflecting the fact that capital expenditure exceeds the historical cost depreciation charge. The retirement benefit obligation decreased by £250.2m. Debt, net of financial investments and cash, increased by £681.8m. The value of derivatives showed a positive increase of £32.4m.

The reduction in the retirement benefit obligation is largely due to a £230.0m prepayment in March 2017 of employer contributions relating to the year ending 31 March 2018 and a higher return on asset performance, partly offset by an increase to scheme liabilities due to a change in the financial assumptions underlying the calculation. In particular, a fall in the yield on AA-rated corporate bonds used to determine the discount rate has led to a higher value being placed on the liabilities at the year end.

Debt to RAV (see page 4)

Asset cover (total net debt to RAV) 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. The interest cover ratios are at an acceptable level and show that the DNOs are generating more than enough profits to cover interest payments.

Capital investment

Capital investment on tangible fixed assets (before customers' contributions) during the year was £1,030.0m (2016: £1,008.1m) across the four DNO regions within the WPD Group and included the replacement of both lines and switchgear together with the introduction of new technology.

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

In the WPD South West area:

- Generator connections

During 2016 WPD supplied 132kV connections to two new waste incinerator plants being developed by the waste company SUEZ in the South West of England. A new incinerator located at St. Dennis in Cornwall is designed to take all the household refuse from Cornwall and will be used to supply up to 24MW into the network via a new 132kV connection with Indian Queens Bulk Supply Point ("BSP"). This was energised in February 2016 with the WPD works being completed on a brand new 132kV circuit at Indian Queens two months early. A second incinerator plant located in Avonmouth, near Bristol, was energised in April 2016. This is a 30MW generator connected to Seabank 132kV substation and takes waste from West London.

- Ottery St Mary Devon

Works in the Tiverton area of Devon were completed in 2016. At Tiverton BSP all the 132kV and 33kV switchgear has been changed and made flood resilient. Works started in early 2016 to replace two 132kV oil filled circuit breakers, 10 outdoor 33kV circuit breakers plus all the associated isolators and protection systems. The site was a known flood risk site so the opportunity was taken to also create a flood resilient site. The 33kV outdoor switchgear was relocated into a raised switch-room and the 132kV switchgear was also separately protected to achieve protection against a 1:1,000 flood event. With the new equipment and increased flood resilience, the reliability of supply to over 28,000 customers has been significantly enhanced.

Strategic report (continued)

For the year ended 31 March 2017

Business review (continued)

Capital investment (continued)

In the WPD South Wales area:

- 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.

- Abertyswg 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.

In the WPD East Midlands area:

- Derby South grid transformer replacement

The Derby South grid 132kV site supplies power to over 50,000 customers in South Derbyshire, including large customers such as Rolls Royce and Bombardier. During the year the two 60MVA transformers have been replaced with two new 90MVA units. The work involved the replacement and upgrade of all the associated 132kV equipment on the site including transformer disconnectors, earthing auxiliary transformers, the HV and LV protection panels and the automatic voltage control equipment.

- Boston to Mount Bridge 33kV circuit replacement

The Projects Team completed the replacement of overhead conductors and the refurbishment of steel towers on a complex 33kV tower circuit in North Lincolnshire providing supplies to nearly 20,000 customers in the Boston area. Part of the circuit route comprises three separate circuits which cross the tidal part of the river Haven adjacent to the busy Boston dock. To allow for shipping to pass under the circuits they are constructed on 40 metre towers, which are two and a half times the normal height of a 33kV tower. There was associated work at the terminal locations to replace cables connecting the tower circuits and the project was completed within a 6 week window.

In the WPD West Midlands area:

- 123kV overhead network reinforcement

Work on a project to reinforce the 132kV network near Telford in the West Midlands has been completed and it has secured the supply to over 25,000 customers in the area. The £5m project involved reconfiguration of the network at Ketley 132/33kV substation by removing four 132kV towers and 850m of overhead line and by establishing two new terminal towers.

- Birmingham city centre reinforcement

A project to establish a new 132kV substation site at Hockley in Birmingham has been completed. The new substation consists of two 132/11kV 78MVA grid transformers and two 23 panel 11kV switchboards. The northern part of Birmingham was fed from Summer Lane 132kV substation with a 72 panel 11kV switchboard. However there was a need to de-load this substation, hence Hockley was built and thirty 11kV circuits transferred from Summer Lane to Hockley. This £15m project has secured the supplies by splitting the circuits across two substations and allowing scope for further load growth in this area of the UK's second largest city.

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 which 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.

Strategic report (continued)

For the year ended 31 March 2017

Future developments (continued)

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 an 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 are continuing to make good progress with valuable learning emerging as WPD trials new solutions.

The seven Tier 2 projects are:

- 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 since 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.
- 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.
- 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 will allow DNOs to automatically develop optimised investment plans 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 these 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.

Strategic report (continued)

For the year ended 31 March 2017

Future developments (continued)

Future Networks – Research, Innovation and Low Carbon Networks

- 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”).
- 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

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

Regulatory risk

The substantial part of WPD's revenue is regulated and is subject to a 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 each regulated 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 resources in the review process and has been proactive in working with Ofgem to establish better measures of cost recording to inform future reviews.

If a licensee 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.

WPD's regulated income and also the RAV are to some extent linked to movements in the RPI. Reductions in the 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 controls 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 a 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.

Strategic report (continued)

For the year ended 31 March 2017

Principal risks (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 'Network performance' above).

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, WPD believes that its networks are robust. It targets capital expenditure on schemes which are assessed to have the greatest improvement in 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. WPD 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 WPD with no guarantee that Ofgem would allow them to be recovered through regulated income.

Interest rate risk

The WPD Group has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, respectively. An element of the long-term debt is index linked which creates a natural hedge against the WPD Group's regulated income, which is also index linked.

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 WPD DNOs 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.

Exchange rate risk

The WPD Group's assets are principally pound sterling denominated; however, the WPD Group has access to various international debt capital markets and raises foreign currency denominated debt. Where long-term debt is denominated in a currency which is not sterling, the WPD Group's policy is to swap 100% of the foreign currency denominated principal and interest cash flows into sterling through the use of cross-currency swaps.

WPD holds an investment of \$200m 2018 6.42% Eurobonds issued by PPL UK Resources Limited which were acquired at a premium of \$21m. It also has short-term borrowings of \$200m under a related committed credit facility. At 31 March 2017, the WPD Group was exposed to movements on exchange rates of \$3.8m. See Note 19 for further detail.

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.

Strategic report (continued)

For the year ended 31 March 2017

Principal risks (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.

With very limited exceptions, WPD's defined benefit pension plans are closed to new members. A defined contribution scheme is 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 WPD, 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 operating subsidiaries carry all or an element of the risk itself ("self insured") or underwrite 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 cover 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 Boards of the DNOs also include 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.

Strategic report (continued)

For the year ended 31 March 2017

Internal control environment (continued)

There are many cultural features in WPD that contribute directly to the success of WPD 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;
- 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 WPD's ability to react quickly and effectively to events, therefore enabling WPD 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 of internal controls over financial reporting. WPD comply with these requirements via a two stage approach.

Firstly, WPD entity level controls which are pervasive across WPD 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 have also continued to tailor our support to align, where appropriate, with the feedback from our stakeholder and customer 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.

Strategic report (continued)

For the year ended 31 March 2017

Corporate and social responsibility (continued)

Social and community issues (continued)

Highlights during the year have included:

- Over 500 educational safety events reached over 53,000 school children. These included school visits, crucial crew and lifeskills 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.
- 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.

Customer awareness survey

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 as 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 was effective in raising awareness, with a 10% 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 8.

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 were from:

	WPD Group		WPD Group	
	tCO ₂ e		tCO ₂ e per employee	
	2017	2016	2017	2016
Scope 1 (direct emissions)				
Operational transport	23,411	22,769	3.54	3.50
SF6 gas (page 9)	5,211	9,046	0.79	1.39
Fuel combustion (diesel)	2,965	2,287	0.45	0.35
Buildings	226	193	0.03	0.03
	31,813	34,295	4.81	5.27
Scope 2 (energy indirect emissions)				
Buildings electricity	9,071	10,933	1.37	1.68
Substation electricity	22,992	25,789	3.48	3.96
Surf Telecoms Limited (subsidiary company)	651	687	0.10	0.11
	32,714	37,409	4.95	5.75
Total scope 1 & 2	64,527	71,704	9.76	11.02
Scope 3 (other indirect emissions)				
Business transport	3,311	5,316	0.50	0.82
	67,838	77,020	10.26	11.84

tCO₂e = tonnes of carbon dioxide equivalent

WPD'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 6,606 (2016: 6,523).

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.

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 WPD'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 WPD are vulnerable customers and those in fuel poverty.

Vulnerable customers

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.

Strategic report (continued)

For the year ended 31 March 2017

Corporate and social responsibility (continued)

Human rights issues (continued)

Vulnerable customers (continued)

WPD has established a dedicated team of people to proactively contact 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.

Fuel poverty and energy affordability

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 key support. In recent years we have worked with expert partners such as the Centre for Sustainable Energy, the charity National Energy Action and with the Energy Saving Trust to provide information for our customers on the causes of and solutions for fuel poverty.

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 plc

Avonbank
Feeder Road
Bristol BS2 0TB

Directors' report

For the year ended 31 March 2017

Results and dividends

The WPD Group reports a profit for the financial year of £694.3m (2016: £556.9m). Profit on ordinary activities before tax is £803.5m (2016: £604.5m).

The WPD Group had an additional loss, which was posted directly to capital and reserves, of £232.9m (2016: £249.4m gain). This primarily relates to benefit pension plan remeasurement, net of tax.

Dividends of £313.8m have been paid during the year (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.

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

The following credit facilities were in place at 31 March 2017, in respect of which all conditions precedent had been met at that date.

	Expiration Date	Capacity £m	Borrowed £m	Letters of Credit issued £m	Unused Capacity £m
WPD plc - Syndicated Credit Facility	Jan. 2022	210.0	158.9	-	51.1
WPD plc - Term Loan Facility	Dec. 2017	230.0	230.0	-	-
WPD South West - Syndicated Credit Facility	July 2021	245.0	80.0	-	165.0
WPD East Midlands - Syndicated Credit Facility	July 2021	300.0	125.0	-	175.0
WPD West Midlands - Syndicated Credit Facility	July 2021	300.0	-	-	300.0
Uncommitted Credit Facilities		90.0	-	3.8	86.2
Total Credit Facilities		1,375.0	593.9	3.8	777.3

As at 31 March 2017 the WPD Group had the following levels of debt:

	External debt outstanding				Cash and short term deposits	
	Long-term		Short-term			
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
WPD South West	744.0	736.1	105.4	46.6	21.6	20.2
WPD South Wales	629.2	578.6	-	-	19.5	32.2
WPD East Midlands	1,384.9	1,196.0	125.0	-	11.3	13.7
WPD West Midlands	1,439.5	1,438.9	-	-	11.5	220.6
Western Power Distribution plc	1,046.9	1,040.8	469.5	459.0	3.0	32.5
Other subsidiaries	-	-	-	-	30.6	31.0
	<u>5,244.5</u>	<u>4,990.4</u>	<u>699.9</u>	<u>505.6</u>	<u>97.5</u>	<u>350.2</u>

Short-term debt includes bank overdrafts of £25.3m (2016: £11.5m). In addition the WPD Group's parent, Western Power Distribution plc, had made a loan to its parent of £163.1m (2016: £143.8m).

The Group has net current liabilities of £841.0m (2016: £446.1m). Of the increase, £230.0m relates to borrowing to fund a prepayment of pension contributions due 2017/18. The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing facilities, and issuances of long-term debt.

After consideration, the directors of the WPD Group have concluded that the WPD Group 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 WPD Group to be able to raise additional long term debt in the future.

Directors' report (continued)

For the year ended 31 March 2017

Financial risk management objectives and policies (continued)

Dividend policy

The WPD Group is structured such that a proportion of the WPD Group's debt is issued by the holding company Western Power Distribution plc. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WPD South West, WPD South Wales, 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 11;
- an indication of activities of the Company in the field of research and development - see page 12;
- a statement on the policy for disabled employees - see page 18;
- employee policies - see page 18;
- greenhouse gas (carbon) emissions - see page 18.

Directors and their interests

The directors who served during the year and subsequently were as follows:

RA Symons, Chief Executive
DCS Oosthuizen, Finance Director
P Swift, Operations Director
IR Williams, Resources and External Affairs Director
WH Spence
V Sorgi
AJ Torok
JP Bergstein
GN Dudkin
SK Breininger, alternate director to V Sorgi

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

During and at the end of the financial year, no director was materially interested in any contract of significance in relation to the WPD Group's business other than service contracts.

Insurance in respect of directors and officers is maintained by the WPD Group'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.

Regulatory financial statements

As a condition of its Electricity Distribution Licence, each licensee is required to prepare and publish separate financial statements for its distribution business for each year ending 31 March. WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands will publish information on the WPD website and this information 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 directors listed above confirm to the best of their knowledge:

- (a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; 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 and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' report (continued)

For the year ended 31 March 2017

Independent auditor

The Group'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 during 2016, PPL Corporation has 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

18 July 2017

Western Power Distribution plc
Avonbank
Feeder Road
Bristol BS2 0TB

Registered Number: 9223384

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and Financial Statements, including the WPD Group financial statements and the Company financial statements, the Strategic report and the Directors' report 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 WPD Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent company 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 Group and Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- made an assessment of the Company's ability to continue as a going concern.

In preparing the Company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and 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 on a consolidated and individual basis, and to enable them to ensure that the individual and consolidated financial statements comply with the Companies Act 2006 and with regards to the group financial statements, article 4 of the IAS regulation. They are also responsible for the system of internal control for safeguarding the assets of the Company and its subsidiaries 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. Information published on the Company's website is accessible in many countries with different legal requirements. 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 plc

We have audited the Group financial statements of Western Power Distribution plc for the year ended 31 March 2017 which comprise the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, Group balance sheet, the Group cash flow statement, and the related Notes 1 to 28, and the parent Company balance sheet, the parent Company statement of changes in equity, and the related Notes 1 to 9. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS101 '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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's 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 Group and parent Company 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 Group's and the parent 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 performing our 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 Group's and of the parent Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

**Independent auditor's report
to the members of Western Power Distribution plc**

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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

Nigel Thomas, Senior statutory auditor
for and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
24 July 2017

Western Power Distribution plc Group income statement

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Revenue	2	1,664.6	1,480.6
Operating costs	3	(592.6)	(598.1)
Other operating income	4	2.8	2.9
Other operating expense	4	(2.0)	(2.3)
Operating profit	2	1,072.8	883.1
Finance income	5	8.4	8.6
Finance costs	5	(271.3)	(266.9)
Net finance expense relating to pensions and other post-retirement benefits	22	(6.4)	(20.3)
Profit before income tax		803.5	604.5
Income tax expense	8	(109.2)	(47.6)
Profit for the year attributable to equity holders of the parent		694.3	556.9

All operations are continuing.

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

Western Power Distribution plc Group statement of comprehensive income

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Profit for the year		694.3	556.9
Other comprehensive (loss)/income:			
<i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:</i>			
Profits arising on cash flow hedges during the year		68.9	32.5
Reclassification adjustments for gains/(losses) on cash flow hedges included in profit or loss (finance costs)		(83.8)	(29.2)
Income tax effect	8	2.6	(0.7)
		(12.3)	2.6
<i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement (losses)/gains on defined benefit pension plan	22	(271.1)	315.0
Income tax effect:			
Impact of tax rate change	8	(2.3)	(1.5)
Other	8	52.8	(66.7)
		(220.6)	246.8
Other comprehensive (loss)/income for the year, net of tax		(232.9)	249.4
Total comprehensive income for the year, net of tax, attributable to equity holders of the parent		461.4	806.3

Western Power Distribution plc Group statement of changes in equity

For the year ended 31 March 2017

	Note	Share capital £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2015		1,657.6	(963.1)	(1.6)	2,190.3	2,883.2
Profit for the year		-	-	-	556.9	556.9
Other comprehensive income		-	-	2.6	246.8	249.4
Total comprehensive income for the year		-	-	2.6	803.7	806.3
At 31 March 2016		1,657.6	(963.1)	1.0	2,994.0	3,689.5
Profit for the year		-	-	-	694.3	694.3
Other comprehensive loss		-	-	(12.3)	(220.6)	(232.9)
Total comprehensive (loss)/income for the year		-	-	(12.3)	473.7	461.4
Equity dividends paid	9	-	-	-	(313.8)	(313.8)
At 31 March 2017		1,657.6	(963.1)	(11.3)	3,153.9	3,837.1

Western Power Distribution plc Group balance sheet

As at 31 March 2017

	Note	2017 £m	2016 £m
ASSETS			
Property, plant and equipment	10	11,238.9	10,466.2
Investment property	11	37.3	37.8
Intangible assets	12	1,271.5	1,267.2
Held-to-maturity investments	13	163.1	143.8
Trade and other receivables	15	2.0	32.8
Derivative financial instruments	20	114.0	68.3
Retirement benefit assets	22	78.9	-
Non-current assets		12,905.7	12,016.1
Inventories	14	23.2	20.1
Trade and other receivables	15	297.3	291.3
Current tax assets		11.8	-
Derivative financial instruments	20	26.9	40.2
Cash and cash equivalents	16	97.5	350.2
Current assets		456.7	701.8
Total assets	2	13,362.4	12,717.9
LIABILITIES			
Loans and other borrowings	18	699.9	505.6
Trade and other payables	17	585.0	607.1
Current tax liabilities		-	20.2
Provisions	23	12.8	15.0
Current liabilities		1,297.7	1,147.9
Loans and other borrowings	18	5,244.5	4,990.4
Deferred income tax liabilities	21	474.7	439.2
Retirement benefit obligations	22	150.3	321.6
Trade and other payables	17	2,232.5	2,082.9
Provisions	23	125.6	46.4
Non-current liabilities		8,227.6	7,880.5
Total liabilities	2	9,525.3	9,028.4
Net assets		3,837.1	3,689.5
EQUITY			
Share capital	24	1,657.6	1,657.6
Merger reserve	25	(963.1)	(963.1)
Hedging reserve	25	(11.3)	1.0
Retained earnings	25	3,153.9	2,994.0
Total equity		3,837.1	3,689.5

The financial statements on pages 26 to 78 were approved by the Board of Directors on 18 July 2017 and signed on its behalf by:

R A Symons
Chief Executive

D C S Oosthuizen
Finance Director

Western Power Distribution plc Group cash flow statement

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Operating activities - continuing operations			
Profit for the year		694.3	556.9
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Tax expense		109.2	47.6
Finance costs		277.7	287.2
Finance revenue		(8.4)	(8.6)
Depreciation of property, plant and equipment		219.6	196.4
Amortisation of customers' contributions		(42.0)	(39.0)
Amortisation of intangible assets		4.5	3.8
Gain on disposal of property, plant and equipment		(1.2)	(2.1)
Fair value gains on investment properties		(1.4)	(0.5)
Fair value losses on investment properties		2.0	2.3
Difference between pension contributions paid and amounts recognised in the income statement		(406.1)	(164.3)
Increase/(decrease) in provisions		0.1	(1.9)
Working capital adjustments:			
Increase in inventories		(3.1)	(1.8)
(Increase)/decrease in trade and other receivables		(19.7)	16.8
Increase in trade and other payables		11.8	27.6
Interest paid		(262.2)	(262.0)
Interest received		10.3	11.8
Income taxes paid		(52.7)	(61.8)
Net cash from operating activities		532.7	608.4
Investing activities			
Purchase of property, plant and equipment		(992.6)	(990.0)
Customers' contributions received		191.7	190.2
Proceeds from sale of property, plant and equipment		1.6	2.6
Purchase of investment properties		(0.1)	(1.0)
Proceeds from sale of investment properties		-	0.5
Purchase of intangible assets		(8.8)	(4.4)
Net cash used in investing activities		(808.2)	(802.1)
Financing activities			
Net increase/(decrease) in short-term borrowings		400.6	(110.7)
Proceeds from long-term borrowings		236.1	554.8
Issue costs of long-term borrowings		(0.4)	(3.5)
Repayment of long-term borrowings (net of cross currency swap settlements)		(282.8)	-
Loan repaid to affiliate		(30.7)	(200.0)
Dividends paid		(313.8)	-
Net cash from financing activities		9.0	240.6
Net (decrease)/increase in cash and cash equivalents		(266.5)	46.9
Cash and cash equivalents at beginning of year	16	338.7	291.8
Cash and cash equivalents at end of year	16	72.2	338.7

Notes to the Western Power Distribution plc Group financial statements

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions

The financial statements of Western Power Distribution plc (the "Company") and its subsidiaries (the "WPD Group" or "WPD") 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and in accordance with the provisions of the UK Companies Act 2006. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board ('IASB'), however, the differences have no impact on the WPD Group's consolidated financial statements for the years presented. The significant accounting policies and critical accounting judgements, estimates and assumptions of the WPD Group are set out below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with EU IFRS and IFRS Interpretations Committee ('IFRIC') interpretations issued and effective for the year ended 31 March 2017. The accounting policies that follow have been consistently applied to all years presented.

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

These consolidated financial statements are presented in sterling and all values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

Going concern

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the WPD Group 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.

Basis of consolidation

The WPD Group financial statements consolidate the financial statements of the Company and the entities it controls (its subsidiaries) drawn up to 31 March each year. Control of an investee exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities of the investee. Subsidiaries, other than those acquired under common control transactions, are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. Intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

For business combinations involving entities under common control, the pooling of interest method is applied. The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. The only adjustments that are made are to harmonise accounting policies. No 'new' goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity. The income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Impact of new International Financial Reporting Standards

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

Not yet adopted

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the WPD Group.

IFRS 9 'Financial Instruments' will supersede IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

Impact of new International Financial Reporting Standards (continued)

Not yet adopted (continued)

IFRS 15 'Revenue from Contracts with Customers' provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 'Revenue'.

WPD expects to adopt IFRS 9 and IFRS 15 on 1 April 2018. The Group's evaluation of the effect of adoption of these standards is ongoing but it is not currently anticipated that either IFRS 9 or IFRS 15 will have a material effect on the financial statements.

The EU has adopted both IFRS 9 and IFRS 15.

IFRS 16 'Leases' provides a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

WPD expects to adopt IFRS 16 on 1 April 2019 using the modified retrospective approach to transition permitted by the standard in which the cumulative effect of initially applying the standard is recognized in opening retained earnings at the date of initial application. The Group's evaluation of the effect of adoption of the standard is ongoing but it is expected that it will have an effect on the Group's financial statements, increasing the Group's recognised assets and liabilities primarily in the non-network businesses. It is expected that the presentation and timing of recognition of charges in the income statement will also change as the operating lease expense currently reported under IAS 17, typically on a straight-line basis, will be replaced by depreciation of the right-to-use asset and interest on the lease liability. Information on the Group's leases currently classified as operating leases, which are not recognised on the balance sheet, is provided in Note 27.

The EU has not yet adopted IFRS 16.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the Group.

Significant accounting policies: use of judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the WPD Group's accounting policies. Estimates, assumptions and judgements are continually evaluated based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity are described below.

Goodwill

The WPD Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the fair value of cash-generating units. Estimates of fair value are consistent with market information and the WPD Group's plans and forecasts.

At 31 March 2017, the carrying value of goodwill amounted to £1,254.1m (2016 £1,254.1m). Refer to Note 12 for further details on the impairment testing performed on goodwill.

Pension obligations

The WPD Group has a commitment, mainly through the Electricity Supply Pension Scheme ("ESPS"), to pay pension benefits. The cost of these benefits and the present value of the WPD Group'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, WPD 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. See Note 22 for information on sensitivities.

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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

Business combinations and goodwill

Business combinations, other than the combination of businesses under common control, are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in distribution and administration expenses.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognized for any non-controlling interest and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

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

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

For debt not in sterling, see 'Derivative financial instruments and hedging activities' below.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the WPD Group and that the revenue can be reliably measured. Revenue comprises primarily use of energy system income.

Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year end.

Where revenue 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.

Finance revenue comprises interest receivable on funds invested and returns on pension scheme assets that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, on an effective rate basis.

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term.

Other operating income and expense

Other operating income and expense includes movements in the fair value of investment properties and gains and losses arising on the disposal of properties by the WPD Group's property management business which is considered to be part of the normal recurring operating activities of the WPD Group.

Contributions

Contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement 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 income statement as they accrue, on an effective rate basis.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

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 Group 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 income statement on a straight line basis over the lease term.

WPD Group as a lessor

With the exception of investment properties, assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the term of the lease.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairments. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in 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 the capital schemes of the WPD Group are capitalised within infrastructure assets together with the cost of materials and an appropriate proportion of production overheads.

Contributions received towards the cost of property, plant and equipment 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 income statement over the estimated economic useful lives of the assets to which they relate.

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

	<u>Years</u>
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
Buildings - long leasehold	Up to 60
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

The carrying values of property, plant and equipment 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 property, plant and equipment 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 income statement in the period of derecognition.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date and the highest and best use. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the WPD Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible assets

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

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognized separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortized on a straight-line basis over their expected useful lives.

The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Contracts

The value recognised for customer contracts relating to acquired telecommunications activities is amortised over the period of the contracts. It is subject to an impairment test at least on an annual basis. It is written off if the activity is sold.

Computer software

Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the WPD Group is satisfied that future economic benefits will flow to the WPD Group 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.

Impairment of property, plant and equipment, intangible assets, and goodwill

The WPD Group assesses goodwill for impairment annually and assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, the group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

The business plan, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

Impairment of property, plant and equipment, intangible assets, and goodwill (continued)

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. It excludes borrowing costs.

Taxation

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

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

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

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 WPD Group 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 income statement.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

Pension benefits

The WPD Group operates four defined benefit pension plans, all of which require contributions to be made to separately administered funds. The larger plans are the two unitised sections of the industry-wide Electricity Supply Pension Scheme ('ESPS'). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. The final two plans, which are also closed to new members and have no active employees, are the Western Power Utilities Pension Scheme ('WPUPS') and the much smaller Infracore 1992 Scheme.

The cost of providing benefits under the defined benefit plans is determined separately for each plan 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 the WPD Group becomes committed to a change. The current service cost (including administration costs) are allocated to the income statement 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 income statement.

Remeasurements 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 market price information and in the case of quoted securities is the published bid price.

Contributions to defined contribution schemes are recognised in the income statement 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

A provision is recognised when the WPD Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits 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 shareholders is recognised as a liability in the WPD Group's 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. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments, and derivative financial instruments. The WPD Group 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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

Financial assets (continued)

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

Loans and receivables

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

Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Held-to-maturity investments

Held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Impairment of loans and receivables

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

Cash and cash equivalents

In the consolidated cash flow statement and related notes, cash and cash equivalents includes cash at bank and in hand, deposits, other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less and which are subject to an insignificant risk of change in value, net of any bank overdrafts which are payable on demand.

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 amortized cost, as appropriate. Financial liabilities include trade and other payables, accruals, finance debt and derivative financial instruments. The group determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Financial liabilities measured at amortised cost

All other 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 issue costs associated with the borrowing.

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

This category of financial liabilities includes trade and other payables and finance debt.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

1. Significant accounting policies, judgements, estimates and assumptions (continued)

Derivative financial instruments and hedging activities

The WPD Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognised in the income statement.

For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected at inception to be highly effective in achieving offsetting changes in fair value or cash flows. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the net unrealised gains reserve, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Fair value hedges

The WPD Group did not have any fair value hedges during the years presented in these financial statements.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The group categorizes assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or the WPD Group's assumptions about pricing by market participants.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the group currently has a legally enforceable right to set off the recognized amounts; and the group intends to either settle on a net basis or realize the asset and settle the liability simultaneously. A right of set off is the group's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

Finance 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.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

2. Operating segment information

The WPD Group's operating segments are those used internally by the Board of Directors to run the business, allocate resources and make strategic decisions. The WPD Group's reportable segments are the regulated distribution of electricity in the South West, East Midlands and West Midlands of England and South Wales, and other businesses. Distribution involves the delivery of electricity across the WPD Group's distribution network. Other businesses relate to non-regulated activities including telecommunications, property management and helicopter operations which principally support the main business, and metering.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss on the same basis as in the consolidated financial statements. However, WPD Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Analysis of revenue, operating profit, and assets and liabilities by segment is provided below. Substantially all revenues and profit before tax arise from operations within the UK.

a) Revenues	Total revenue		Inter-segment revenue		External revenue	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	372.2	324.3	(1.0)	(1.0)	371.2	323.3
South Wales	251.2	220.6	(0.1)	(0.1)	251.1	220.5
East Midlands	501.5	451.0	-	-	501.5	451.0
West Midlands	515.6	461.3	-	(0.1)	515.6	461.2
	1,640.5	1,457.2	(1.1)	(1.2)	1,639.4	1,456.0
Other businesses	59.5	58.4	(34.3)	(33.8)	25.2	24.6
	1,700.0	1,515.6	(35.4)	(35.0)	1,664.6	1,480.6

Information about major customers

Revenues from the WPD Group's largest five customers amounted to £281.7m, £268.6m, £267.5m, £257.3m and £243.1m (2016: £271.2m, £265.8m, £259.3m, £245.7m and £237.7m) arising from sales reported across the South West, South Wales, East Midlands and West Midlands segments.

b) Profit	2017	2016
	£m	£m
Distribution network systems		
South West	250.1	199.4
South Wales	157.4	121.9
East Midlands	332.5	280.2
West Midlands	340.0	291.0
	1,080.0	892.5
Other businesses	12.3	12.8
Corporate and unallocated*	(19.5)	(22.2)
Operating profit	1,072.8	883.1
Finance revenue	8.4	8.6
Finance costs	(271.3)	(266.9)
Net finance expense relating to pensions and other post-retirement benefits	(6.4)	(20.3)
Profit before tax	803.5	604.5

* Corporate and unallocated comprises primarily current service pension costs (net of capitalisation).

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

2. Operating segment information (continued)

c) Assets, liabilities, and capital expenditure

	Segment assets (i)		Segment liabilities (ii)		Capital expenditure (iii)	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	2,549.2	2,365.7	614.9	573.6	252.0	222.0
South Wales	1,847.2	1,755.5	395.7	361.7	145.2	141.5
East Midlands	4,290.1	4,043.9	1,024.9	989.2	328.0	331.9
West Midlands	4,041.4	3,812.1	706.7	658.2	300.0	311.1
	12,727.9	11,977.2	2,742.2	2,582.7	1,025.2	1,006.5
Other businesses	224.8	260.1	26.7	24.4	18.1	10.0
Corporate and unallocated	409.7	480.6	6,756.4	6,421.3	(4.5)	(4.0)
	13,362.4	12,717.9	9,525.3	9,028.4	1,038.8	1,012.5

(i) Segment assets consist of property, plant and equipment, investment properties, goodwill, other intangible assets, inventories, receivables and cash. Corporate and unallocated assets includes loan to related party, derivative financial instruments and deposits (including deposits classified as cash).

(ii) Segment liabilities consist of deferred customer contributions and operating liabilities. Corporate and unallocated liabilities includes current taxation, corporate borrowings, derivative financial instruments, pension liabilities and deferred taxation.

(iii) Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties.

d) Depreciation and amortisation

	Depreciation on property, plant and equipment (Note 10)		Amortisation of intangible assets (Note 12)	
	2017	2016	2017	2016
	£m	£m	£m	£m
Distribution network systems				
South West	55.2	48.7	2.5	2.3
South Wales	37.6	34.3	0.1	0.1
East Midlands	82.9	76.2	0.7	0.5
West Midlands	74.3	65.1	0.4	0.3
	250.0	224.3	3.7	3.2
Other businesses	6.8	8.2	0.8	0.6
	256.8	232.5	4.5	3.8
Less: recapitalised to property, plant and equipment	(37.2)	(36.1)	-	-
Charged to consolidated income statement	219.6	196.4	4.5	3.8

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

3. Operating costs

WPD Group operating costs can be analysed as follows:

	2017	2016
	£m	£m
Employee benefit expense (Note 6)	130.3	141.4
Depreciation of property, plant and equipment	219.6	196.4
Property taxes	97.4	96.9
Other operating charges	145.3	163.4
	592.6	598.1

WPD Group operating profit is stated after charging/(crediting) the following items:

	2017	2016
	£m	£m
Employee costs (Note 6)	130.3	141.4
Depreciation of property, plant and equipment *	219.6	196.4
Amortisation of intangibles	4.5	3.8
Operating lease rentals:		
Plant, machinery and equipment	12.4	12.2
Land and buildings	2.7	2.7
Amortisation of customer contributions	(42.0)	(39.0)
Research and development expenditure **	0.4	0.3

* Depreciation of property, plant and equipment is stated net of depreciation capitalised of £37.2m (2016: £36.1m) 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.

Services provided by the WPD Group's auditor

During the year the WPD Group obtained the following services from the Company's auditor and its associates:

	2017	2016
	£m	£m
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	0.1	0.1
Fees payable to Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries pursuant to legislation	0.7	0.7
- Other services pursuant to legislation	0.1	0.2
- All other services	0.1	-
	1.0	1.0

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

4. Other operating income and expense	2017 £m	2016 £m
Other operating income		
Net gain on disposal of property, plant and equipment	1.2	2.1
Increase in fair value of investment properties	1.4	0.5
Income from fixed asset investments	0.2	0.3
	2.8	2.9
Other operating expense		
Reduction in fair value of investment properties	(2.0)	(2.3)
Net other operating income	0.8	0.6

5. Net finance costs	2017 £m	2016 £m
Finance revenue		
Interest on bank deposits	0.7	1.5
Interest on loans to PPL affiliates (Note 28)	7.7	7.1
Total finance revenue	8.4	8.6
Finance costs		
Interest payable on bank loans and overdrafts	(5.6)	(5.9)
Interest payable on other loans	(269.5)	(260.9)
Foreign exchange loss on US\$ denominated financial assets and liabilities	(82.7)	(28.3)
Transfers from the hedging reserve in relation to cash flow hedges	83.8	29.2
Interest on loan from PPL affiliate (Note 28)	-	(3.1)
Less: interest capitalised	2.7	2.1
Total finance costs	(271.3)	(266.9)
Net finance costs	(262.9)	(258.3)

6. Employee benefit expense

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

	2017 £m	2016 £m
Wages and salaries	326.9	318.2
Social security costs	38.4	33.8
Pension costs	52.8	61.0
	418.1	413.0
Less: amounts capitalised as part of property, plant and equipment	(287.8)	(271.6)
Charged to the income statement	130.3	141.4

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

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

6. Employee benefit expense (continued)

The average number of employees during the financial year (including directors) analysed by activity was:

	2017 Number	2016 Number
Electricity distribution	6,455	6,354
Other activities	151	169
	6,606	6,523

7. 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.

WPD Group	Highest paid director		Total	
	2017 £000	2016 £000	2017 £000	2016 £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

(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 22). Thus WPD no longer contributes for ongoing service to the ESPPS 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 ESPPS 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 ESPPS. 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 Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

8. Income tax expense

The major components of income tax expense are:	2017 £m	2016 £m
Current tax		
Current income tax expense	22.5	39.8
Adjustments in respect of prior years	(1.9)	(0.5)
Deferred tax (Note 21)		
Relating to the origination and reversal of temporary differences	124.6	68.5
Adjustments in respect of prior years	(1.0)	0.3
Impact of tax rate change	(35.0)	(60.5)
	109.2	47.6

The tax on the WPD Group's profit 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:

	2017 £m	2016 £m
Profit before income tax	803.5	604.5
Profit before income tax multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%)	160.7	120.9
Effects of:		
Expenses not deductible and income not taxable for tax purposes	0.4	(3.8)
Adjustments to tax charge in respect of prior years	(2.9)	(0.2)
Group relief received at non-standard rates	(14.0)	(8.8)
Impact of tax rate change	(35.0)	(60.5)
Total taxation (continuing operations)	109.2	47.6
Tax relating to items (charged) or credited to other comprehensive income	2017 £m	2016 £m
Deferred tax:		
Revaluation of cash flow hedges	2.6	(0.7)
Deferred tax on defined benefit pension schemes	50.5	(68.2)
	53.1	(68.9)

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% from 1 April 2020. These changes have been enacted and the impact included in these financial statements.

9. Dividends

	2017 £m	2016 £m
Equity dividends - 18.93 pence (2016: nil) per £1 share	313.8	-

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

10. Property, plant and equipment

	Generation £m	Distribution network £m	Non-network land & buildings £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
Cost						
At 1 April 2015	0.4	11,138.3	121.4	245.1	104.8	11,610.0
Additions	-	950.4	5.8	36.2	15.7	1,008.1
Transfers from investment property	-	-	0.6	-	-	0.6
Disposals and retirements	-	(4.5)	-	(48.5)	(2.9)	(55.9)
At 1 April 2016	0.4	12,084.2	127.8	232.8	117.6	12,562.8
Additions	-	961.2	10.9	44.9	13.0	1,030.0
Disposals and retirements	-	(2.1)	-	(26.1)	(5.5)	(33.7)
At 31 March 2017	0.4	13,043.3	138.7	251.6	125.1	13,559.1
Accumulated depreciation						
At 1 April 2015	-	1,768.3	9.7	110.1	31.4	1,919.5
Depreciation charge for the year	-	178.0	1.8	42.2	10.5	232.5
Disposals and retirements	-	(4.5)	-	(48.5)	(2.4)	(55.4)
At 1 April 2016	-	1,941.8	11.5	103.8	39.5	2,096.6
Depreciation charge for the year	0.1	201.2	1.9	41.8	11.8	256.8
Disposals and retirements	-	(2.1)	-	(26.1)	(5.0)	(33.2)
At 31 March 2017	0.1	2,140.9	13.4	119.5	46.3	2,320.2
Net book value						
At 31 March 2017	0.3	10,902.4	125.3	132.1	78.8	11,238.9
At 1 April 2016	0.4	10,142.4	116.3	129.0	78.1	10,466.2
At 31 March 2015	0.4	9,370.0	111.7	135.0	73.4	9,690.5

Included in distribution network at 31 March 2017 was an amount of £171.8m (2016: £132.7m) relating to expenditure on assets in the course of construction.

The carrying amount of the WPD Group's distribution network and non-network land and buildings include amounts of £5.8m (2016: £5.9m) and £1.4m (2016: £1.4m), respectively, in respect of long leasehold properties.

Included in additions are staff costs of £287.8m (2016: £271.6m).

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

11. Investment property	Retail £m	Office £m	Industrial £m	Total £m
Fair value				
At 1 April 2015	25.8	6.4	7.5	39.7
Additions	-	1.0	-	1.0
Valuation gains	0.3	-	0.2	0.5
Valuation losses	(1.8)	(0.5)	-	(2.3)
Transfers to property, plant and equipment	-	-	(0.6)	(0.6)
Disposals	-	-	(0.5)	(0.5)
At 1 April 2016	24.3	6.9	6.6	37.8
Additions	-	0.1	-	0.1
Valuation gains	0.3	0.5	0.7	1.5
Valuation losses	(1.1)	(0.5)	(0.5)	(2.1)
At 31 March 2017	23.5	7.0	6.8	37.3

The fair value of investment property is based mostly on valuations by independent valuers (Alder King, Jones Lang Lasalle, Hartnell Taylor Cook, PNB Paribas), who hold recognised and relevant professional qualifications, with the remaining valuations carried out by a qualified surveyor who is an employee of the WPD Group. It is the WPD Group's policy that all properties are valued independently at least once every five years, with more frequent independent valuations carried out for higher value properties. The valuers all have recent experience in the location and category of the investment property being valued. The properties were valued on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The WPD Group's current use of the properties as investment properties is considered to be their highest and best use.

The amounts recognised in the income statement for rental income from investment property are £3.7m (2016: £4.2m).

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during the period of occupation. This service charge amounted to £0.7m (2016: £0.8m) for which a similar amount is included within operating costs.

In determining the appropriate classes of investment property the group has considered the nature, characteristics and risks associated with its properties. As a consequence the group has identified the following classes of assets:

- Retail - representing a single investment in a supermarket store in Cwmbran, South Wales occupied by J Sainsbury.
- Other retail - representing a portfolio of other retail properties across Wales and the South West of England.
- Office - representing a portfolio of office buildings across WPD's region and one in north west England.
- Industrial - representing a portfolio of industrial and storage facilities across WPD's region.

The tables below show details for the larger properties. Within other assets, recorded at £6.9m (2016: £6.5m), are a further 53 (2016: 53) investment properties with an average value of £130,000 per property (2016: £124,000), valued by the WPD Group's internal qualified surveyor.

With the exception of specific elements of office space, all of the assets are valued on an Income Capitalisation methodology whereby rents receivable are divided by an appropriate yield. The valuations take into account existing tenancies and where necessary make appropriate assumptions regarding vacancies arising at future rent renewal dates.

The remaining office space is valued based on a market comparison approach which compares the subject of the valuation with other interests that have been recently exchanged or are currently being marketed.

All of the valuations fall within Level 3 of the fair value hierarchy (see Note 19). The table below provides details by class of property of the fair value ascribed to each class of asset, an indication of the key inputs used in deriving the valuation, together with other key features which inform the valuation process. In light of the immaterial nature of the other assets below to the financial statements as a whole, the directors have elected not to provide the equivalent detailed information in respect of these valuations.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

11. Investment property (continued)

The valuations are sensitive to movements in key variables, notably the yields applied to valuations based on income capitalisation which can change due to general market conditions and also an assessment of the quality of the underlying tenant. Broadly, a 0.5% increase/decrease in an assumed yield of 5% will result in a 10% decrease/increase in the value of a property, whilst a 0.5% increase/decrease in an assumed yield of 10% will result in a 5% decrease/increase in the value of a property.

Unobservable and observable inputs used in determination of fair values

Other Key information

Class of property	Carrying Amount/Fair Value 2017 £m	Valuation technique	Input	Range (weighted average) 2017	Other Key information	Range 2017
Retail Level 3	17.4	Income capitalisation	> Length of leases in place (in years) > Yield > Passing rent (per sqm p.a) > Long term vacancy rate	12y 5.4% £201.4 0%	> Age of building > Remaining useful life of building > Square metres	23y 20+ 5,308
Other retail Level 3	3.9	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£93 - £204 (£148) 4y - 8y (5.4y) 7.25% - 8.0% 0%	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	50+ 18y - 20y 2,175 0%
Office Level 3	4.7	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£50 - £165 (£122) 0.5y - 5y (2.0y) 9% - 15% 0% - 97% (29%)	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	20y - 30y 20y - 46y 7,204 0% - 97%
Office Level 3	1.8	Market comparison	> Price per square metre	£767	> Age of building > Remaining useful life of building > Square metres	33y 27y 2,280
Industrial Level 3	2.6	Income capitalisation	> Net rent (per sqm p.a) > Length of leases in place (in years) > Yield > Long term vacancy rate	£5.0 - £5.2 (£5.1) 0.5y - 15y (7y) 9.1% - 15% 0%	> Age of building > Remaining useful life of building > Square metres > Actual vacancy rate	31y - 61y 17y - 19y 5,966 0%
Total	30.4					
Other assets	6.9					
Total fair value	37.3					

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

11. Investment property (continued)

Unobservable and observable inputs used in determination of fair values				Other Key information		
Class of property	Carrying Amount/Fair Value	Valuation technique	Input	Range (weighted average)	Range	
	2016			2016	2016	
	£m					
Retail Level 3	18.3	Income capitalisation	> Length of leases in place (in years)	13y	> Age of building	22y
			> Yield	5.71%	> Remaining useful life of building	20+
			> Passing rent (per sqm p.a)	£201.4	> Square metres	5,308
			> Long term vacancy rate	0%		
Other retail Level 3	4.0	Income capitalisation	> Net rent (per sqm p.a)	£93 - £257 (£165)	> Age of building	50+
			> Length of leases in place (in years)	1y - 9y (5.4y)	> Remaining useful life of building	18y - 20y
			> Yield	6.95% - 8.9%	> Square metres	2,175
			> Long term vacancy rate	0%	> Actual vacancy rate	0%
Office Level 3	4.8	Income capitalisation	> Net rent (per sqm p.a)	£50 - £122 (£90)	> Age of building	19y - 29y
			> Length of leases in place (in years)	0.5y - 7y (2.6y)	> Remaining useful life of building	20y - 46y
			> Yield	9% - 14%	> Square metres	9470
			> Long term vacancy rate	0% - 85% (40%)	> Actual vacancy rate	(40%)
Office Level 3	1.8	Market comparison	> Price per square metre	£767	> Age of building	32y
					> Remaining useful life of building	28y
					> Square metres	2,280
Industrial Level 3	2.4	Income capitalisation	> Net rent (per sqm p.a)	£5.0 - £5.1 (£5.04)	> Age of building	30y - 60y
			> Length of leases in place (in years)	4y - 16y (10y)	> Remaining useful life of building	18y - 20y
			> Yield	9.1% - 14%	> Square metres	5,988
			> Long term vacancy rate	0%	> Actual vacancy rate	0%
Total	31.3					
Other assets	6.5					
Total fair value	37.8					

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

12. Intangible assets

	Goodwill £m	Computer software £m	Customer contracts £m	Total £m
Cost:				
At 1 April 2015	1,574.5	14.4	6.2	1,595.1
Additions	-	4.4	-	4.4
Disposals and retirements	-	(0.7)	-	(0.7)
At 1 April 2016	1,574.5	18.1	6.2	1,598.8
Additions	-	8.8	-	8.8
Disposals and retirements	-	(4.0)	-	(4.0)
At 31 March 2017	1,574.5	22.9	6.2	1,603.6

Aggregate amortisation and impairment:

At 1 April 2015	320.4	5.8	2.3	328.5
Charge for the year	-	3.2	0.6	3.8
Disposals and retirements	-	(0.7)	-	(0.7)
At 1 April 2016	320.4	8.3	2.9	331.6
Charge for the year	-	3.8	0.7	4.5
Disposals and retirements	-	(4.0)	-	(4.0)
At 31 March 2017	320.4	8.1	3.6	332.1

Carrying amount

At 31 March 2017	1,254.1	14.8	2.6	1,271.5
At 1 April 2016	1,254.1	9.8	3.3	1,267.2
At 1 April 2015	1,254.1	8.6	3.9	1,266.6

Goodwill acquired through business combinations has been allocated for impairment testing purposes to three cash-generating units, East Midlands, West Midlands, and South Wales which are also operating segments. These represent the lowest level within the WPD Group at which goodwill is monitored for internal management purposes.

Carrying amount of goodwill allocated to cash-generating units ("CGUs")	2017 £m	2016 £m
East Midlands	518.8	518.8
West Midlands	614.4	614.4
South Wales	120.9	120.9
Carrying amount of goodwill	1,254.1	1,254.1

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

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

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

12. Intangible assets (continued)

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

The pre-tax rate used to discount the forecast cash flows is 5.2% (2016: 6.3%).

CGU cash flows are derived from the corporate business plan approved by the Board. For determining the value in use, cash flows for a period of 10 years have been discounted and aggregated with a terminal value, which is based on a premium to the RAV at the end of the period. A period of greater than five years has been used as the period is covered by the corporate business plan and more accurately reflects the timing of cash outflows associated with major capital replacement cycles and their subsequent recovery under regulation.

At 31 March 2017, the East Midlands, West Midlands, and South Wales recoverable amounts exceeded their carrying amounts by £196.2m, £153.9m, and £187.3m, respectively.

Sensitivity analysis:

	East Midlands	West Midlands	South Wales	Total
	Reduction in Value In Use			
	£m	£m	£m	£m
0.1% increase in the discount rate	23.8	24.0	11.7	59.5
1.0% decrease in the premium on the RAV	24.1	24.3	12.0	60.4
A £5.0m real reduction in projected net pre-tax cash flows in each of the 10 years used in the discounted cash flow model	40.1	40.1	40.1	120.3
	Change in assumption required to give rise to an impairment			
	%	%	%	
Increase in the discount rate	0.8%	0.6%	1.6%	
Decrease in the premium on the RAV	8.1%	6.3%	15.6%	

13. Investments

(a) Held-to-maturity investments

	2017	2016
	£m	£m
Investment in PPL affiliate debt	163.1	143.8

In February 2011, the WPD Group purchased \$200m nominal at a premium price of \$21m from PMDC Chile of the \$400M 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited.

(b) Details of WPD Group undertakings

A list of investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest, is given in Note 4 to the Company's separate financial statements.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

14. Inventories

	2017 £m	2016 £m
Raw materials	22.1	19.1
Work in progress	1.1	1.0
	23.2	20.1

15. Trade and other receivables

	2017 £m	2016 £m
Current receivables		
Trade receivables	263.6	250.3
Other receivables	3.9	3.2
Prepayments and accrued income	29.8	21.4
Reimbursement agreement re WPUPS (Note 22)	-	16.4
Total current receivables	297.3	291.3
Non-current receivables		
Other receivables	1.0	3.5
Prepayments and accrued income	1.0	1.0
Reimbursement agreement re WPUPS (Note 22)	-	28.3
Total non-current receivables	2.0	32.8
Total trade and other receivables	299.3	324.1

The carrying amount of trade and other receivables and loan to related party is considered to approximate their fair value.

Other receivables relate primarily to insurance claims and the non-current balances that are expected to be recovered over the next three years.

As at 31 March 2017, trade receivables at a nominal value of £1.5m (2016: £1.3m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows.

	2017 £m	2016 £m
At 1 April	1.3	1.2
Provision for receivables impairment	8.8	3.3
Amounts written off as uncollectible	(1.0)	(1.2)
Amounts recovered during the year	(7.6)	(2.0)
At 31 March	1.5	1.3

With limited exception, the WPD Group has provided fully for receivables over 90 days because historical experience is such that receivables that are past due beyond 90 days are generally not recoverable. Trade receivables less than 90 days, where payment is deemed very unlikely, or unobtainable, are also provided for at an appropriate rate.

The WPD Group considers that 100% of its credit risk to be with counterparties in related industries. The maximum credit risk exposure is represented by the carrying value as at the balance sheet date.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

15. Trade and other receivables (continued)

As at 31 March, the aged analysis of trade receivables is as follows:

	Neither past due		Past due but not impaired				
	Total £m	nor impaired £m	<30 days £m	30-60 days £m	60-90 days £m	90-120 days £m	>120 days £m
2017	263.6	260.7	2.5	0.4	-	-	-
2016	250.3	245.2	4.6	0.5	-	-	-

Trade receivables that are neither past due nor impaired relate largely to charges made to electricity suppliers for the use of WPD's distribution network. Credit risk management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the credit rules within the Distribution and Connection Use of System Agreement ("DCUSA").

In order to minimise exposure to debt, the DCUSA requires WPD to monitor electricity suppliers' (WPD's customers) indebtedness ratios daily to ensure it does not exceed 85%. The indebtedness ratio is defined as 'Value at Risk/Credit Limit' where 'Value at Risk' is the suppliers' current outstanding invoices plus a 15 day estimate of unbilled amounts and 'Credit Limit' is calculated by reference to WPD's RAV, the suppliers' credit rating from an approved credit referencing agency, and the suppliers' payment performance history.

Where necessary, suppliers can ensure they are within the 85% indebtedness threshold by providing collateral to increase their 'Credit Limit'. This can be in the form of a letter of credit or equivalent bank guarantee, an escrow account deposit, a cash deposit, or any other form of collateral agreed between WPD and the supplier. At 31 March 2017, the WPD Group held collateral in relation to trade receivables in the form of cash £3.5m (2016: £3.7m), letters of credit £77.2m (2016: £60.4m), and parent company guarantees £32.5m (2016: £30.3m).

16. Cash and cash equivalents	2017	2016
	£m	£m
Cash at bank	56.0	67.7
Short-term bank deposits	41.5	282.5
Cash and cash equivalents	97.5	350.2

The fair value of cash and short-term deposits is considered to approximate its carrying amount.

Cash at bank earns interest at floating rates based on short-term bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the WPD Group, and earn interest at the respective short-term deposit rates.

At 31 March 2017, the WPD Group had available £691.1m (2016: £878.8m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates. At 31 March 2017, it also had available undrawn uncommitted facilities of £86.2m (2016: £36.0m).

Included in cash and short-term bank deposits are restricted amounts totalling £16.9m (2016: £20.6m) which are not readily available for the general purposes of the WPD Group. The restrictions relate largely to minimum cash balances that are required to be maintained for insurance purposes and cash balances that can only be used for low carbon network fund projects.

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

	2017	2016
	£m	£m
Cash and cash equivalents (from above)	97.5	350.2
Bank overdrafts (Note 18)	(25.3)	(11.5)
Cash and cash equivalents in the cash flow statement	72.2	338.7

Bank overdrafts comprise principally unrepresented cheques at the year end.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

17. Trade and other payables

	2017 £m	2016 £m
Current payables		
Trade payables	57.0	55.8
Social security and other taxes	58.2	53.5
Payments received in advance	160.9	161.4
Other payables	15.3	10.4
Amounts payable to PPL affiliates	-	30.7
Deferred contributions	42.0	39.0
Accruals and deferred income	251.6	256.3
	585.0	607.1
Non-current payables		
Deferred contributions	2,232.5	2,082.9
	2,817.5	2,690.0

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. Deferred contributions are those amounts received from customers in respect of new connections to the network.

The carrying amount of trade and other payables is considered to approximate their fair value.

18. Borrowings

	2017 £m	2016 £m
Current		
Bank overdrafts (Note 16)	25.3	11.5
Syndicated credit facilities (i)	365.0	174.2
Term loan facility (ii)	230.0	-
7.250% US\$100m bonds due 2017	79.6	-
3.9% US\$460m bonds due 2016	-	319.9
	699.9	505.6

(i) The syndicated credit facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortisation and total net debt not in excess of 85% of RAV, calculated in accordance with the credit facility. At 31 March 2017, £205.1m (2016: £35.1m) of syndicated credit facilities were denominated in Sterling and £159.9m (2016: £139.1m) were denominated in US dollars.

(ii) On 28 March 2017, the Company entered into a £230.0m nine month term facility agreement with HSBC Bank and Mizuho Bank. On 29 March 2017, the Company borrowed the full loan amount under the facility. Proceeds of the borrowing were used to make an advance payment of WPD's pension contributions for the year ending 31 March 2018. At 31 March 2017, interest on the facility accrued at a rate of 1.51%, being libor plus a margin of between 0.9% and 2.0% based on the Company's credit rating.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

18. Borrowings (continued)

	2017 £m	2016 £m
Non-current		
5.875% GB£250m bonds due 2027 (iv)	248.4	248.2
5.75% GB£200m bonds due 2040 (iv)	197.3	197.2
9.250% GB£150m bonds due 2020 (iv)	159.0	161.4
4.804% GB£225m bonds due 2037 (i) (iv)	220.3	220.0
5.75% GB£200m bonds due 2040 (iv)	197.3	197.2
6.25% GB£250m bonds due 2040 (iv)	258.4	258.8
5.25% GB£700m bonds due 2023 (iv)	701.7	701.9
6.00% GB£250m bonds due 2025 (iv)	253.9	254.4
5.75% GB£800m bonds due 2032 (iv)	789.8	789.2
3.875% GB£400m bonds due 2024 (iv)	395.8	395.3
3.625% GB£500m bonds due 2023	495.5	494.8
5.375% US\$500m bonds due 2021	398.7	346.4
7.250% US\$100m bonds due 2017	-	68.7
7.375% US\$202m bonds due 2028	152.7	130.9
1.541% + RPI GB£105m index linked bonds 2053 (ii) (iii)	139.2	135.7
1.541% + RPI GB£120m index linked bonds 2056 (ii) (iii)	159.1	155.0
0.010% + RPI GB£50m index linked bonds 2029 (iii)	52.6	-
2.671% + RPI GB£140m (2016: £100m) index linked bonds 2043 (iii)	196.2	110.7
1.676% + RPI GB£105m index linked bonds 2052 (iii)	127.0	124.6
0.4975% + RPI GB£100m index linked bonds 2026 (iii)	101.6	-
	5,244.5	4,990.4
Total borrowings	5,944.4	5,496.0

(i) May be redeemed, in total but not in part, on 21 December 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.

(ii) May be redeemed, in total by series, on 1 December 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.

(iii) The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts in 2017 was an increase of approximately £15.0m resulting from inflation.

(iv) May be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licences under which the issuer operates.

None of the outstanding debt securities noted above have sinking fund requirements.

The carrying amounts of the WPD Group's borrowings are denominated in the following currencies:

	2017 £m	2016 £m
UK pound	5,153.5	4,491.0
US dollar	790.9	1,005.0
	5,944.4	5,496.0

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments

Financial risk management objectives and policies

The WPD Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, bonds and trade payables. The main purpose of these financial liabilities is to raise finance for the WPD Group's operations. The WPD Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The WPD Group also enters into derivative transactions, principally interest rate and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the WPD Group's operations and its sources of finance.

It is, and has been throughout 2017 and 2016, the WPD Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the WPD Group's financial instruments are fair value interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates and inflation will affect the WPD Group's profit. The management of market risk is undertaken with risk limits approved by the Board.

Interest rate risk

The WPD Group has issued debt to finance its operations, which exposes it to interest rate risk. Borrowings issued at variable rates expose the WPD Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the WPD Group to fair value interest rate risk. The WPD Group's interest rate risk management policy includes achieving the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows. The WPD Group's policy stipulates that a maximum of 25% of WPD Group borrowings be subject to variable rates of interest.

The WPD Group may use forward-starting interest rate swaps to minimise exposure to cash flow interest rate risk for future forecast issuance of debt.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2017	2016
	Carrying	Carrying
	amount	amount
	£m	£m
Interest bearing/earning assets and liabilities:		
Fixed	4,244.4	4,532.0
Floating	522.8	(135.1)
Index-linked	775.7	526.0
	5,542.9	4,922.9
Represented by:		
Cash and cash equivalents	(97.5)	(350.2)
Investment in parent company debt	(163.1)	(143.8)
Derivative financial assets	(140.9)	(108.5)
Note payable to PPL affiliates	-	29.4
Loans and borrowings	5,944.4	5,496.0
	5,542.9	4,922.9

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Interest rate sensitivity

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-fixed hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments are recorded through the income statement. The exposure measured is therefore based on variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the WPD Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the WPD Group's equity.

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes all non-derivative floating rate financial instruments.

Currency derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date. The sensitivity analysis is indicative only and it should be noted that the WPD Group's exposure to such market rate changes is continually changing. The calculation is based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the WPD Group.

	2017		2016	
	Income statement (before tax) +/- £m	Equity +/- £m	Income statement (before tax) +/- £m	Equity +/- £m
Interest Rate +/- 100bp	5.2	-	1.4	-

Inflation risk

The WPD Group's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI. This form of liability is a good match to the WPD Group's regulated assets ('RAV'), which are also linked to RPI due to the price setting mechanism imposed by the regulator, and also the price cap is linked to RPI. By matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash.

The carrying value of index-linked debt held by the WPD Group is as follows:

	2017 £m	2016 £m
Index-linked debt	775.7	526.0

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Inflation sensitivity

Assuming sensitivity to the RPI does not take into account any changes to revenue or operating costs that are affected by RPI or inflation generally, the following table shows the illustrative effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in changes in RPI before the effects of tax.

	2017		2016	
	Income statement (before tax)	Equity	Income statement (before tax)	Equity
	+/- £m	+/- £m	+/- £m	+/- £m
UK Retail Prices Index +/- 1.00%	7.8	(6.2)	5.3	(4.1)

Foreign currency risk

The WPD Group's assets are principally sterling denominated; however, the WPD Group has access to various international debt capital markets and raises foreign currency denominated debt. Where long-term debt is denominated in a currency which is not sterling, the WPD Group's policy is to swap 100% of the foreign currency denominated principal and interest cash flows into sterling through the use of cross-currency swaps.

Under a currency swap, the WPD Group agrees with another party to exchange the principal amount of the two currencies, together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and principal amount. The principal of these instruments reflects the extent of the WPD Group's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

The WPD Group holds an investment of \$200m 2018 6.42% Eurobonds issued by PPL UK Resources Limited which were acquired at a premium of \$21m. It also has borrowings of \$200m under a related committed credit facility. At 31 March 2017, the WPD Group was exposed to movements on exchange rates of \$3.8m (2016: \$6.7m), being the net of the amortised Eurobond Investment and dollar borrowings under the committed credit facility.

The principal amount of the WPD Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date and the impact of derivative financial instruments used to manage foreign currency risk were as follows:

	2017 \$m	2016 \$m
Investment in parent company Eurobonds	203.8	206.7
Borrowings	(1,002.0)	(1,462.0)
Gross exposure	(798.2)	(1,255.3)
Effect of cross-currency swaps	802.0	1,262.0
Net exposure	3.8	6.7

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in Sterling against the US dollar exchange rate with all other variables held constant, of the WPD Group's profit before tax and the WPD Group's equity.

	2017		2016	
	Income statement (before tax) £m	Equity £m	Income statement (before tax) £m	Equity £m
10% increase in exchange rates	(0.3)	(11.5)	(0.4)	(14.0)
10% decrease in exchange rates	0.3	14.0	0.5	17.1

Credit risk (see also Note 15)

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the WPD Group and arises from cash and cash equivalents, derivative financial instruments and deposits with financial institutions and principally from credit exposures to customers relating to outstanding receivables.

WPD maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria). Depending on the creditworthiness of the counterparty, the WPD Group may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

	2017 £m	2016 £m
Cash and short-term deposits	97.5	350.2
Trade receivables	263.6	250.3
Other receivables	4.9	6.7
Held-to-maturity investments	163.1	143.8
Derivative financial instruments	140.9	108.5
	670.0	859.5

The table above does not take into account collateral held in relation to trade receivables in the form of cash £3.5m (2016: £3.7m), letters of credit £77.2m (2016: £60.4m), and parent company guarantees £32.5m (2016: £30.3m).

WPD has concentrations of customers among electric utilities and other energy marketing and trading companies. These concentrations of counterparties may impact WPD's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the WPD Group will not have sufficient funds to meet the obligations or commitments arising from its business operations and its financial liabilities.

Treasury is responsible for managing the banking and liquidity requirements of the WPD Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. The department's operations are governed by policies determined by the Board.

The following credit facilities were in place at 31 March 2017.

	Expiration Date	Capacity £m	Borrowed £m	Letters of Credit issued £m	Unused Capacity £m
WPD plc - Syndicated Credit Facility	Jan. 2022	210.0	158.9	-	51.1
WPD plc - Term Loan Facility	Dec. 2017	230.0	230.0	-	-
WPD South West - Syndicated Credit Facility	July 2021	245.0	80.0	-	165.0
WPD East Midlands - Syndicated Credit Facility	July 2021	300.0	125.0	-	175.0
WPD West Midlands - Syndicated Credit Facility	July 2021	300.0	-	-	300.0
Uncommitted Credit Facilities		90.0	-	3.8	86.2
Total Credit Facilities		1,375.0	593.9	3.8	777.3

The WPD Group's primary source of liquidity is cash generated from its ongoing business operations. The electricity regulator sets a major element of the WPD Group's revenues, providing both a stable and predictable source of funds. In recognition of the long life of the WPD Group's assets and anticipated indebtedness, and to create financial efficiencies, the WPD Group's policy is to arrange that debt maturities are spread over a wide range of dates, thereby ensuring that the WPD Group is not subject to excessive refinancing risk in any one year. The WPD Group has entered into borrowing agreements for periods out to 2056.

The following tables detail the WPD Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the WPD Group can be required to pay. The table includes both interest and principal cash flows.

2017	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Borrowings	960.3	3,168.4	3,248.3	3,493.6	10,870.6
Trade and other payables	323.9	-	-	-	323.9
Total	1,284.2	3,168.4	3,248.3	3,493.6	11,194.5

2016	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Borrowings	764.7	1,926.0	4,400.4	3,375.5	10,466.6
Trade and other payables	353.2	-	-	-	353.2
Total	1,117.9	1,926.0	4,400.4	3,375.5	10,819.8

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Liquidity risk (continued)

The following table details the WPD Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross cash (inflows) and outflows on derivatives that require gross settlement.

2017	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments	91.1	412.3	175.7	-	679.1
Cross currency derivative receipts	(119.2)	(534.6)	(233.0)	-	(886.8)
Total	(28.1)	(122.3)	(57.3)	-	(207.7)

2016	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments	37.4	187.6	184.7	-	409.7
Cross currency derivative receipts	(40.3)	(210.5)	(213.0)	-	(463.8)
Total	(2.9)	(22.9)	(28.3)	-	(54.1)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the WPD Group's financial instruments that are carried in the financial statements.

2017	Loans and receivables £m	Held-to- maturity investments £m	Derivatives designated in hedge accounting relationships £m	Amortised cost £m	Total book value £m	Fair value £m
<i>Financial assets</i>						
Cash	97.5	-	-	-	97.5	97.5
Held-to-maturity investments	-	163.1	-	-	163.1	171.6
Derivative financial instruments	-	-	140.9	-	140.9	140.9
Trade and other receivables	268.5	-	-	-	268.5	268.5
<i>Financial liabilities</i>						
Bank overdraft	-	-	-	(25.3)	(25.3)	(25.3)
Interest-bearing loans and borrowings:						
- Floating rate borrowings	-	-	-	(620.3)	(620.3)	(620.3)
- Fixed rate borrowings	-	-	-	(4,548.4)	(4,548.4)	(5,715.5)
- Index linked	-	-	-	(775.7)	(775.7)	(1,229.7)
Trade and other payables	-	-	-	(323.9)	(323.9)	(323.9)
	366.0	163.1	140.9	(6,293.6)	(5,623.6)	(7,236.2)

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)

2016	Loans and receivables £m	Held-to- maturity investments £m	Derivatives designated in hedge accounting relationships £m	Amortised cost £m	Total book value £m	Fair value £m
<i>Financial assets</i>						
Cash	350.2	-	-	-	350.2	350.2
Held-to-maturity investments	-	143.8	-	-	143.8	155.6
Derivative financial instruments	-	-	108.5	-	108.5	108.5
Trade and other receivables	301.7	-	-	-	301.7	301.7
<i>Financial liabilities</i>						
Bank overdraft	-	-	-	(11.5)	(11.5)	(11.5)
Interest-bearing loans and borrowings:						
- Floating rate borrowings	-	-	-	(174.2)	(174.2)	(174.2)
- Fixed rate borrowings	-	-	-	(4,784.3)	(4,784.3)	(5,711.4)
- Index linked	-	-	-	(526.0)	(526.0)	(681.9)
Trade and other payables	-	-	-	(353.2)	(353.2)	(353.2)
	651.9	143.8	108.5	(5,849.2)	(4,945.0)	(6,016.2)

The fair value of the WPD Group's outstanding cross currency swaps is the estimated amount, calculated using discounted cash flow models, that the WPD Group would receive or pay in order to terminate such contracts in an arm's length transaction taking into account market rates of interest and foreign exchange at the balance sheet date.

The carrying value of the WPD Group's bank loans and overdrafts approximates their fair value. The fair value of the WPD Group's other borrowings is estimated using quoted prices or, where these are not available, discounted cash flow analyses based on the WPD Group's current incremental borrowing rates for similar types and maturities of borrowing: these are classified as level 2 in the fair value hierarchy.

The carrying value of short term receivables and payables are assumed to approximate their fair values where discounting is not material.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Fair value hierarchy

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

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

As at 31 March 2017, the WPD Group held the following financial instruments measured at fair value:

2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<i>Assets measured at fair value</i>				
Cross currency swaps	-	140.9	-	140.9
<hr/>				
2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<i>Assets measured at fair value</i>				
Cross currency swaps	-	108.5	-	108.5

During the reporting period ending 31 March 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

Hedge counterparties are major banks of high quality credit standing.

Capital risk management

The primary objective of the WPD Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The WPD Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the WPD Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2017 and 31 March 2016.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

19. Financial instruments (continued)

Capital risk management (continued)

The WPD Group does not consider the standard gearing ratio of net debt as a percentage of net debt plus net assets shown in the balance sheet as an appropriate capital monitoring measure as it does not reflect the economic value of the assets of the Group's regulated businesses. Instead, the WPD Group monitors capital using a gearing ratio, which is net debt divided by the RAV. The RAV is a regulatory measure of the regulated business' asset base required to carry out the regulated activities. Regulated revenues are designed to cover operating costs (including certain replacement expenditure) and capital depreciation, as well as an allowed return on the RAV. The WPD Group's policy is to maintain a gearing ratio that ensures an investment grade credit rating. The WPD Group includes within net debt borrowings and associated cross currency swaps less cash and cash equivalents and deposits.

	2017 £m	2016 £m
Borrowings	5,944.4	5,496.0
Cross currency swaps	(140.9)	(108.5)
Less cash and cash equivalents	(97.5)	(350.2)
Net debt	5,706.0	5,037.3
Regulatory Asset Value	6,970.8	6,571.4
Gearing ratio	82%	77%

20. Derivative financial instruments

As at 31 March 2017, the WPD Group held the following derivative financial instruments measured at fair value:

	2017			2016		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Cross-currency swaps - cash flow hedges						
Current	26.9	-	26.9	40.2	-	40.2
Non-current	114.0	-	114.0	68.3	-	68.3
	140.9	-	140.9	108.5	-	108.5

The WPD Group entered into cross currency swaps designated as cash flow hedges in order to hedge the currency cash flow risks associated with the future interest and principal payments on the WPD Group's US dollar borrowings arising from fluctuations in currency rates.

At 31 March 2017, the WPD Group had outstanding cross currency swap agreements in cash flow hedges against borrowings with a total principal amount of \$802.0m (2016: \$1,262.0m) and a swapped notional principal of £488.9m (2016: £771.6m). The hedges were assessed to be highly effective. The cross currency swaps have a remaining term ranging from 8 months to 11 years (2016: 1 month to 12 years) to match the underlying hedged borrowings consisting of semi-annual interest payments and the repayment of principal amounts. Under the swaps the WPD Group receives US dollar interest at an average fixed rate of 6.1% (2016: 5.3%) and pays pound sterling interest at an average fixed rate of 6.4% (2016: 5.7%).

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

21. Deferred tax

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

	Accelerated capital allowances £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2015	554.6	(162.6)	(30.0)	362.0
(Credit)/charge to the income statement	(31.6)	31.6	8.3	8.3
Charge to equity	-	68.2	0.7	68.9
At 1 April 2016	523.0	(62.8)	(21.0)	439.2
(Credit)/charge to the income statement	(2.6)	98.3	(7.1)	88.6
Credit to equity	-	(50.5)	(2.6)	(53.1)
At 31 March 2017	520.4	(15.0)	(30.7)	474.7

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	603.0	523.0
Deferred tax assets	(128.3)	(83.8)
Net deferred tax liabilities	474.7	439.2

The net deferred tax liability due after more than one year is £503.5m (2016: £496.7m).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the deferred tax benefit through future taxable profits is probable. The WPD Group did not recognise deferred income tax assets of nil (2016: £2.5m) in respect of non trading loss carry-forwards amounting to nil (2016: £13.9m) that can be carried forward against future taxable income. The WPD Group did not recognise deferred income tax assets of £162.8m (2016: £172.4m) in respect of capital losses amounting to £957.5m (2016: £957.8m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations

Introduction

The WPD Group operates four defined benefit pension schemes:

- two segments of the Electricity Supply Pension Scheme ("ESPS"),
 - the segment covering WPD South West and WPD South Wales ("ESPS WPD"), and
 - the segment covering WPD East Midlands and WPD West Midlands ("ESPS CN")
- the Western Power Utilities Pension Scheme ("WPUPS")
- the Infralec 1992 Pension Scheme ("Infralec 92")

The assets of all four schemes are held separately from those of the WPD Group in trustee administered funds.

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity supply industry. The two segments of the ESPS relating to WPD are closed to new members except in very limited circumstances. Existing members are unaffected. A defined contribution scheme is offered to new employees.

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 actuarial deficit. However, as PPL WPD Limited, the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Notes 15 and 23) and matches the gross asset/liability recorded under IAS 19 below.

Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales.

WPUPS and Infralec 92 are closed to active members.

The WPD Group also has an unfunded obligation which relates to previous executives WPD East Midlands and WPD West Midlands.

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:

- (a) a closed section with no active members. 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 amounted to £6.7m in the year (2016: £5.6m).

Defined benefit schemes

The liability/asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries, Aon Hewitt Limited, using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated 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 in 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 WPD. The majority of pensions in payment receive inflationary increases in line with the RPI (Retail Prices 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 schemes' legal documentation.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

The amounts recognised in the balance sheet are determined as follows:

	2017					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Present value of obligations	2,426.5	3,488.5	540.9	13.3	5.0	6,474.2
Fair value of scheme assets	(2,314.4)	(3,455.3)	(617.8)	(15.3)	-	(6,402.8)
Deficit/(surplus) of funded plan and liability/ (asset) recognised in the balance sheet	112.1	33.2	(76.9)	(2.0)	5.0	71.4
Represented by:						
Retirement benefit obligations	112.1	33.2	-	-	5.0	150.3
Retirement benefit assets	-	-	(76.9)	(2.0)	-	(78.9)
	112.1	33.2	(76.9)	(2.0)	5.0	71.4

	2016					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Present value of obligations	2,011.2	2,930.7	483.8	11.2	4.3	5,441.2
Fair value of scheme assets	(1,785.2)	(2,884.1)	(439.1)	(11.2)	-	(5,119.6)
Deficit of funded plan and liability recognised in the balance sheet	226.0	46.6	44.7	-	4.3	321.6

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

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

	2017					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Current service cost	21.3	24.8	-	-	-	46.1
Administrative costs	1.7	2.1	0.4	-	-	4.2
WPUPS reimbursement agreement	-	-	(0.4)	-	-	(0.4)
Operating charge relating to defined benefit plans	23.0	26.9	-	-	-	49.9
Interest income on plan assets	(60.4)	(96.5)	(15.0)	(0.4)	-	(172.3)
Interest on plan liabilities	66.5	96.7	15.8	0.4	0.1	179.5
WPUPS reimbursement agreement	-	-	(0.8)	-	-	(0.8)
Other finance expense	6.1	0.2	-	-	0.1	6.4

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

	2016					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Current service cost	25.8	29.6	-	-	-	55.4
Administrative costs	1.6	2.0	0.4	-	-	4.0
WPUPS reimbursement agreement	-	-	(0.4)	-	-	(0.4)
Operating charge relating to defined benefit plans	27.4	31.6	-	-	-	59.0
Interest income on plan assets	(55.2)	(90.9)	(13.8)	(0.4)	-	(160.3)
Interest on plan liabilities	67.5	98.8	16.0	0.4	0.1	182.8
WPUPS reimbursement agreement	-	-	(2.2)	-	-	(2.2)
Other finance expense	12.3	7.9	-	-	0.1	20.3

The operating charge is allocated to the operating expenses in the income statement or to capital expenditure as appropriate.

Analysis of the amount recognized in other comprehensive income:

	2017					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Return on plan assets excluding amounts included in interest income	(329.7)	(384.1)	(96.2)	(2.2)	-	(812.2)
Loss from change in financial assumptions	437.5	598.9	83.8	2.0	-	1,122.2
Experience (gains)/losses	(22.2)	(30.5)	(16.8)	0.9	0.7	(67.9)
Change to asset ceiling	-	-	-	(0.2)	-	(0.2)
WPUPS reimbursement agreement	-	-	29.2	-	-	29.2
Remeasurement losses recognized in other comprehensive income	85.6	184.3	-	0.5	0.7	271.1

	2016					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Return on plan assets excluding amounts included in interest income	62.0	128.0	17.0	0.5	-	207.5
Gain from change in demographic assumptions	(49.7)	(104.0)	(8.4)	(0.2)	-	(162.3)
Gain from change in financial assumptions	(124.5)	(155.6)	(20.8)	(0.5)	-	(301.4)
Experience gains	(26.2)	(44.5)	(6.6)	(0.2)	(0.3)	(77.8)
Change to asset ceiling	-	-	-	0.2	-	0.2
WPUPS reimbursement agreement	-	-	18.8	-	-	18.8
Remeasurement gains recognized in other comprehensive income	(138.4)	(176.1)	-	(0.2)	(0.3)	(315.0)

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

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

ESPS WPD	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	2,011.2	(1,785.2)	226.0	2,207.7	(1,769.5)	438.2
Current service cost	21.3	-	21.3	25.8	-	25.8
Administrative costs	1.7	-	1.7	1.6	-	1.6
Interest expense/(income)	66.5	(60.4)	6.1	67.5	(55.2)	12.3
	89.5	(60.4)	29.1	94.9	(55.2)	39.7
Remeasurements:						
Return on plan assets excluding amounts included in interest income	-	(329.7)	(329.7)	-	62.0	62.0
Gain from change in demographic assumptions	-	-	-	(49.7)	-	(49.7)
Loss/(gain) from change in financial assumptions	437.5	-	437.5	(124.5)	-	(124.5)
Experience gains	(22.2)	-	(22.2)	(26.2)	-	(26.2)
	415.3	(329.7)	85.6	(200.4)	62.0	(138.4)
Contributions:						
Employers	-	(228.6)	(228.6)	-	(113.5)	(113.5)
Plan participants	4.4	(4.4)	-	4.6	(4.6)	-
	4.4	(233.0)	(228.6)	4.6	(118.1)	(113.5)
Payments from plan:						
Benefit payments	(92.2)	92.2	-	(94.0)	94.0	-
Administrative costs	(1.7)	1.7	-	(1.6)	1.6	-
	(93.9)	93.9	-	(95.6)	95.6	-
Liability/(asset) at 31 March	2,426.5	(2,314.4)	112.1	2,011.2	(1,785.2)	226.0

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

ESPS CN	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	2,930.7	(2,884.1)	46.6	3,235.1	(2,943.3)	291.8
Current service cost	24.8	-	24.8	29.6	-	29.6
Administrative costs	2.1	-	2.1	2.0	-	2.0
Interest expense/(income)	96.7	(96.5)	0.2	98.8	(90.9)	7.9
	123.6	(96.5)	27.1	130.4	(90.9)	39.5
Remeasurements:						
Return on plan assets excluding amounts included in interest income	-	(384.1)	(384.1)	-	128.0	128.0
Gain from change in demographic assumptions	-	-	-	(104.0)	-	(104.0)
Loss/(gain) from change in financial assumptions	598.9	-	598.9	(155.6)	-	(155.6)
Experience gains	(30.5)	-	(30.5)	(44.5)	-	(44.5)
	568.4	(384.1)	184.3	(304.1)	128.0	(176.1)
Contributions:						
Employers	-	(224.8)	(224.8)	-	(108.6)	(108.6)
Plan participants	5.2	(5.2)	-	5.4	(5.4)	-
	5.2	(230.0)	(224.8)	5.4	(114.0)	(108.6)
Payments from plan:						
Benefit payments	(137.3)	137.3	-	(134.1)	134.1	-
Administrative costs	(2.1)	2.1	-	(2.0)	2.0	-
	(139.4)	139.4	-	(136.1)	136.1	-
Liability/(asset) at 31 March	3,488.5	(3,455.3)	33.2	2,930.7	(2,884.1)	46.6

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (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	(439.1)	44.7	527.1	(450.0)	77.1
Administrative costs	0.4	-	0.4	0.4	-	0.4
Interest expense/(income)	15.8	(15.0)	0.8	16.0	(13.8)	2.2
	16.2	(15.0)	1.2	16.4	(13.8)	2.6
Remeasurements:						
Return 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:						
Employers	-	(93.6)	(93.6)	-	(16.2)	(16.2)
	-	(93.6)	(93.6)	-	(16.2)	(16.2)
Payments from plan:						
Benefit payments	(25.7)	25.7	-	(23.5)	23.5	-
Administrative costs	(0.4)	0.4	-	(0.4)	0.4	-
	(26.1)	26.1	-	(23.9)	23.9	-
Liability/(asset) at 31 March	540.9	(617.8)	(76.9)	483.8	(439.1)	44.7
Infraclec 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	11.2	(11.2)	-	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:						
Return on plan assets excluding amounts included in interest income	-	(2.2)	(2.2)	-	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	(0.5)	-	(0.5)
Experience losses/(gains)	0.9	-	0.9	(0.2)	-	(0.2)
Change in asset ceiling	-	(0.2)	(0.2)	-	0.2	0.2
	2.9	(2.4)	0.5	(0.9)	0.7	(0.2)
Contributions:						
Employers	-	(2.5)	(2.5)	-	(0.9)	(0.9)
	-	(2.5)	(2.5)	-	(0.9)	(0.9)
Payments from plan:						
Benefit payments	(1.2)	1.2	-	(0.9)	0.9	-
	(1.2)	1.2	-	(0.9)	0.9	-
Liability/(asset) at 31 March	13.3	(15.3)	(2.0)	11.2	(11.2)	-

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

The significant actuarial assumptions made were as follows:

	2017			
	ESPS WPD %	ESPS CN %	WPUPS %	Infralec 92 %
RPI Inflation	3.00	3.00	3.00	3.00
CPI Inflation	1.90	1.90	1.90	1.90
Rate of general long-term salary increases	3.75	3.75	N/a	N/a
RPI-linked pension increases	2.95	2.95	3.00	3.00
CPI-linked pension increases	N/a	N/a	1.95	N/a
Post-88 GMP pension increases	1.80	1.80	1.80	1.80
Discount rate for scheme liabilities	2.51	2.51	2.51	2.51

	2016			
	ESPS WPD %	ESPS CN %	WPUPS %	Infralec 92 %
RPI Inflation	2.65	2.65	2.65	2.65
CPI Inflation	1.55	1.55	1.55	1.55
Rate of general long-term salary increases	3.40	3.40	N/a	N/a
RPI-linked pension increases	2.65	2.65	2.65	2.65
CPI-linked pension increases	N/a	N/a	1.65	N/a
Post-88 GMP pension increases	1.55	1.55	1.55	1.55
Discount rate for scheme liabilities	3.36	3.36	3.36	3.36

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:

ESPS WPD

	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	28
Life expectancy at 60 for a female currently aged 40	30.3	30.2

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

ESPS CN

	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	27.6	27.5
Life expectancy at 60 for a female currently aged 40	29.9	29.8

WPUPS

	31 March 2017	31 March 2016
Mortality table adopted	Pensions <£24,000 pa at 31/03/13: 111% (else 78%) of S2NXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	Pensions <£24,000 pa at 31/03/13: 111% (else 78%) of 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	100% of S2PXA base tables with CMI 2015 core projections and a 1.0% per annum long-term improvement rate	100% of 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

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

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

	Change in assumption %	Impact on defined benefit obligation			
		ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m
Discount rate	+/-0.50%	+222.3/-204.5	+306.0/-283.9	+40.3/-37.9	+1.0/-1.0
RPI Inflation	+/-0.50%	+211.2/-197.2	+275.7/-261.1	+34.6/-33.5	+0.9/-0.9
Life expectancy	+ 1 year	119.4	160.6	25.6	0.7

The above sensitivity analysis on the discount rate is based on a change in assumption while holding all other assumptions constant. The change in RPI inflation assumption impacts on the 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 within the balance sheet.

ESPS WPD 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	450.2	-	344.7	-
Absolute return	733.3	-	134.1	-
Government bonds	830.5	-	407.2	-
RAFI and diversified funds	-	-	478.3	-
Corporate bonds	-	-	247.1	-
Property	155.8	155.8	157.7	157.7
Other	144.6	-	16.1	-
Total	2,314.4	155.8	1,785.2	157.7

ESPS CN 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
Global equities	506.3	-	467.6	-
Global credit	95.0	-	203.8	-
Property	192.1	192.1	200.5	200.5
Macro-orientated	458.8	458.8	507.9	507.9
Multi strategy	643.5	-	313.1	-
LDI strategy	1,560.0	-	1,191.9	-
Other	(0.4)	-	(0.7)	-
Total	3,455.3	650.9	2,884.1	708.4

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

WPUPS 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	331.7	-	230.7	-
Government bonds	250.0	-	207.1	-
Other	36.1	-	1.3	-
Total	617.8	-	439.1	-

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	9.2	-	6.7	-
Government bonds	3.0	-	2.4	-
Corporate bonds	2.0	-	1.3	-
Other	1.1	-	0.8	-
Total	15.3	-	11.2	-

There is no self-investment in any of the schemes.

Through its defined benefit pension plans, the WPD Group 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.
Changes in bond yields	A decrease in corporate bond yields will increase the scheme's 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, for all of the schemes, it will aim to eliminate the actuarial deficits (as assessed on the ongoing funding basis) by 31 March 2026.

The current agreed employer contributions for the WPD segment of the ESPS are 31.2% per annum of pensionable salaries 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. WPD made a £115.0m prepayment to the Scheme 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 £86.6m per annum payable from 1 April 2018 to 31 March 2021 and £20.9m per annum payable from 1 April 2021 to 31 March 2026.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

22. Retirement benefit obligations (continued)

The current agreed employer contributions for the CN segment of the ESPS are 27.9% per annum of pensionable salaries in respect of future benefit accrual, expenses (including PPF levies) and death in service benefits plus an additional £2.0m per annum in respect of expenses. WPD made a £115.0m prepayment 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 £80.0m per annum payable from 1 April 2018 to 31 March 2021 and £48.0m per annum payable from 1 April 2021 to 31 March 2026.

The employer contribution to 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 WPD 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).

The employer contribution to Infracore 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) WPD will pay £0.235m 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.

There are no expected employer contributions to any of the schemes for the year ending 31 March 2018.

The weighted average duration of the defined benefit obligation is around 18 years for the WPD segment of the ESPS, 17 years for the CN segment of the ESPS, and around 15 years WPUPS and Infracore 92.

23. Provisions

	WPUPS Reimbursement Agreement (i) £m	Asset Retirement Obligations (ii) £m	Insurance (iii) £m	Pensions (iv) £m	Other (v) £m	Total £m
At 1 April 2016	-	34.4	18.2	3.2	5.6	61.4
Transfer of opening WPUPS reimbursement asset to provisions	(44.7)	-	-	-	-	(44.7)
Charged to income statement:						
Additional provisions	(1.2)	5.6	(4.0)	0.7	4.8	5.9
WPUPS reimbursement remeasurements	29.2	-	-	-	-	29.2
Utilised during year	93.6	(1.0)	-	-	(6.0)	86.6
At 31 March 2017	76.9	39.0	14.2	3.9	4.4	138.4

Provisions have been analysed between current and non-current as follows:

Current	-	1.0	8.2	0.5	3.1	12.8
Non-current	76.9	38.0	6.0	3.4	1.3	125.6
At 31 March 2017	76.9	39.0	14.2	3.9	4.4	138.4
Current	-	1.2	9.6	0.5	3.7	15.0
Non-current	-	33.2	8.6	2.7	1.9	46.4
At 31 March 2016	-	34.4	18.2	3.2	5.6	61.4

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

23. Provisions (continued)

(i) 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 actuarial deficit. However, as PPL WPD Limited, the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet as a provision above, and matches the gross asset recorded under IAS 19 (Note 22).

(ii) Asset retirement obligations 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.

(iii) Insurance provisions relate to claims covered by the WPD Group's wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey, and claims covered by external insurers. This includes third party motor claims, employers' liability, public and product liability, and professional indemnity and includes claims that are reported but not yet paid and anticipated cost of claims incurred but not yet reported. The directors expect the provision to be settled in the next 5 years.

(iv) Pension provisions relate to expected settlements of liabilities relating to the pension liability relating to the Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately 9 years.

(v) Other provisions relate principally to onerous property contracts, uninsured losses, and miscellaneous claims arising in the ordinary course of business; the directors expect other provisions to be settled within the next two years.

24. Called-up share capital

	2017 £m	2016 £m
Allotted, called up and fully paid		
1,657,592,372 (2016: 1,657,592,372) ordinary shares of £1 each	1,657.6	1,657.6

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

25. Capital and reserves

	2017 £m	2016 £m
Share capital	1,657.6	1,657.6
Merger reserve	(963.1)	(963.1)
Hedging reserve	(11.3)	1.0
Retained earnings	3,153.9	2,994.0
	3,837.1	3,689.5

The **share capital** represents the nominal value of the authorised ordinary shares in the Company in issue which carry a right to participate in the distribution of dividends or capital of the Company.

The **merger reserve** arose on the restructuring of WPD Group entities under common control in October 2014 and September 2001.

The **hedging reserve** comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

26. Contingent liabilities

Legal proceedings

The WPD Group's businesses are parties to various legal claims, actions and complaints. Although the WPD Group 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 the WPD Group's financial statements.

27. Commitments

Capital commitments

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

	2017 £m	2016 £m
Property, plant and equipment	56.7	42.2

Operating lease commitments - WPD Group as lessee

The WPD Group leases various properties under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewable rights. The WPD Group also leases plant and machinery under non-cancellable operating leases which are largely very short term.

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

	2017 £m	2016 £m
Within one year	3.8	3.5
In the second to fifth years inclusive	7.5	6.2
After five years	4.7	5.6
	16.0	15.3

Operating lease commitments - WPD Group as lessor

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

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

	2017 £m	2016 £m
Within one year	10.6	10.2
In the second to fifth years inclusive	23.4	20.5
After five years	25.0	19.3
	59.0	50.0

Guarantees and indemnities

The WPD Group has provided guarantees in respect of the funding required by the WPD Group's pension schemes.

Notes to the Western Power Distribution plc Group financial statements (continued)

For the year ended 31 March 2017

28. Related party transactions

The immediate parent undertaking of the WPD Group is PPL WPD Limited, which is registered in England and Wales.

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

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the WPD Group. Details of directors' compensation are set out in Note 7.

Loan to PPL affiliate

In February 2011, the WPD Group purchased \$200m nominal at a premium of \$21m from a PPL affiliate, PMDC Chile, of the \$400M 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited. This was funded through the repayment of a loan from an affiliate and the issue of share capital.

The investment has the following terms and conditions:

<u>Name of PPL affiliate</u>	<u>Amount of investment</u>	<u>Term</u>	<u>Interest rate</u>
PPL UK Resources Ltd	\$200m	Repayable on 31 July 2018	6.42%

The WPD Group recorded interest receivable of £7.7m (2016: £6.7m) on the investment.

Loan from PPL affiliate

Amounts payable to PPL affiliates (Note 17) comprise an intercompany note of nil (2016: £29.4m) due to PPL WPD Limited, WPD plc's immediate parent and a fellow subsidiary of PPL, together with interest payable of nil (2016: £0.7m) thereon. The note accrued interest at a rate of 3 month libor plus a margin of between 1.45% and 2.05% based on the Company's credit rating and is unsecured and repayable on demand.

The WPD Group recorded interest payable of nil (2016: £3.1m) on the loan (Note 5).

WPUPS reimbursement agreement

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 actuarial deficit. However, PPL WPD Limited, the Company's parent, has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. As PPL WPD Limited is outside the WPD Group, the value of the reimbursement agreement is stated in the balance sheet (Notes 15 and 23) and matches the gross asset/liability recorded under IAS 19 (Note 22).

Parent Company financial statements of Western Power Distribution plc
Company balance sheet

As at 31 March 2017

	Note	2017 £m	2016 £m
Fixed assets			
Investments:			
Shares in subsidiary undertakings	4	2,876.0	2,876.0
Loans to group undertakings	4	164.5	146.0
Current assets			
Derivative financial instruments:			
Due within one year		26.9	40.2
Due in greater than one year		114.0	68.6
Debtors	5	784.0	1,159.6
Cash at bank		3.0	32.5
		927.9	1,300.9
Creditors - amounts falling due within one year	6	(494.9)	(515.8)
Net current assets		433.0	785.1
Total assets less current liabilities		3,473.5	3,807.1
Creditors - amounts falling due after more than one year	6	(1,151.8)	(1,146.9)
Net assets		2,321.7	2,660.2
Capital and reserves			
Called up share capital	7	1,657.6	1,657.6
Hedging reserve	8	(4.9)	(5.7)
Profit and loss account		669.0	1,008.3
Equity shareholders' funds		2,321.7	2,660.2

The Company reported a loss for the financial year ended 31 March 2017 of £25.5m (2016: £4.4m profit).

The financial statements of the Company on pages 79 to 87 were approved by the Board of Directors on 18 July 2017 and signed on its behalf by:

R A Symons
Chief Executive

D C S Oosthuizen
Finance Director

Company statement of changes in equity

For the year ended 31 March 2017

	Share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2015	1,657.6	-	1,003.9	2,661.5
Profit for the year	-	-	4.4	4.4
Other comprehensive loss	-	(5.7)	-	(5.7)
Total comprehensive (loss)/income for the year	-	(5.7)	4.4	(1.3)
At 31 March 2016	1,657.6	(5.7)	1,008.3	2,660.2
Loss for the year	-	-	(25.5)	(25.5)
Other comprehensive income	-	0.8	-	0.8
Total comprehensive income/(loss) for the year	-	0.8	(25.5)	(24.7)
Equity dividends paid	-	-	(313.8)	(313.8)
At 31 March 2017	1,657.6	(4.9)	669.0	2,321.7

Notes to the Company financial statements

For the year ended 31 March 2017

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

The parent company financial statements of Western Power Distribution 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. Western Power Distribution plc is a public limited company incorporated and domiciled in England and Wales.

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

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

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

2. Significant accounting policies

Basis of preparation

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

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc which are included on pages to 1 to 78.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

Going concern

The directors have 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.

Foreign currencies

The Company's functional currency and presentation currency is pounds sterling. Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Investments - shares

Investments in shares in subsidiary undertakings are recorded at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. The impairment, if any, is charged to the profit and loss account.

Notes to the Company financial statements (continued)

For the year ended 31 March 2017

2. Significant accounting policies (continued)

Taxation

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

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

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.

Dividends

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

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. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments, and derivative financial instruments. 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 if the time value of money is significant. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the profit and loss statement. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Held-to-maturity investments

Held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Notes to the Company financial statements (continued)

For the year ended 31 March 2017

2. Significant accounting policies (continued)

Impairment of loans and receivables

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

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss; derivatives designated as hedging instruments in an effective hedge; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include trade and other payables, accruals, most items of finance debt and derivative financial instruments. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in profit or loss. Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Financial liabilities measured at amortised cost

All other financial liabilities are initially recognized at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

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

This category of financial liabilities includes trade and other payables and finance debt.

Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognized in the profit and loss account.

Share capital

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

Impairment of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values.

Notes to the Company financial statements (continued)

For the year ended 31 March 2017

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

Financial instruments

Certain financial instruments are carried on the balance sheet at fair value. Fair values are estimated by reference, in part, to published price quotations and in part by using valuation techniques.

4. Fixed asset investments

	Subsidiary undertakings £m	Parent Company debt £m	Total £m
Cost			
At 1 April 2016	2,876.0	146.0	3,022.0
Amortisation of premium	-	(3.2)	(3.2)
Exchange rate movement	-	21.7	21.7
At 31 March 2017	2,876.0	164.5	3,040.5
Net book value at 31 March 2017	2,876.0	164.5	3,040.5

Details of the Company's subsidiary undertakings are as follows:

Subsidiary undertakings	Principal activity	Proportion %
Western Power Distribution (South West) plc	Electricity distribution	100
Western Power Distribution (South Wales) plc	Electricity distribution	100
Western Power Distribution (East Midlands) plc	Electricity distribution	100
Western Power Distribution (West Midlands) plc	Electricity distribution	100
WPD Distribution Network Holdings Limited	Investment company	100
PPL Island Limited	Investment company	100
PPL WEM Limited	Investment company	100
PPL Midlands Limited	Investment company	100
PPL UK Investments Limited	Investment company	100
Western Power Distribution Investments Limited	Investment company	100
Surf Telecoms Limited	Telecommunications	100
Western Power Generation Limited	Power generation	100
WPD Property Investments Limited	Property management	100
Kelston Properties 2 Limited	Property management	100
Aztec Insurance Limited ^	Insurance	100
South Western Helicopters Limited	Helicopter operator	100
WPD Smart Metering Limited	Electricity Metering	100
WPD Investments Limited	Investment company	100
WPD Midlands Properties Limited	Investment company	100
WPD Limited ^	Property management	100
Hyder Profit Sharing Trustees Limited	Dormant company	100
WW Share Scheme Trustees Limited	Dormant company	100
South Wales Electricity Share Scheme Trustees Limited	Dormant company	100
Infralec 1992 Pension Trustee Limited	Dormant company	100
WPD Midlands Networks Contracting Limited	Dormant company	100
Central Networks Trustees Limited	Dormant company	100
WPD Share Scheme Trustees Limited	Dormant company	100
Western Power Pension Trustee Limited	Dormant company	100
WPD Limited	Dormant company	100
Meter Reading Services Limited	Dormant company	100
Meter Operator Services Limited	Dormant company	100
Hyder Share Scheme Trustee Limited	Dormant company	100
Hyder Share Scheme Trustee 2 Limited	Dormant company	100

Notes to the Company financial statements (continued)

For the year ended 31 March 2017

4. Fixed asset investments (continued)

^ Incorporated in Guernsey.

All undertakings are registered in England and Wales unless stated.

Except for WPD Distribution Network Holdings Limited, which is owned 67.1% directly and 32.9% indirectly by subsidiaries, and PPL UK Investments Limited which is owned 100% directly, all shares are held by subsidiary undertakings. All holdings are in ordinary shares.

Except for Aztec Insurance Limited and WPD Limited, the registered office of all subsidiary undertakings is Avonbank, Feeder Road, Bristol BS2 0TB. The registered office for Aztec Insurance Limited and WPD Limited is Marsh Management Services Limited, PO Box 34, St Martins House, Le Bordage, St Peters Port, Guernsey, GY1 4AU.

5. Debtors	2017 £m	2016 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	777.0	1,156.9
Other debtors	2.6	2.2
Prepayments and accrued income	0.9	0.1
Deferred tax asset	3.5	0.4
	784.0	1,159.6

Amounts owed by Group undertakings	2017 £m	2016 £m
Inter-company Notes receivable from:		
PPL WEM Limited (1)	476.7	567.5
WPD Distribution Network Holdings Limited (2)	2.7	119.6
WPD Distribution Network Holdings Limited (3)	60.0	60.0
WPD Distribution Network Holdings Limited (4)	230.0	-
Western Power Distribution (South West) plc (5)	-	38.8
Western Power Distribution (South Wales) plc (5)	-	57.5
Western Power Distribution (East Midlands) plc (5)	-	200.0
Western Power Distribution (West Midlands) plc (5)	-	100.0
Interest on inter-company Notes receivable from:		
PPL WEM Limited	7.0	11.8
WPD Distribution Network Holdings Limited	0.5	1.3
Western Power Distribution (East Midlands) plc	-	0.1
Western Power Distribution (West Midlands) plc	-	0.1
Inter-company accounts	0.1	0.2
	777.0	1,156.9

(1) Accrues interest at a fixed rate of 5.0% per annum.

(2) Accrues interest at a rate of 3 month libor plus a margin of between 1.15% and 1.65% based on the company's credit rating.

(3) Accrues interest at a rate of 3 month libor plus a margin of between 0.85% and 1.50% based on the company's credit rating.

(4) Accrues interest at a rate of 1 month libor plus a margin of between 0.9% and 2.0% based on the company's credit rating.

(5) Accrues interest at a rate of 1 month libor plus a margin of between 0.35% and 0.90% based on the company's credit rating.

All notes are unsecured and are repayable on demand.

Notes to the Company financial statements (continued)

For the year ended 31 March 2017

6. Creditors	2017 £m	2016 £m
Amounts falling due within one year:		
Syndicated credit facility (1)	159.9	139.1
Term loan facility (2)	230.0	-
7.250% US\$100m bonds due 2017 (5)	81.6	-
3.900% US\$460m bonds due 2016 (4)	-	320.5
Amounts owed to Group undertakings (3)	1.5	31.1
Accruals and deferred income	21.9	25.1
	494.9	515.8
Amounts falling due after more than one year:		
5.375% US\$500m bonds due 2021 (4)	430.0	380.5
7.250% US\$100m bonds due 2017 (5)	-	73.1
7.375% US\$255m bonds due 2028 (5)	226.3	198.5
3.625% GB£500m bonds due 2023	495.5	494.8
	1,151.8	1,146.9

(1) The amounts borrowed on the Company's £210.0m syndicated credit facility at 31 March 2017 and 31 March 2016 were USD-denominated borrowings of \$200.0m for both periods, which bore interest at 1.61% and 1.26% (interest on the facility accrues at a rate of libor plus a margin of between 1.4% and 2.5% based on the Company's credit rating). At 31 March 2017, the Company had available £51.1m (2016: £68.8m) undrawn in respect of which all conditions precedent had been met. The unused capacity reflects the amount borrowed in GBP of £158.9m (2016: £141.2m) as of the date borrowed.

(2) On 28 March 2017, the Company entered into a £230.0m nine month term facility agreement with HSBC Bank and Mizuho Bank. On 29 March 2017, the Company borrowed the full loan amount under the facility. Proceeds of the borrowing were used to make an advance payment of WPD's pension contribution for the year ending 31 March 2018. At 31 March 2017 interest on the facility accrued at a rate of 1.51%, being libor plus a margin of between 0.9% and 2.0% based on the Company's credit rating.

(3) Amounts owed to Group undertakings comprise an intercompany note of £nil (2016: £29.4m) due to PPL WPD Limited, a fellow subsidiary of the Company, together with interest payable of £nil (2016: £0.7m) thereon. The note accrues interest at rate of 3 month libor plus a margin of between 1.45% and 2.05% based on the Company's credit rating and is unsecured and repayable on demand.

(4) The Company is a co-obligor and makes all payments on the \$460m 3.900% notes due 1 May 2016 (now matured) and the \$500m 5.375% notes due 1 May 2021 issued by PPL WEM Limited (the 'WEM Bonds') and has entered into a reimbursement agreement in relation to payments under the WEM Bonds. As a consequence, the Company and WEM are jointly and severally, and fully and unconditionally, liable on the WEM Bonds. Under the terms of a reimbursement agreement, where WEM has given notice of its intention to make payments to the holders of the WEM Bonds, the Company will make payments to WEM equal to such amounts. Having recognised its obligations under the WEM bonds in full, the Company has not recognised any amounts in respect of its obligations under the reimbursement agreement.

(5) The Company is a co-obligor and makes all payments on the \$100m 7.250% notes due 15 December 2017 and the \$255m 7.375% notes due 15 December 2028 issued by PPL UK Distribution Holdings Limited (the 'PPLUK Bonds') and has entered into a reimbursement agreement in relation to payments under the PPLUK Bonds. As a consequence, the Company and PPLUK are jointly and severally, and fully and unconditionally, liable on the PPLUK Bonds. Under the terms of the reimbursement agreement, where PPLUK has given notice of its intention to make payments to the holders of the PPLUK Bonds, the Company will make payments to PPLUK equal to such amounts. Having recognised its obligations under the PPLUK bonds in full, the Company has not recognised any amounts in respect of its obligations under the reimbursement agreement.

Notes to the Company financial statements (continued)

For the year ended 31 March 2017

7. Called-up share capital

	2017 £m	2016 £m
Allotted, called up and fully paid		
1,657,592,372 (2016: 1,657,592,372) ordinary shares of £1 each	1,657.6	1,657.6

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

8. Hedging reserve

	2017 £m	2016 £m
At 1 April	(5.7)	-
Losses arising on cash flow hedges during the year	-	(7.4)
Reclassification adjustments for losses on cash flow hedges included in profit or loss	1.1	0.4
Income tax effect	(0.3)	1.3
At 31 March	(4.9)	(5.7)

The hedging reserve relates to the value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt. The effective portion of the loss when the swap was cashed out is being amortised through the profit and loss account over the term of the bond.

9. Related party transactions

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

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

Investment in PPL affiliate debt

In October 2014, as part of an intra-group reorganisation, WPD acquired \$200m nominal at a premium of \$16m from PPL UK Distribution Holdings Limited of the \$400m 2018 6.42% USD denominated Eurobond issued by PPL UK Resources Limited.

The investment has the following terms and conditions:

<u>Name of PPL affiliate</u>	<u>Amount of investment</u>	<u>Term</u>	<u>Interest rate</u>
PPL UK Resources Ltd	\$200m	Repayable on 31 July 2018	6.42%

The Company recorded interest receivable of £6.6m (2016: £5.7m) on the investment for the period.

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