

Registered Number: 2366985

**WESTERN POWER DISTRIBUTION (SOUTH WALES) plc**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**For the year ended 31 March 2015**



## **Contents**

	Page
<b>Strategic report</b>	1
<b>Directors' report</b>	23
<b>Statement of directors' responsibilities</b>	26
<b>Independent auditors' report to the members of Western Power Distribution (South Wales) plc</b>	27
<b>Financial statements:</b>	
Profit and loss account	29
Statement of total recognised gains and losses	30
Balance sheet	31
Statement of cash flows	32
Notes to the statement of cash flows	33
Notes to the financial statements	35

## Strategic report

For the year ended 31 March 2015

The directors present their annual report and the audited financial statements of Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales"), company number 2366985, for the year ended 31 March 2015.

**WPD South Wales is an integral part of a larger UK group. The structure of the group is such that the financial statements of the Company must be read in conjunction with the group financial statements of Western Power Distribution plc ("WPD plc") to gain a full understanding of the group results for the year and the related cash flows, together with the financial position of the group as at 31 March 2015.**

### Business model

#### *What we do*

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

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

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

WPD South Wales' network comprises approximately 17,990 km of overhead lines, 17,508 km of underground cable and 39,957 transformers.

During 2014/15, the maximum demand recorded was 2,010 megawatts (2013/14: 1,996 megawatts).

#### *Group structure*

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

In October 2014 a group reorganisation took place to bring all the operating companies within WPD under one new holding company, Western Power Distribution plc. Prior to this date WPD East Midlands and WPD West Midlands were part of the PPL WEM Holdings Limited group, and WPD South West and WPD South Wales were part of the PPL WW Holdings plc group.

#### *Regulation*

WPD South Wales is a monopoly regulated by the Gas and Electricity Markets Authority (known as "Ofgem"). The operations are regulated under the distribution licence under which income is generated subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financial costs.

The charges made for the use of the distribution network are regulated on the basis of the Retail Price Index ("RPI") plus/minus X formula where RPI is a measure of inflation and X is an efficiency factor established by the regulator following review. Until 31 March 2015, Ofgem set the distribution price control formula for five year periods.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Business model (continued)**

#### *Regulation (continued)*

The five year electricity distribution price control review just ended, which commenced on 1 April 2010 ("DPCR5"), broadly focused on environment, customer and networks, which fits closely with our own business strategy. WPD South Wales was allowed to increase its prices by an average 6.2% plus inflation in each of the five years of this period. In return for the revenue WPD South Wales has been allowed to earn, Ofgem introduced from 1 April 2010 new obligations in areas such as connection performance together with incentives to innovate and reduce both the number of interruptions that our customers suffer and the average length of interruptions.

Ofgem have introduced a new approach for sustainable network regulation, to be delivered by the "RIIO" model where Revenues=Incentives+Innovation+Outputs. WPD South Wales' next price review (known as RIIO-ED1) is effective from 1 April 2015 and will apply for eight years. 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 will be much more extensive with the outputs embedded within the overall business plan and act as a "contract" between the network companies and their customers.

In July 2013, WPD submitted an outputs based Business Plan for the ED1 period 2015-2023. In February 2014 and following a detailed assessment and consultation process, Ofgem announced that WPD's Business Plan had been accepted as "well justified" and could therefore "fast-track" all four WPD licensed areas, ahead of the other five licensed distributor groups. On 28 March 2014, Ofgem published WPD's modified licences which took effect 1 April 2015.

### **Business objectives**

WPD's business objectives are simple. They are:

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

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

### **Long term strategy**

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

#### *Efficient organisational structure*

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

There are no plans to change this successful business model.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Long term strategy (continued)**

#### *Efficient organisational structure (continued)*

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.

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.

The Department for Energy and Climate Change ("DECC") Low Carbon Technology forecasts suggest that there will be extensive requirements for network reinforcement growing exponentially into RII0-ED2. Smart solutions are being trialled utilising innovation funding to develop lower cost ways of providing network capacity.

#### *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 our incremental investment above legal requirement is made to bring about clearly identified benefits to our customers, stakeholders and our business.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Long term strategy (continued)**

#### *Completing work programmes*

WPD does not delay work programmes. Whilst short term savings would provide a financial benefit under the regulatory efficiency incentive, such action is not commensurate with providing a longer term reliable network for customers. Unless objectives change, work programmes are completed.

#### *Adapting the network for climate change*

We engage with DECC 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, protection of the site as a whole or in extreme cases site relocation.

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

#### *Stakeholder engagement*

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

We use a range of engagement methods, including:

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

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

## Strategic report (continued)

For the year ended 31 March 2015

### Business review

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

#### Key performance indicators ("KPIs")

	2014/15	2013/14	2012/13
<b>Non-Financial</b>			
Safety:			
Lost time accidents	2	1	0
Non lost time accidents	5	8	6
Network reliability:			
Customer minutes lost	30.4	31.2	29.8
Customer interruptions (per 100 customers)	56.5	49.5	48.4
<b>Financial</b>			
Total expenditure*	£276.5m	£239.4m	£227.2m
Debt to Regulatory Asset Value ("RAV")	61.4%	59.2%	57.7%
Interest cover	5.1	5.4	4.7

\* Operating costs plus capital expenditure (not including customer contributions).

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

#### Safety

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

During 2014/15 the Safety Team continued to provide support to all areas of the business but with particular focus on the following areas of work:

- Review of existing managers' safety training records and delivery of an internal accredited Institute of Occupational Safety and Health 'Managing Safely' management training course to update their qualifications.
- Review of policy and procedures relating to site safety visits and the provision of assistance with the development of suitable skills training courses for supervisors who conduct site safety visits to improve the quality and consistency of their visits.
- Development of an audit programme for a sample of contractors who provide work for WPD and the establishment of a conference forum for them to encourage their sharing of best practice and promotion of safe methods of working.
- Provision of assistance to staff and the update of WPD directives associated with the introduction of iPad tablets for use to record on-site risk assessments.
- Introduction of a new WPD directive and the provision of suitable training resources to integrate the WPD procedures relating to carrying out work in confined spaces.
- Development of a behavioural safety training course programme for all staff for implementation during 2015.

## Strategic report (continued)

For the year ended 31 March 2015

### Business review (continued)

#### *Safety (continued)*

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.

During the autumn of 2014 the Safety team engaged the services of nationally recognised provider 'Crash Course' to deliver a series of roadshows to all WPD staff at sites across the whole region about the impact of vehicle accidents as part of the 2014 'Safety Week' programme.

In January 2015 a formal internal audit was commenced to confirm that the combined Safety Management Systems conform to OHSAS 18001:2007.

There were two members of staff involved in 'lost time' accidents in South Wales in 2014/15, which compares to one in 2013/14. The number of staff involved in 'non-lost time accidents' in the Company was five in 2014/15, which compares to eight in 2013/14. The total number of accidents to staff across WPD as a whole reduced from 82 in 2013/14 to 77 in 2014/15.

#### *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.

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

	<u>Total</u>	<u>Target less than</u>
Minutes lost per customer 2014/15	32.0	
Excluded event	(1.6)	
<b>IIS Performance 2014/15</b>	<b>30.4</b>	<b>44.6</b>
IIS Performance 2013/14	31.2	44.6
Interruptions per 100 customers 2014/15	60.0	
Excluded event	(3.5)	
<b>IIS Performance 2014/15</b>	<b>56.5</b>	<b>79.5</b>
IIS Performance 2013/14	49.5	79.5

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD South Wales network including those caused by bad weather and other faults together with 50% of CI and CML due to pre-arranged shutdowns for maintenance and construction. The 11kV network is the principal driver of customer minutes lost, with faults on overhead lines being the major contributor. In addition to the performance reported under IIS above, 88.3% of customers off supply in South Wales as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Business review (continued)**

#### *Network performance (continued)*

Under the IIS scheme, performance is targeted at an underlying level of improvement. DNOs are thus permitted to claim an adjustment for events during the year which they believe were exceptional and had a significant impact on the total reported performance. An exceptional event can either be caused by a large number of weather related faults or be due to a one-off event which is outside of the DNO's control. In either case, the event must meet prescribed thresholds in terms of the number of faults experienced or, for a one-off event, in terms of either the number of customers affected or the duration of the incident. If an event meets these prescribed thresholds, the DNO must notify Ofgem who will conduct an audit to determine the impact of the event. As part of the audit process the DNO must demonstrate that it mitigated against the impact of the event to the best of its ability before Ofgem will exclude the CI and CML incurred. WPD South Wales reported one exceptional event to Ofgem during the year.

Subject to Ofgem confirmation, our IIS CML and CI of 30.4 customer minutes lost and 56.5 interruptions per 100 customers for the year are within our targets of 44.6 and 79.5 respectively. The outperformance relative to the DPCR5 targets set by Ofgem is particularly gratifying as the targets broadly reflect DPCR4 (2005-2010) performance and are therefore particularly tough for a DNO whose operational performance during this period is acknowledged by Ofgem as being a frontier performer.

#### *Customer service*

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

If customers are not happy with our efforts to resolve their complaint, they are able to ask The Energy Ombudsman ("Ombudsman") to review the matter. No complaints have been received by the Ombudsman or its predecessor for WPD South Wales since April 2003. WPD South West and WPD South Wales are the only network companies during the first six years of the statutory Energy Ombudsman Scheme to have zero customer complaints. WPD East Midlands and WPD West Midlands achieved a third year of the statutory Energy Ombudsman Scheme with zero customer complaints. Regular meetings between WPD and the Ombudsman have resulted in a number of initiatives to improve our overall service to customers and drive standards up.

A combination of targeted investment and close monitoring of performance has ensured that we have out-performed in all areas of the business. WPD South Wales during the year recorded no failures against Ofgem's national Customer Guarantee Service Standards for network performance, and no failures for the year against the 37 standards relating to connections performance. We also exceeded all of our network performance targets under the Quality of Service incentive scheme by a significant margin.

#### Stakeholder Engagement Incentive

WPD has been rated as the top performing DNO group in the Stakeholder Engagement Incentive Award Scheme (which is a key element of Ofgem's new Broad Measure of Customer Satisfaction) since its introduction in 2011/12. Most recently in 2013/14 WPD was awarded the highest score of 8.05 out of 10 for the overall submission, which included a question and answer session with an Ofgem-appointed judging panel of experts.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Business review (continued)**

#### *Customer service (continued)*

##### Stakeholder Engagement Incentive (continued)

DNOs submit evidence split into two parts. The first part is a demonstration that there is a robust engagement strategy in place and shows how feedback from engagement is incorporated into our business plans and decisions. This includes showing an understanding of who our stakeholders are and how best to engage with them. Part two of the submission is evidence of the outcomes of the engagement process. Ofgem's feedback confirmed that WPD were assessed as first place in both elements.

##### 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, have a general enquiry or request a new connection. 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 2013/14, WPD's four areas ranked one to four in the league table of all 14 DNO licence areas.

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 two seconds compared to a national average of 20 seconds.

##### National Customer Service Excellence Standard

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

WPD undergo a stringent external assessment of our engagement activities every year. The Customer Service Excellence 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 have held the charter mark of best practice since 1992 - the only energy company in the UK to do so. The assessor visits a number of locations across WPD every year.

An external auditor undertakes an annual two day visit. WPD are assessed against 57 elements and have full compliance against every one. As an established holder of the charter mark, WPD are assessed as part of a three year rolling programme, where one third of the standards are reviewed annually. There are four potential outcomes ranging from 'non-compliance' to 'compliance plus' (the highest level possible, indicating best practice across all sectors). In 2014 WPD were successfully reaccredited, and demonstrated that significant improvements had again been made by achieving compliance plus in almost every element recently assessed.

Our status currently stands as 21 compliance plus and 36 full compliance, with zero partial or non-compliances.

At the most recent audit, the assessor reviewed WPD's Stakeholder Engagement programme including our workshops and actions taken since, our performance in the Broad Measure of Customer Satisfaction, our attainment of the British Standard Institute's vulnerable customer standard and various initiatives to improve communication such as projects targeting General Practitioners and Members of Parliament. They also reviewed WPD's social obligations programme, connections improvement plan and an overview of the improvement actions taken following severe storms in 2013/14.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Business review (continued)**

#### *Customer service (continued)*

##### British Standard for Inclusive Service Provision

In 2014, WPD became the first company in the UK to be externally assessed as fully compliant with the BS18477:2010 British Standard for inclusive service provision. In 2015, 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 new social obligations programme and the services we offer to our Priority Service Register customers. WPD was assessed during a two day audit to review the accessibility of our services, literature and website, as well as WPD's social obligations programme and vulnerable customer strategy, all associated systems and processes, Contact Centre operations and the new connections process. WPD was assessed as fully compliant in over 36 audit elements.

In 2015 the auditor stated: "Strategy, objectives, reviews and surveys are all co-ordinated with a view to the identification of actions resulting in the implementation of continual improvement. The observations identified at the previous BSI audit have been reviewed and actions implemented. The complaint procedure is effective in identifying resulting actions and effective communication to consumers. Where feedback from the regulator results in a score of less than 3, this is treated as a complaint and investigated accordingly."

"The senior management demonstrated a high level of commitment to a consumer focussed approach in all aspects of the operation. A culture of ownership and continual improvement is promoted at all levels of the organisation, which was consistently demonstrated throughout the audit. This is a forward looking organisation which is constantly striving to improve the consumer experience through regular consultation with stakeholders and responding quickly to any opportunity."

##### 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 key stakeholder groups, help us keep up to speed with the issues affecting our customers. Members include representatives from the British Red Cross, Major Energy Users Council, local parish councils, Sainsbury's, B&Q, Energy Saving Trust, Severn Trent Water and National Grid. Through the Panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. It plays an important role in helping WPD develop its business plans and outputs for the RIIO price control. The Panel is attended by WPD's Chief Executive and other senior managers, demonstrating the commitment at every level to proactively engage with customers.

In January 2015 WPD hosted our latest round of annual stakeholder workshops in various locations including Birmingham, Milton Keynes, Gloucester, Newport, Bristol and Plymouth. The six events were attended by 232 stakeholders from a range of different backgrounds including domestic, business, local authorities, developers/connections, environmental, energy/utility, regulatory/government and voluntary sectors. WPD have subsequently identified 18 improvement actions that WPD will be taking in order to address the stakeholder feedback received.

Since 2010 WPD has held a number of stakeholder workshops and more than 4,500 people have been engaged to help us build our Business Plan - the vast majority face-to-face. Now that WPD's Business Plan has been agreed, WPD has 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.

## Strategic report (continued)

For the year ended 31 March 2015

### Business review (continued)

#### *Customer service (continued)*

#### Deaf Awareness Chartermark

WPD holds the Action on Hearing Loss (formerly RNID) 'Louder Than Words' chartermark 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 5 and 7 years respectively for WPD South Wales/WPD South West and WPD East Midlands/WPD West Midlands.

#### *Environment*

WPD is an ISO14001 certified company and is committed to conducting its business as a responsible steward of the environment. WPD plan 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.

WPD South West and WPD South Wales were the first DNOs to gain independent accreditation (by Lloyd's Register) against Publicly Available Standard PAS55 - Asset Management (2004). In May 2009, WPD successfully gained recertification (by Lloyd's Register) against Publicly Available Standard PAS55 - Asset Management (2008). In July 2010, May 2011 and August 2012 the annual surveillance audits confirmed that WPD's asset management system continues to meet the requirements of PAS55 - Asset Management (2008). Whilst an asset management specification, PAS55 encompasses risk management, setting of and adherence to policies and procedures, and thus has relevance to control of environmental risk.

#### Fluid filled cables

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

	<b>Fluid losses (litres)</b>
	<b>WPD Group</b>
2014/15	25,131
2013/14	16,061
2012/13	39,123

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

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Business review (continued)**

#### *Environment (continued)*

##### 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 Electricity Network Association ("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 2014/15 amounted to 270kg representing 0.97% 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 now 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 affects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities.

##### General

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 2015

### Business review (continued)

#### *Business efficiency*

Profit before tax decreased by £11.5m compared to the previous year. Operating profit at £154.7m was £7.7m lower with turnover up by £2.0m and operating expenses up by £9.7m. Turnover was impacted by the increase in tariffs and the timing of the recovery of regulated income. The increase in operating expenses was driven by higher pension contributions (Note 9).

Total expenditure ('totex') increased by £37.1m. Capital costs increased by £27.4m, reflecting the increased capital work programme included in the business plan. 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 2015 were £636.7m, an increase of £50.4m on the previous year. Fixed assets increased by £94.8m reflecting the fact that capital expenditure exceeds the historical cost depreciation charge. Amounts owed by other WPD undertakings increased by £14.6m. Short term deposits and cash fell by £48.7m.

#### Debt to RAV

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

#### Interest cover

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

#### *Capital investment*

Gross capital investment (before customers' contributions) during the year was £146.8m across the WPD South Wales region and included the replacement of overhead lines and switchgear together with the introduction of new technology.

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

- New 33/11kV transformer units at Llandovery 33kV substation. Work has concluded on the installation of two new 33/11kV transformer units. The driver for this work was network reinforcement which was required to allow a wider range of voltage regulation on the local 11kV bus-bar. This will provide a significantly wider voltage tapping range providing more system flexibility, which in turn will facilitate connection of third party embedded generation connections on to the wider 33kV system in and around Llandovery.
- Re-building Bridell Primary in West Wales. A major scheme was concluded in early November 2014 which has resulted in the entire primary substation being re-built. This included two new 33/11kV transformers along with installation of a new 33kV bus section circuit breaker, isolators and all associated voltage control and protection equipment. Additionally the existing 33kV line entry arrangements were modified to create a conventional bus-bar and the removal of a non-standard tee-in arrangement will now improve switching capability. This in turn will significantly improve security of supply to 11kV customers at Nevern and Bridell for a 33kV line fault. The works will also provide improved capability in dealing with embedded generation in the area by providing a wider voltage tapping range on the 33/11kV transformers.

## Strategic report (continued)

For the year ended 31 March 2015

### Future developments

See page 2 for details of our long term strategy.

#### *RIO-ED1*

Ofgem has published formal confirmation that all four WPD DNOs have been fast-tracked for RIO-ED1, the eight year price control starting 1 April 2015. 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. No other DNOs were selected for the fast track process, and they were required to resubmit their Business Plans to Ofgem. Ofgem made final determinations of the other DNOs Business Plans in February 2015. In March 2015 a request was made to refer the other DNOs price control final determinations to the UK Competition Authority. Consequently their Plans will not be finalised until late 2015.

#### *Future Networks - Research, Innovation and Low Carbon Networks*

As part of 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 also has an active research and development programme focussed on emerging technologies. This is supported by Ofgem's Innovation Funding Incentive ("IFI") scheme (with an allowance of up to £28m over the five years for WPD).

After five years of operation WPD has secured funding for six Tier 2 flagship projects, worth approximately £65m, 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 completed in February 2015; as a result 48MVA of additional capacity has been released to new generation customers. The other four projects are continuing to make good progress with valuable learning emerging as we try new solutions.

- 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.
- 2011 – The Lincolnshire Low Carbon Hub – The project built a 33kV renewable generation ready "hub" across a large part of the East Midlands coastal region. After several technical network design challenges and a shift in government policy towards onshore wind, the project completed in February 2015. A number of commercial offers for customer generation connections have been issued using newly developed policies and charging methodologies.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Future developments (continued)**

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

- 2012 – Flexible and Low Carbon Optimised Networks ("FALCON") – The project has developed a fully interactive 11kV power flow nodal model for the city of Milton Keynes. The model (called a "SIM" – Scenario Investment Model) is being populated by 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. During 2015 data from the completed engineering trials will be consolidated into the SIM and results will be shared.
- 2012 – SoLa BRISTOL – The project is demonstrating the concept of coordinating disparate energy controllers located at customer premises to maintain substations within capacity. The project will provide valuable control logic for future despatch and control of virtual power plants and electric vehicle charging. In this project the remote energy is stored in battery systems charged from PV (photovoltaic solar panel) systems on customer roofs. The project also includes the conversion of some customer internal systems from alternating to direct current (AC to DC) to improve energy efficiency. System installations within schools, offices and homes are now completed, system trialling and knowledge capture will now continue through 2015.
- 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 will be in the 'build' phase throughout 2015.
- 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. 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). The project kicked off early 2015 and the procurement stage is currently underway.

WPD has also registered twelve Tier 1 projects with Ofgem covering a broad range of topics, including such themes as wireless charging of electric vehicles and supporting community based energy initiatives. Nine of these are now complete. The research and development programme consists of approximately 30 projects, in addition to several national programmes where WPD collaborates with other industry organisations.

The RIIO-ED1 arrangements differ from those in DPCR5. The remaining three Tier 1 projects transitioned to the new NIA (Network Innovation Allowance) regulatory mechanism from April 2015.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Principal risks and uncertainties**

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

#### *Regulatory risk*

The substantial part of the Company's revenue is regulated and is subject to review every five years (or eight years for RIIO-ED1). DPCR5 became effective on 1 April 2010 and continued to 31 March 2015; RIIO-ED1 commenced 1 April 2015 and continues to 31 March 2023.

Under the review, Ofgem assesses the revenue and capital expenditure plans of the Company and determines what they consider an efficient level of that expenditure. Ofgem also considers the required cost of capital sufficient to encourage the required investment in the network, and determines customer service targets.

WPD's management invests considerable resource in the review process and has been proactive in working with Ofgem to establish better measures of cost recording to inform future reviews.

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

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

#### *Network disruption*

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

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

#### *Reliance on suppliers*

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

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

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Principal risks and uncertainties (continued)**

#### *Environment*

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

#### *Interest rate risk*

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

#### *Credit rate risk*

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

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

#### *Creditworthiness of customers*

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

#### *Pensions*

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

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

### **Insurance arrangements**

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

Insurance arrangements for the year ending 31 March 2015 relating to WPD's key risks were as follows:

- the distribution network is self insured.

## Strategic report (continued)

For the year ended 31 March 2015

### Insurance arrangements (continued)

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

Insurance arrangements are reviewed in detail annually.

### Internal control environment

PPL's Audit Committee has ultimate oversight to monitor the effectiveness of WPD's internal controls through the requirements of Section 404 (see below). They also review and monitor the independence of the external auditor; as part of this process PPL, including WPD, are currently tendering for the audit services. The responsibility to monitor the financial reporting process and statutory audit of these financial statements is assumed by the UK Board. The WPD plc Board comprises executive directors and non-executive directors.

The directors of WPD have overall responsibility for the system of internal controls and for reviewing the effectiveness of the system. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material mis-statement or loss.

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

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

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

It is important for an organisation 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.

## **Strategic report (continued)**

For the year ended 31 March 2015

### **Internal control environment (continued)**

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

Under Section 302 of this Act, senior managers affirm quarterly that disclosure controls have been evaluated and are operating effectively, that there are no material internal control issues or, if there are, that they have been reported to PPL's Audit Committee.

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

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

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

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

Annually, WPD's compliance with the Act is also reviewed in detail by WPD's external auditors. 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 significant deficiencies nor material weaknesses have been identified in WPD's financial control environment.

### **Corporate and social responsibility**

#### *Social and community issues*

The three themes of education, safety and the environment continue to form the bedrock of our support activity, and during 2014/15 we assisted over 300 separate charitable and non-charitable organisations across WPD.

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. In particular, we have sought to establish and develop customer initiatives – like our Community Chest partnership with the Centre for Sustainable Energy ("CSE") – which helps 'fuel poor' customers reduce their energy consumption.

We have also continued to promote WPD's Priority Service Register with roadshows and events involving local radio stations and organisations like Age UK, Plymouth Highbury Trust, Wales Council for the Blind, Action on Hearing Loss, Age Cymru, Framework (the Midlands housing charity) and Derbyshire Sight Support.

Highlights during the year have included:

- Phase 3 of our Community Chest grant scheme saw 59 awards made as part of a £50,000 initiative. The environmental result was 63.07 tonnes/year carbon dioxide saved by the scheme – the equivalent of the heating and electricity carbon dioxide emissions from around 12 average households.

## Strategic report (continued)

For the year ended 31 March 2015

### Corporate and social responsibility (continued)

#### *Social and community issues (continued)*

- Working with seven Wildlife Trusts to provide over 4,000 children with an environmental/educational hands-on experience. WPD Apprentices supported community challenges with Somerset Wildlife as part of their induction training. A further 800 children from 12 primary schools in South Gloucestershire benefited from our environmental programme with Avon Wildlife Trust, and over 400 children from deprived areas of South Wales. Over 7,000 native trees and shrubs were planted as part of our partnership with The Conservation Volunteers (formerly BTCV) and the Silvanus Trust.
- Taking part in 250 safety/education events reaching around 50,000 schoolchildren. These included school visits, crucial crew and lifeskills initiatives across all WPD regions. In addition, education sponsorships included Big Bang science events organised by STEM (the Science, Technology, Engineering, Maths Network) across all WPD regions and support for the 'Alarming Electrics' education project across Welsh schools in conjunction with Techniquist, the science and technology based organisation.
- Initiating the mail out and associated publicity to customers of 7.8m fridge magnets to publicise our new, single emergency number. A number of magnets in braille were also distributed.
- Invested £75,000 to support over 100 community groups and schools as part of three Cash for the Community campaigns delivered through newspaper groups across Devon, South West Wales and Derbyshire. The initiative provides cash support for charities, schools and not-for-profit organisations.
- Backed Age Cymru's Doorstep Crime and Spread the Warmth initiatives which target vulnerable and fuel poor customers, and the 'Wicked' bullying campaign in association with the Wales Millennium Centre.
- Provided 1,500 Power Cut Advice and Priority Services Register leaflets to Midlands housing charity Framework to be included in its service users' 'Move In Packs' across Nottinghamshire and Lincolnshire. A further 500 leaflets were provided to Derbyshire Sight Support.
- Supported one Welsh language activity for youngsters, the National Eisteddfod's Science Show 'Flash Bang' at Llanelli.
- Supported three major agricultural shows (Bath & West, Malvern and the Royal Welsh) promoting farm safety messages, our new emergency telephone number and our Priority Service Register.

#### *Environmental matters*

See the Environmental section on page 10.

#### Greenhouse gas emissions

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

	tCO <sub>2</sub> e		tCO <sub>2</sub> e per employee	
	2015	2014	2015	2014
<b>Scope 1 (direct emissions)</b>				
Operational transport	<b>4,246</b>	3,921	<b>4.20</b>	4.01
SF6 gas (see page 10 & 11)	<b>3,380</b>	333	<b>3.34</b>	0.34
Fuel combustion (diesel)	<b>34</b>	386	<b>0.03</b>	0.39
Buildings	<b>30</b>	23	<b>0.03</b>	0.02
	<b>7,690</b>	4,663	<b>7.60</b>	4.76
<b>Scope 2 (energy indirect emissions)</b>				
Buildings electricity	<b>1,522</b>	1,530	<b>1.50</b>	1.56
Substation electricity	<b>4,507</b>	4,059	<b>4.45</b>	4.15
Surf Telecom	<b>162</b>	258	<b>0.16</b>	0.26
	<b>6,191</b>	5,847	<b>6.11</b>	5.97
<b>Total scope 1 &amp; 2</b>	<b>13,881</b>	10,510	<b>13.71</b>	10.73

## Strategic report (continued)

For the year ended 31 March 2015

### Corporate and social responsibility (continued)

#### *Environmental matters (continued)*

<u>Greenhouse gas emissions (continued)</u>	tCO <sub>2</sub> e		tCO <sub>2</sub> e per employee	
	2015	2014	2015	2014
<b>Scope 3 (other indirect emissions)</b>				
Business transport	<b>509</b>	531	<b>0.50</b>	0.54
<b>Total scope 1, 2 &amp; 3</b>	<b><u>14,390</u></b>	<u>11,041</u>	<b><u>14.21</u></b>	<u>11.27</u>

tCO<sub>2</sub>e = tonnes of carbon dioxide equivalent

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

The methodology used to calculate our emissions is based on the current guidance provided from DECC and the Department for Environment, Food and Rural Affairs ("DEFRA") Green House Gas Reporting Requirements and the UK Government conversion factors for Company Reporting (expiry 31 May 2014).

#### *Employees*

The average number of employees during the year was 1,012 (2014: 979). These exclude a proportion of WPD South Wales staff who work in part for other WPD DNOs, and include a proportion of other WPD DNO staff who work in part for WPD South Wales.

WPD is committed to equality of opportunity in employment and this is reflected in its equal opportunities policy and employment practices. Employees are selected, treated, and promoted according to their abilities and merits and to the requirements of the job. Applications for employment by people with disabilities are fully considered, and in the event of members of staff becoming disabled, every effort is made to ensure that their employment with WPD continues by way of making adjustments to their role and/or working environment or through retraining arranged as appropriate. It is the policy of WPD that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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 newsletters, regular team briefings and other meetings, Performance and Development Reviews, as well as through WPD's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of road show presentations by the directors each year ensure that all staff are aware of, and can contribute to, WPD's corporate goals.

#### *Human rights issues*

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

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

#### 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 2015

### Corporate and social responsibility (continued)

#### *Human rights issues (continued)*

#### Vulnerable customers (continued)

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

Links have been established with many organisations such as the Royal Voluntary Service (formerly WRVS) and 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

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 and the charity National Energy Action ("NEA") and with the Energy Saving Trust to provide information for our customers on the causes of and solutions for fuel poverty.

In 2014 WPD teamed up with the Coventry Citizens' Advice Bureau (CAB) to establish an innovative fuel poverty referral scheme called 'Power Up'. Initially as a one year pilot, the project helped customers in Coventry, Warwickshire and Birmingham by offering income and energy efficiency advice, such as benefits advice and energy saving tariffs and schemes. The service offered free, independent, confidential and impartial advice. The project works by Coventry CAB taking referrals directly from WPD (following calls proactively made to vulnerable customers as part of WPD's update of the Priority Service Register). The scheme supported 694 fuel poor customers in 2014, leading to a range of positive interventions including saving customers a total of £33,000 a year.

Building on this successful model we have replicated this project in 2015 and now have three 'Power Up' referral schemes – one in the Midlands, one in South Wales and one in South West, working with Coventry CAB, Energy Saving Trust and Centre for Sustainable Energy respectively. From January 2015 every customer contacted as part of WPD's PSR data cleanse is given the opportunity to be onwardly 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 the first two months, the schemes handled over 1,000 customer referrals, with a recorded outcome for every referral.

**Strategic report (continued)**

For the year ended 31 March 2015

By Order of the Board

RA Symons  
Chief Executive Officer

16 July 2015

**Western Power Distribution (South Wales) plc**

Avonbank  
Feeder Road  
Bristol  
BS2 0TB

## **Directors' report**

For the year ended 31 March 2015

### **Company's registered number**

The Company's registered number is 2366985.

### **Ownership**

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

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

### **Results and dividends**

The profit for the financial year 2015 was £97.4m (2014: £127.7m). Profit on ordinary activities before tax was £119.9m (2014: £131.4m).

For the year to 31 March 2015 dividends paid by the Company totalled £50.5m (2014: £418.4m). In 2014 this included a dividend in specie of £365.4m.

### **Political donations and expenditure**

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

### **Financial risk management objectives and policies**

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

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

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

### *Liquidity and going concern*

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

On a day-to-day basis, WPD South West provides liquidity to the whole of WPD. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2015, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £245m maturing in July 2019 all of which was undrawn. In addition, it had uncommitted facilities of £45m, of which £4.5m was drawn at 31 March 2015.

In addition, at 31 March 2015 the WPD Group's parent, Western Power Distribution plc, had a £210m committed borrowing facility that expires in December 2016 of which all conditions precedent had been met at that date; at 31 March 2015, it had drawn £133.9m against these facilities and thus had £76.1m undrawn. The drawdown was utilised to part fund the purchase of \$200m Eurobonds (issued by the Company's ultimate UK parent) at a premium of \$21m from a US based fellow subsidiary of PPL.

The four WPD DNOs also have access to an uncommitted facility from which any DNO can draw but which in aggregate cannot exceed £20m. No borrowings had been drawn against this facility as at 31 March 2015.

At 31 March 2015, WPD South Wales had £566.3m (2014: £565.8m) of external debt outstanding which was all long term. It had cash and short term deposits of £26.2m (2014: £74.9m).

## Directors' report (continued)

For the year ended 31 March 2015

### Financial risk management objectives and policies (continued)

#### *Liquidity and going concern (continued)*

After consideration, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future and at least for a period of 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, and the anticipated ability of the Company to be able to raise additional long term debt in the future.

#### *Dividend policy*

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

### Strategic report

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

- an indication of future developments in the business - see page 2;
- an indication of activities of the Company in the field of research and development - see page 13;
- a statement on the policy for disabled employees - see page 20;
- employee policies - see page 20;
- greenhouse gas (carbon) emissions - see page 19.

### Directors and their interests

The directors who served during the year were as follows:

	<u>Appointed</u>
RA Symons, Chief Executive	15 September 2000
DCS Oosthuizen, Finance Director	4 January 2001
P Swift, Operations Director	1 July 2013
PG Allen, Resources and External Affairs Director (deceased 9 February 2015)	1 September 2013
IR Williams, Resources and External Affairs Director	9 March 2015
RL Klingensmith, non-executive director and President PPL Global	14 February 2007
ME Fletcher, non-executive independent director	31 October 2011
CR Watts, non-executive independent director	1 April 2014

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

Insurance in respect of directors and officers is maintained by the WPD's parent, PPL Corporation. The insurance is subject to the conditions set out in the Companies Acts and remains in force at the date of signing the Directors' report.

## **Directors' report (continued)**

For the year ended 31 March 2015

### **Regulatory financial statements**

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

### **Statement of disclosure to auditors**

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

### **Responsibility statements under the Disclosure and Transparency Rules**

Each of the current directors listed above confirm to the best of their knowledge:

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

### **Auditors**

Ernst & Young LLP have expressed their willingness to continue in office and, subject to the result of a current tender exercise in respect of PPL's audit services, a resolution proposing their re-appointment will be put before the Annual General Meeting.

By Order of the Board

RA Symons  
Chief Executive

16 July 2015

**Western Power Distribution (South Wales) plc**

Avonbank  
Feeder Road  
Bristol BS2 0TB

## Statement of directors' responsibilities

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

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

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

The directors confirm that the financial statements comply with the above requirements.

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

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

## **Independent auditors' report to the members of Western Power Distribution (South Wales) plc**

We have audited the financial statements of Western Power Distribution (South Wales) plc for the year ended 31 March 2015 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Statement of cash flows and Notes to the statements of cash flows A to C, and the related Notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of directors' responsibilities (set out on page 26), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Independent auditors' report  
to the members of Western Power Distribution (South Wales) plc (continued)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Christabel Cowling, Senior Statutory Auditor  
*For and on behalf of Ernst & Young LLP, Statutory Auditor, Bristol*

17 July 2015

## Profit and loss account

For the year ended 31 March 2015

	Note	2015 £m	2014 £m
<b>Turnover</b>	2	<b>279.0</b>	277.0
Operating expenses	3	<b>(124.3)</b>	(114.6)
<b>Operating profit</b>	4	<b>154.7</b>	162.4
Profit on sale of fixed assets		<b>0.2</b>	0.1
<b>Profit on ordinary activities before interest and tax</b>		<b>154.9</b>	162.5
Interest receivable and similar income	5	<b>0.8</b>	4.7
Interest payable and similar charges	5	<b>(36.1)</b>	(36.0)
Other finance income	6	<b>0.3</b>	0.2
<b>Profit on ordinary activities before tax</b>	2	<b>119.9</b>	131.4
Tax on profit on ordinary activities	7	<b>(22.5)</b>	(3.7)
<b>Profit for the financial year</b>		<b>97.4</b>	127.7

All activities relate to continuing operations.

There is no difference between the profit on ordinary activities before tax and the profit for the financial year stated above, and their historical cost equivalents.

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

## Statement of total recognised gains and losses

For the year ended 31 March 2015

	Note	2015 £m	2014 £m
Profit for the financial year		97.4	127.7
Actuarial (loss)/gain recognised in the Infralec 92 pension scheme	10(d)	(0.8)	0.8
Movement on deferred tax relating to the Infralec 92 pension scheme		0.2	(0.2)
Actuarial (loss)/gain recognised in the WPUPS pension scheme	10(e)	(23.1)	18.0
Movement recognised on WPUPS reimbursement agreement	10(e)	23.1	(18.0)
Movement on deferred tax relating to the WPUPS pension scheme		4.6	(9.6)
Movement on hedging reserve (net of tax)	19	(0.5)	(0.3)
<b>Total recognised gains for the year</b>		<b>100.9</b>	<b>118.4</b>

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

## Balance sheet

31 March 2015

	Note	2015 £m	2014 £m
<b>Fixed assets</b>			
Tangible assets	12	<b>1,205.1</b>	1,110.3
		<b>1,205.1</b>	1,110.3
<b>Current assets</b>			
Stocks	13	<b>1.2</b>	1.1
Debtors	14		
Amounts falling due within one year		<b>96.5</b>	82.7
Amounts falling due after more than one year		<b>61.0</b>	59.8
Short term deposits		<b>13.5</b>	52.4
Cash at bank		<b>12.7</b>	22.5
		<b>184.9</b>	218.5
<b>Creditors</b>			
Amounts falling due within one year	15	<b>(66.8)</b>	(59.8)
<b>Net current assets</b>		<b>118.1</b>	158.7
<b>Total assets less current liabilities</b>		<b>1,323.2</b>	1,269.0
<b>Creditors</b>			
Amounts falling due after more than one year	15	<b>(566.3)</b>	(565.8)
<b>Provisions for liabilities and charges</b>			
Deferred tax	16	<b>(56.6)</b>	(54.7)
Other	16	<b>(1.1)</b>	(0.8)
<b>Net assets excluding pension liability</b>		<b>699.2</b>	647.7
<b>Pension liability (net of tax)</b>	10	<b>(62.5)</b>	(61.4)
<b>Net assets including pension liability</b>		<b>636.7</b>	586.3
<b>Capital and reserves</b>			
Called-up share capital	18	<b>251.7</b>	251.7
Share premium account	19	<b>23.2</b>	23.2
Capital redemption reserve	19	<b>5.1</b>	5.1
Hedging reserve	19	<b>6.7</b>	7.2
Profit and loss account	19	<b>350.0</b>	299.1
<b>Total shareholders' funds</b>	20	<b>636.7</b>	586.3

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

The financial statements on pages 29 to 59 were approved by the Board of Directors on 16 July 2015 and were signed on its behalf by:

RA Symons  
Chief Executive

DCS Oosthuizen  
Finance Director

## Statement of cash flows

For the year ended 31 March 2015

	Cash flow note	2015 £m	2014 £m
<b>Net cash inflow from operating activities</b>	A	<b>180.0</b>	190.4
<b>Returns on investments and servicing of finance</b>			
Interest received		1.1	5.7
Interest paid		(36.2)	(36.2)
Dividends received		-	0.1
Net cash outflow from returns on investments and servicing of finance		(35.1)	(30.4)
<b>Tax/group relief paid</b>		<b>(11.9)</b>	(16.8)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(138.0)	(120.5)
Customers' contributions received		26.6	22.3
Transfer of tangible fixed assets from other WPD undertakings		(5.4)	-
Sale of tangible fixed assets		0.2	0.1
Net cash outflow from capital expenditure and financial investment		(116.6)	(98.1)
<b>Equity dividends paid</b>		<b>(50.5)</b>	(53.0)
<b>Cash outflow before use of liquid resources and financing</b>		<b>(34.1)</b>	(7.9)
<b>Management of liquid resources</b>			
Decrease in short-term deposits		38.9	48.6
Net cash inflow from management of liquid resources		38.9	48.6
<b>Financing</b>			
Increase in balances due from other WPD undertakings		(14.6)	(19.5)
Net cash outflow from financing		(14.6)	(19.5)
<b>(Decrease)/increase in cash in the year</b>	B, C	<b>(9.8)</b>	21.2

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

## Notes to the statement of cash flows

For the year ended 31 March 2015

### A. Reconciliation of operating profit to net cash inflow from operating activities

	<b>2015</b>	2014
	<b>£m</b>	£m
Operating profit	<b>154.7</b>	162.4
Depreciation	<b>27.2</b>	28.4
(Increase)/decrease in stocks	<b>(0.1)</b>	0.1
Increase in debtors	<b>(1.2)</b>	(4.7)
(Decrease)/increase in creditors	<b>(0.1)</b>	4.6
Increase in provisions	<b>0.3</b>	0.1
Difference between pension charge and cash contributions	<b>(0.8)</b>	(0.5)
<b>Net cash inflow from operating activities</b>	<b>180.0</b>	190.4

### B. Reconciliation of movements in net debt

	At 1 April 2014 £m	Cash flow £m	Other non-cash movements £m	At 31 March 2015 £m
Cash at bank	22.5	(9.8)	-	<b>12.7</b>
Short term deposits	52.4	(38.9)	-	<b>13.5</b>
Debt due after one year :				
£150m 9.25% Eurobonds 2020	(149.3)	-	(0.1)	<b>(149.4)</b>
£225m 4.804% bonds 2037	(219.6)	-	(0.2)	<b>(219.8)</b>
£200m 5.75% bonds 2040	(196.9)	-	(0.2)	<b>(197.1)</b>
Balances with other WPD undertakings	17.0	14.6	-	<b>31.6</b>
	(473.9)	(34.1)	(0.5)	<b>(508.5)</b>

Other non-cash movements relate to the amortisation of bond issue costs.

## Notes to the statement of cash flows

For the year ended 31 March 2015

### C . Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
(Decrease)/increase in cash in the year	(9.8)	21.2
Decrease in short-term deposits	(38.9)	(48.6)
Change in balances with other WPD undertakings	14.6	19.5
Increase in net debt resulting from cash flows	(34.1)	(7.9)
Non-cash changes		
Change in balances with other WPD undertakings	-	(366.4)
Other	(0.5)	(0.4)
Increase in net debt in year	(34.6)	(374.7)
Net debt at 1 April	(473.9)	(99.2)
Net debt at 31 March	(508.5)	(473.9)

## **Notes to the financial statements**

For the year ended 31 March 2015

### **1. Accounting policies**

The principal accounting policies are summarised below.

#### **Basis of preparation**

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. Accounting policies are prepared under United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). They have been applied consistently throughout the year and the preceding year.

As permitted by FRS 29 "Financial Instruments: Disclosure", full disclosure relating to financial instruments is consolidated with those of the Western Power Distribution plc Group and is incorporated in the disclosure in the WPD Group financial statements.

#### **Going concern**

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

#### **Turnover**

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

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

#### **Leases**

Rentals for operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

#### **Research**

Expenditure on Low Carbon Network projects is capitalised together with the associated funding. Other expenditure on research is written off to the profit and loss account in the year in which it is incurred.

#### **Share based payments**

WPD operates a cash-settled phantom share option scheme for executive directors and senior managers. 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.

## Notes to the financial statements

For the year ended 31 March 2015

### 1. Accounting policies (continued)

#### Pension costs

The Company participates in three defined benefit pension schemes:

- the Electricity Supply Pension Scheme ("ESPS"), to which most employees in WPD belong. Under the guidance of Financial Reporting Standard ("FRS") 17 "Retirement Benefits", where an entity cannot separate out its share of the scheme's assets and liabilities on a reasonable and consistent basis, the relevant entity should account for pensions as if the scheme were a defined contribution scheme. The Company therefore charges contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme.
- the Infraclec 1992 Pensions Scheme ("Infraclec 92"). The Infraclec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales.
- the Western Power Utilities Pension Scheme ("WPUPS"). However, another WPD Group company, PPL WPD Limited, has accepted responsibility for liabilities for WPUPS and reimburses all contributions made by the Company. The liability under FRS 17 in respect of WPUPS recorded in these financial statements is offset by the reimbursement agreement. As part of the corporate reorganisation in October 2014, the responsibility for the WPUPS liability was transferred from PPL UK Distribution Holdings Limited (formerly PPL WW Holdings Limited) to PPL WPD Limited.

Any capital cost of ex gratia and supplementary pensions, including early retirement deficiency contributions, is charged to the profit and loss account when a detailed plan is formulated and communicated to employees.

The ESPS is closed to new members. The Company also participates in a defined contribution scheme, the Western Power Pension Scheme ("WPPS"). Contributions are charged to the profit and loss account and capital expenditure as they become due.

#### Interest costs

Interest charges are recognised in the profit and loss account as they accrue, on an effective rate basis.

#### Tangible fixed assets

Tangible fixed assets are stated at cost net of customer contributions, less amounts provided to write off the cost less anticipated residual value of the assets over their useful economic lives, which are as follows:

	Years
Distribution network assets:	
Overhead lines and poles	65
Underground cables	85
Plant and machinery (transformers and switchgear)	55
Meters	3
Customer contributions	69
Other (towers and substation buildings)	Up to 80
Buildings - freehold	Up to 60
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

Freehold land is not depreciated.

## **Notes to the financial statements**

For the year ended 31 March 2015

### **1. Accounting policies (continued)**

#### **Tangible fixed assets (continued)**

The assumed useful economic lives of distribution network assets were changed from 1 December 2014 to those set out above.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, but excludes financing costs.

Significant IT consultancy and software development costs are capitalised when tangible benefits accrue and are amortised over their estimated useful economic life from the date of first use. Costs primarily relate to external suppliers; directly attributable internal costs are capitalised only if significant. Other IT consultancy and development costs are charged to the profit and loss account in the year in which they are incurred.

Assets are depreciated on a straight line basis. Customers' contributions towards distribution network assets, which include low carbon network funding and capital grants, are credited to the profit and loss account over the estimated useful lives of the related assets. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 2006 requirements which require fixed assets to be included at their purchase price or production cost and hence the unamortised amount of contributions would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view. The value of unamortised contributions is shown in Note 12.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Stocks**

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

#### **Short-term deposits**

Short-term deposits comprises deposits that do not qualify as cash at bank.

#### **Cash at bank**

Cash at bank comprises cash in hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

#### **Financial assets**

Financial assets comprise loans and receivables and include trade receivables, other receivables, loans, and other investments. Financial assets are recognised initially at fair value, normally being transaction price. Financial assets are derecognised on sale or settlement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets 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.

## Notes to the financial statements

For the year ended 31 March 2015

### 1. Accounting policies (continued)

#### Financial assets (continued)

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 include trade and other payables, accruals, and finance debt. These are initially recognised at fair value. For interest-bearing loans and borrowings, this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Capital accretion associated with index linked bonds is recognised within interest payable and similar charges in line with the terms of the bonds. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other revenues and finance costs.

#### Derivative financial instruments

WPD South Wales currently does not have derivative financial instruments. However, gains in relation to forward interest rate swaps terminated prior to a previous debt issuance, that are deferred in the hedging reserve, are being recycled to the Profit and loss account over the term of the bond. These swaps were designated as cash flow hedges, where they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset, liability or forecasted transaction.

#### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The estimate is discounted to present value where the effect is material.

#### Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

## Notes to the financial statements

For the year ended 31 March 2015

### 2. Segmental reporting

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

### 3. Operating expenses

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

	<b>2015</b>	2014
	<b>£m</b>	£m
Employee costs (Note 9)	<b>46.1</b>	32.5
Depreciation (Note 4)	<b>27.2</b>	28.4
Property rates	<b>15.9</b>	15.6
Other operating expenses	<b>35.1</b>	38.1
Operating expenses	<b>124.3</b>	114.6

### 4. Operating profit

	<b>2015</b>	2014
	<b>£m</b>	£m
Operating profit is stated after charging:		
Depreciation *	<b>27.2</b>	28.4
Operating lease rentals:		
Plant, machinery and equipment	<b>0.4</b>	0.6
Land and buildings	<b>0.8</b>	0.7
Research and development **	<b>0.1</b>	0.1
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	<b>0.1</b>	0.1

\* Depreciation is stated net of depreciation capitalised of £5.6m (2014: £5.2m) in respect of equipment consumed during the construction of the electricity network.

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

## Notes to the financial statements

For the year ended 31 March 2015

### 5. Interest

	2015 £m	2014 £m
Interest payable and similar charges:		
On loans	36.1	36.0
	36.1	36.0
Interest receivable and similar income:		
On loans to other WPD undertakings	(0.5)	(4.2)
Other	(0.3)	(0.5)
	(0.8)	(4.7)
Interest expense (net)	35.3	31.3

### 6. Other finance income

	2015 £m	2014 £m
Expected return on pension scheme assets (Notes 10(d) and 10(e))	26.3	26.0
Interest on pension scheme liabilities (Notes 10(d) and 10(e))	(20.2)	(20.7)
Movement in reimbursement agreement (Note 10(e))	(5.8)	(5.1)
Other finance income	0.3	0.2

## Notes to the financial statements

For the year ended 31 March 2015

### 7. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2015 £m	2014 £m
Current tax:		
UK corporation tax on profits for the year	16.5	15.6
Adjustment in respect of prior years	(0.5)	(0.1)
Total current tax (Note 7(b))	16.0	15.5
Deferred tax:		
Origination and reversal of timing differences	2.5	5.0
Increase in discount	(0.4)	-
Impact of change in corporation tax rate	-	(18.0)
Adjustment in respect of prior years	(0.3)	(0.1)
Pension scheme timing differences	4.7	1.3
Total deferred tax (Note 17)	6.5	(11.8)
Tax charge on profit on ordinary activities	22.5	3.7

(b) Factors affecting the current tax charge for the year

The current tax assessed for the year is different to the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	2015 £m	2014 £m
Profit on ordinary activities before tax	119.9	131.4
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21% (2014: 23%)	25.2	30.2
Effects of:		
Expenses not deductible and income not taxable for tax purposes	1.2	1.3
Timing difference between capital allowances and depreciation	(4.1)	(2.8)
Timing differences related to pension payments	1.6	(2.2)
Adjustment to tax charge in respect of prior years	(0.5)	(0.1)
Pension scheme timing differences on commitments and liabilities	(4.7)	(1.3)
Group relief received at non-standard rates	(2.7)	(9.6)
Current tax charge for the year (Note 7(a))	16.0	15.5

## Notes to the financial statements

For the year ended 31 March 2015

### 7. Tax on profit on ordinary activities (continued)

(c) Factor which will affect future tax charges

The standard rate of corporation tax is 20% with effect from 1 April 2015 as enacted by the Finance Act 2013.

### 8. Dividends

	2015 £m	2014 £m
Dividends on equity shares:		
Interim dividends - 10.0 pence per share (2014: 10.5 pence)	50.5	53.0
Dividend in specie	-	365.4
	<b>50.5</b>	418.4

The WPD Group is structured such that debt is held by UK holding companies. Dividends from WPD South Wales and other operating companies fund the interest on this debt.

In December 2013, the Company paid a dividend in specie comprising principal and accrued interest on loans due from Group companies totalling £365.4m.

### 9. Employee costs and numbers (including executive directors)

(a) Employee costs

	2015 £m	2014 £m
Total employee costs during the year amounted to:		
Wages and salaries	44.4	43.4
Social security costs	4.3	4.3
Pension costs	40.9	23.9
Total employee costs	<b>89.6</b>	71.6
Less allocated to capital expenditure	<b>(43.5)</b>	(39.1)
Charged to the profit and loss account	<b>46.1</b>	32.5

(b) The average number of employees during the year was 1,012 (2014: 979). All employees work for the network distribution activity. The number of staff and costs shown include a proportion of other WPD DNO staff who work in part for WPD South Wales, and exclude a proportion of WPD South Wales staff who work in part for other WPD DNOs.

## Notes to the financial statements

For the year ended 31 March 2015

### 9. Employee costs and numbers (including executive directors) (continued)

#### (c) Share based payments

WPD issues to executive directors and senior employees share appreciation rights ("SARs") relating to the shares of WPD's ultimate parent, PPL Corporation. The SARs require WPD to pay the intrinsic value of the SAR to the executive director or employee at the date of exercise. WPD has recorded liabilities of £0.9m (2014: £1.9m). Fair value of the SARs is determined by using the Black-Scholes option-pricing model using the assumptions noted below. In 2015, WPD recorded total credits of £0.2m (2014: £1.4m charges) allocated between WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands. The total intrinsic value at 31 March 2015 was £0.9m (2014: £2.3m).

The weighted average fair value of options granted during the year was £1.17 (2014: £1.54). The range of exercise prices for options outstanding at the end of the year was £24.14 - £15.38 (2014: £24.14 - £14.64).

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year:

	2015 No.	2015 WAEP £	2014 No.	2014 WAEP £
Outstanding as at 1 April	1,112,177	18.98	1,164,767	19.05
Granted during the year	40,211	22.53	111,499	18.85
Exercised/forfeited	(483,557)	18.42	(164,089)	17.93
Outstanding at 31 March	668,831	19.91	1,112,177	18.98
Exercisable at 31 March	448,359	20.29	681,349	19.33

The inputs into the Black-Scholes option-pricing model were:

	2015	2014
Expected volatility	15.90%	15.80%
Expected life (years)	6	6
Risk-free rate	1.620%	1.625%
Expected dividend yield	4.80%	4.80%

The risk-free interest rate reflects the yield for a US Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behaviour. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption. The dividend yield is based on several factors, including PPL's most recent dividend payment and the forecasted stock price through 2015.

Options become exercisable in equal instalments over a three year service period beginning one year after the date of grant, assuming the individual is still employed by WPD. All options expire no later than ten years from the grant date.

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (a) Introduction

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

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity industry. One segment of the ESPS ("the WPD Group segment") relates to WPD South Wales and WPD South West and most employees of these companies are members of the ESPS. The assets are held in a trustee administered fund.

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

Under the guidance of FRS 17, where an entity cannot separate out its share of the scheme's assets and liabilities on a reasonable and consistent basis, the relevant entity should account for pensions as if the scheme were a defined contribution scheme. The Company therefore charges contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme. In addition, any prepayment (as occurred in 2011) is debited to the balance sheet and amortised based on the agreed funding schedule. Full FRS 17 disclosure for the ESPS is made in the consolidated financial statements of Western Power Distribution plc. A summary is however given below.

The Infraclec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales. The assets are held in a trustee administered fund. As Infraclec 92 only relates to past employees of this Company, the pension costs shown in these financial statements reflect Infraclec 92 as a defined benefit scheme and full FRS 17 disclosures are given in this note.

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the deficit. However, as another WPD Group company (PPL WPD Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet (Note 14) and matches the gross liability recorded under FRS 17 (Note 10(e)).

WPD employs a building block approach in determining the rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation at 31 March.

#### (b) Net liability recognised in the balance sheet

	2015 £m	2014 £m
Infraclec 92 (Note 10(d))	(0.9)	(0.8)
WPUPS (Note 10(e))	(61.6)	(60.6)
Net liability recognised	(62.5)	(61.4)

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (b) Net liability recognised in the balance sheet (continued)

As stated above, WPD South Wales is reimbursed for its liability in respect of WPUPS and the value of this reimbursement agreement is shown in Note 14.

#### (c) ESPS

As stated above, the ESPS applies across WPD South Wales and WPD South West and cannot be reasonably separated between the two entities. Under FRS 17, WPD South Wales thus records pension costs for the ESPS on a contributions basis. Full FRS 17 disclosure is given in the accounts of Western Power Distribution plc. However, for completeness, a summary is given below.

The financial assumptions used in calculating the figures for ESPS under FRS 17 in respect of the WPD Group segment were:

	2015	2014
RPI inflation	2.65%	3.00%
CPI inflation	1.55%	2.00%
Rate of increase in salaries	3.90%	4.25%
Rate of increase to pensions in payment	2.65%	2.90%
Discount rate for scheme liabilities	3.10%	4.29%

The mortality assumptions are based on the recent actual mortality experience of members within the scheme and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 27.3 years if they are male and for a further 29.8 years if they are female. For a member who retires in 2035 at age 60 the assumptions are that they will live on average for a further 28.5 years after retirement if they are male and for a further 31 years after retirement if they are female.

The assets and liabilities of the WPD Group segment of the ESPS, at 31 March, were as follows:

	2015 £m	2014 £m
Present value of obligations	2,207.7	1,900.9
Fair value of plan assets	(1,769.5)	(1,515.8)
Deficit in the scheme	438.2	385.1
Related deferred tax asset	(87.6)	(77.0)
Net pension liability	350.6	308.1

Employer contributions paid to the WPD Group segment of the ESPS were £112.8m (2014: £66.2m). Payments in the current year include a deficit contribution of £85.0m (2014: £45.0m). Employer contributions of £113.9m are expected to be paid to the ESPS in the financial year to 31 March 2016; this follows a 3-yearly actuarial valuation.

ESPS pension costs borne by WPD South Wales were £40.4m.

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (d) Infraclec 92

The financial assumptions used in calculating the figures for Infraclec 92 under FRS 17 were:

	2015	2014
RPI inflation	<b>2.65%</b>	3.00%
CPI inflation	<b>1.55%</b>	2.00%
RPI linked pension increases	<b>2.65%</b>	2.90%
Discount rate for scheme liabilities	<b>3.10%</b>	4.29%

The mortality assumptions are based on the recent actual mortality experience of members of the ESPS scheme as set out above. The Infraclec 92 scheme is not large enough for a credible mortality analysis to be carried out.

The amounts recognised in the balance sheet are as follows:

	2015 £m	2014 £m
Present value of obligations	<b>12.6</b>	11.2
Fair value of plan assets	<b>(11.5)</b>	(10.2)
Deficit in the scheme	<b>1.1</b>	1.0
Related deferred tax asset	<b>(0.2)</b>	(0.2)
Net pension liability	<b>0.9</b>	0.8

The expected rate of return for major categories of plan assets at the balance sheet date are as follows:

	2015 * %	2014 %
Equities	<b>3.1</b>	9.0
Corporate bonds	<b>3.1</b>	4.4
Government bonds	<b>3.1</b>	3.6
Cash and other	<b>3.1</b>	0.8
Average expected long-term rate of return	<b>3.1</b>	7.8

\* The expected return on asset assumption as at 31 March 2015 will not be used as it is not required under FRS 101/102 and has therefore been set equal to the discount rate.

WPD employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets were studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets was then derived by aggregating the expected return for each asset class over the actual asset allocation at 31 March.

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (d) Infralec 92 (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2015 %	2014 %
Equities	63	79
Corporate bonds	13	4
Government bonds	21	14
Cash and other	3	3

Analysis of profit and loss credit:

	2015 £m	2014 £m
Expected return on scheme assets	0.8	0.7
Interest on scheme liabilities	(0.5)	(0.5)
Net credit recognised in profit and loss account	0.3	0.2

Changes to the present value of the defined benefit obligation are as follows:

	2015 £m	2014 £m
Defined benefit obligation at 1 April	11.2	12.3
Interest cost	0.5	0.5
Actuarial losses/(gains) on scheme liabilities	1.5	(1.1)
Net benefits paid out	(0.6)	(0.5)
Defined benefit obligation at 31 March	12.6	11.2

Changes to the fair value of the scheme assets are as follows:

	2015 £m	2014 £m
Fair value of scheme assets at 1 April	10.2	9.9
Expected return on scheme assets	0.8	0.7
Actuarial gains/(losses) on scheme assets	0.7	(0.3)
Employer contributions	0.4	0.4
Net benefits paid out	(0.6)	(0.5)
Fair value of scheme assets at 31 March	11.5	10.2

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (d) Infralec 92 (continued)

Actual return on scheme assets:

	<b>2015</b>	2014
	<b>£m</b>	£m
Expected return on scheme assets	<b>0.8</b>	0.7
Actuarial gains/(losses) on scheme assets	<b>0.7</b>	(0.3)
Actual gains on scheme assets	<b>1.5</b>	0.4

Cumulative actuarial gains and losses recognised in equity:

	<b>2015</b>	2014
	<b>£m</b>	£m
Cumulative actuarial losses at 1 April	<b>(2.7)</b>	(3.5)
Net actuarial (losses)/gains recognised in the year	<b>(0.8)</b>	0.8
Cumulative actuarial losses at 31 March	<b>(3.5)</b>	(2.7)

History of present value of liabilities, asset values, deficit in scheme and experience gains and losses:

	<b>2015</b>	2014	2013	2012	2011
	<b>£m</b>	£m	£m	£m	£m
Present value of defined benefit obligations	<b>12.6</b>	11.2	12.3	10.8	10.0
Fair value of scheme assets	<b>(11.5)</b>	(10.2)	(9.9)	(8.7)	(8.7)
Deficit in the scheme	<b>1.1</b>	1.0	2.4	2.1	1.3
Experience gains/(losses) on scheme liabilities * :					
Amount (£m)	<b>0.1</b>	0.8	-	(0.2)	(0.1)
Experience gains/(losses) on scheme assets:					
Amount (£m)	<b>0.7</b>	(0.3)	0.6	(0.5)	-

\* Does not include the effect of changes to actuarial assumptions.

Contributions of £0.4m are expected to be paid to the scheme during the financial year ending 31 March 2016.

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (e) WPUPS

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits to previous employees of an affiliate group and was transferred to WPD South Wales in April 2002. The assets of the scheme are held separately from those of the Company in trustee administered funds. However, another WPD Group company (PPL WPD Limited) has taken full financial responsibility for this scheme and reimburses WPD South Wales for contributions it pays to WPUPS. The value of the reimbursement agreement is stated in the balance sheet (Note 14) and matches the deficit in the scheme recorded under FRS 17 as shown below.

The principal actuarial assumptions at the balance sheet date are set out below:

	2015	2014
RPI inflation	2.65%	3.00%
CPI inflation	1.55%	2.00%
RPI linked pension increases	2.65%	3.05%
CPI linked pension increases	1.65%	2.10%
Discount rate for scheme liabilities	3.10%	4.29%

The mortality assumptions are based on the recent mortality experience of members within the scheme and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 26.1 years if they are male and for a further 28.7 years if they are female. For a member who retires in 2035 at age 60 the assumptions are that they will live on average for a further 27.6 years after retirement if they are male and for a further 30.3 years after retirement if they are female.

In order to eliminate the funding deficit pursuant to the March 2013 actuarial valuation, the Company agreed to pay contributions of £16.0m per annum from 1 April 2014, payable monthly in advance and increasing in line with the Retail Prices Index on an annual basis. This will be subject to review at the next formal actuarial valuation as at 31 March 2016.

The amounts recognised in the balance sheet are as follows:

	2015 £m	2014 £m
Present value of obligations	527.1	470.7
Fair value of plan assets	(450.1)	(395.0)
Deficit in the scheme	77.0	75.7
Related deferred tax asset	(15.4)	(15.1)
Net pension liability	61.6	60.6

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (e) WPUPS (continued)

The expected rate of return for major categories of plan assets at the balance sheet date are as follows:

	2015 *	2014
	%	%
Equities	3.1	9.0
Government bonds	3.1	3.6
Corporate bonds	3.1	4.4
Other	3.1	0.8
Average expected long-term rate of return	3.1	6.7

\* The expected return on asset assumptions as at 31 March 2015 will not be used as it is not required under FRS 101/102 and has therefore been set equal to the discount rate.

WPD employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets were studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets was then derived by aggregating the expected return for each asset class over the actual asset allocation at 31 March.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2015	2014
	%	%
Equities	54	57
Government bonds	45	43
Other	1	-

Analysis of profit and loss charge:

	2015	2014
	£m	£m
Expected return on scheme assets	25.5	25.3
Interest on scheme liabilities	(19.7)	(20.2)
Movement in reimbursement agreement recognised	(5.8)	(5.1)
Total recognised in profit and loss account	-	-

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (e) WPUPS (continued)

Changes to the present value of the defined benefit obligation are as follows:

	<b>2015</b>	2014
	<b>£m</b>	£m
Defined benefit obligation at 1 April	<b>470.7</b>	508.0
Interest cost	<b>19.7</b>	20.2
Net benefits paid out	<b>(22.9)</b>	(22.0)
Actuarial losses/(gains) on scheme liabilities	<b>59.6</b>	(35.5)
Defined benefit obligation at 31 March	<b>527.1</b>	470.7

Changes to the fair value of scheme assets are as follows:

	<b>2015</b>	2014
	<b>£m</b>	£m
Fair value of scheme assets at 1 April	<b>395.0</b>	409.2
Expected return on assets	<b>25.5</b>	25.3
Net benefits paid out	<b>(22.9)</b>	(22.0)
Contributions by the employer	<b>16.0</b>	-
Actuarial gains/(losses) on scheme assets	<b>36.5</b>	(17.5)
Fair value of scheme assets at 31 March	<b>450.1</b>	395.0

Actual returns on scheme assets are:

	<b>2015</b>	2014
	<b>£m</b>	£m
Expected return on scheme assets	<b>25.5</b>	25.3
Actuarial gains/(losses) on scheme assets	<b>36.5</b>	(17.5)
Actual gain on scheme assets	<b>62.0</b>	7.8

Cumulative actuarial gains and losses recognised in equity:

	<b>2015</b>	2014
	<b>£m</b>	£m
Cumulative actuarial losses at 1 April	<b>(125.0)</b>	(143.0)
Net actuarial (losses)/gains recognised in the year	<b>(23.1)</b>	18.0
Cumulative actuarial losses at 31 March	<b>(148.1)</b>	(125.0)

## Notes to the financial statements

For the year ended 31 March 2015

### 10. Pension commitments

#### (e) WPUPS (continued)

History of present value of liabilities, asset values, deficit in scheme and experience gains and losses:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Present value of defined benefit obligations	527.1	470.7	508.0	446.6	407.6
Fair value of scheme assets	(450.1)	(395.0)	(409.2)	(377.5)	(331.8)
Deficit in the scheme	77.0	75.7	98.8	69.1	75.8
Experience gains/(losses) on scheme liabilities * :					
Amount (£m)	5.5	10.5	(1.3)	(5.6)	(4.7)
Experience gains/(losses) on scheme assets:					
Amount (£m)	36.5	(17.5)	28.5	5.8	0.8

\* Does not include the effect of changes in assumptions.

Contributions of £16.2m are expected to be paid to the scheme during the financial year ending 31 March 2016.

#### (f) 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. All of the active members in this scheme have transferred to the ESPS. At 31 March 2015 there were 261 members with deferred benefits in the scheme (2014: 262) and 6 pensioners (2014: 5). Market value of the assets was £2.1m (2014: £1.9m).

(b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2015 there were 2,203 members (2014: 1,900). The market value of the assets of the open section of the scheme was £24.8m (2014: £14.7m). Employer contributions to the scheme across WPD amounted to £4.7m in the year (2014: £3.7m).

## Notes to the financial statements

For the year ended 31 March 2015

### 11. Directors' emoluments

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

	Highest paid director (note i)		Total	
	2015 £000	2014 £000	2015 £000	2014 £000
The emoluments of the executive directors comprised:				
Base salary (note ii)	364	720	1,406	1,531
Performance dependent bonus (note iii)	272	607	981	1,268
Pension compensation allowance (note iv)	555	970	555	1,524
Sub-total directors' remuneration	1,191	2,297	2,942	4,323
Long term incentive plan (note v)	547	803	1,239	1,674
Fees to the independent non executive directors (note vii)	-	-	60	61
	1,738	3,100	4,241	6,058

(i) In 2014, the highest paid director was the Chief Executive Officer. In 2015, another director was the highest paid.

(ii) Base salary also includes benefits in kind.

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

(iv) In anticipation of the change in tax applicable to UK pensions effective 6 April 2006, the three executive directors at that time resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - note 10) on 5 April 2006 and elected for enhanced protection. WPD thus no longer contributes for ongoing service to the ESPS in respect of these three executive directors, two of whom served in 2015 (2014: three). Instead, WPD pays cash compensation to them individually equivalent to the value of WPD's contribution in to the ESPS that would have been made had they remained active members (as determined by external actuaries). In 2014 the highest paid director that year received an additional payment to terminate this contractual benefit; this is shown within this line.

(v) Under a long term incentive plan, annually the executive directors are 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 are granted. The options 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. In 2015, four executive directors were granted options (2014: four) and two executive directors exercised options (2014: five). In addition, the executive directors receive annually a grant of PPL Corporation shares which cannot generally be accessed for three 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.

## Notes to the financial statements

For the year ended 31 March 2015

### 11. Directors' emoluments (continued)

(vi) During the year, five executive directors (2014: five) were members of the defined benefit ESPS of which three (2014: two) were active members (see (iv) above). At 31 March 2015, the highest paid director that year had accrued annual pension benefits of £184,856. 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.

(vii) The two 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 groups.

### 12. Tangible fixed assets

	Leasehold improvements	Distribution network	Fixtures & equipment	Vehicles & mobile plant	Deduct: customers' contributions	Total
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At 1 April 2014	0.2	1,959.8	24.9	10.4	(401.7)	1,593.6
Additions	-	138.4	6.6	1.8	(24.6)	122.2
Transfers from Group undertakings	-	-	5.4	-	-	5.4
Disposals and retirements	-	(18.9)	(5.4)	(0.1)	-	(24.4)
At 31 March 2015	0.2	2,079.3	31.5	12.1	(426.3)	1,696.8
<b>Depreciation</b>						
At 1 April 2014	-	602.7	12.0	1.9	(133.3)	483.3
Charge for the year	-	31.8	6.3	1.7	(7.0)	32.8
Disposals and retirements	-	(18.9)	(5.4)	(0.1)	-	(24.4)
At 31 March 2015	-	615.6	12.9	3.5	(140.3)	491.7
<b>Net book value</b>						
At 31 March 2015	<b>0.2</b>	<b>1,463.7</b>	<b>18.6</b>	<b>8.6</b>	<b>(286.0)</b>	<b>1,205.1</b>
At 1 April 2014	0.2	1,357.1	12.9	8.5	(268.4)	1,110.3

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

	2015 £m	2014 £m
Freehold	<b>86.7</b>	78.1
Short leasehold	<b>0.1</b>	0.1

Leasehold improvements above relate to a non-network property held on a long term lease. Customers' contributions relate entirely to the construction of the distribution network.

## Notes to the financial statements

For the year ended 31 March 2015

### 12. Tangible fixed assets (continued)

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2015 to £8.0m (2014: £8.8m) and land at a cost of £27.7m (2014: £24.1m).

During the year the Company reviewed the useful economic lives of its distribution network assets. Effective 1 December 2014, after considering information from Ofgem and other internal and external surveys, the weighted average useful lives of network assets were extended from an average of approximately 55 years to an average of approximately 69 years. The effect of this revision is a reduction in the charge to profit before tax for the year of £2.8m.

### 13. Stocks

	2015 £m	2014 £m
Raw materials and consumables	1.2	1.1
	1.2	1.1

### 14. Debtors

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade debtors	44.9	44.1
Amounts owed by other WPD undertakings	32.3	19.7
Reimbursement agreement re WPUPS (Note 10(e))	16.2	16.0
Prepayments	3.1	2.9
	96.5	82.7
Amounts falling due after more than one year:		
Reimbursement agreement re WPUPS (Note 10(e))	60.9	59.7
Prepayments	0.1	0.1
	61.0	59.8

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

## Notes to the financial statements

For the year ended 31 March 2015

### 15. Creditors

	2015 £m	2014 £m
Amounts falling due within one year:		
Payments received on account	17.9	15.4
Trade creditors	4.2	3.9
Amounts owed to other WPD undertakings	0.7	2.7
UK corporation tax	11.3	7.2
Other taxation and social security	9.6	9.1
Accruals and deferred income	23.1	21.5
	<b>66.8</b>	59.8
Amounts falling due after more than one year:		
Unsecured borrowings repayable after more than five years:		
£150m 9.25% Eurobonds 2020	149.4	149.3
£225m 4.804% bonds 2037	219.8	219.6
£200m 5.75% bonds 2040	197.1	196.9
	<b>566.3</b>	565.8

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

Unsecured borrowings are stated net of unamortised issue costs of £7.1m (2014: £7.5m). These costs together with the interest expense are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount.

### 16. Provisions for liabilities and charges

	Deferred taxation (Note 17) £m	Other £m	Total £m
At 1 April 2014	54.7	0.8	55.5
Arising during the year	1.9	0.3	2.2
Utilised during the year	-	-	-
At 31 March 2015	<b>56.6</b>	<b>1.1</b>	<b>57.7</b>

Other provisions at 31 March 2015 substantially relate to uninsured losses and an expected settlement of liabilities to the Electricity Association Technology Limited ("EATL") of £0.5m relating primarily to a pension deficit in that company. The liability in respect of the EATL is being settled over a period of approximately 9 years; the directors expect the remaining provisions to be settled within the next two years.

## Notes to the financial statements

For the year ended 31 March 2015

### 17. Deferred tax

	2015 £m	2014 £m
Accelerated capital allowances	105.2	101.3
Other timing differences	(2.2)	(0.6)
Undiscounted provision for deferred tax	103.0	100.7
Discount	(46.4)	(46.0)
Discounted provision for deferred tax (Note 16)	56.6	54.7
Deferred tax asset on pension liability (Note 10)	(15.6)	(15.3)
Provision at end of year including deferred tax on pension liability	41.0	39.4

	2015 £m	2014 £m
Provision for deferred tax at 1 April	39.4	41.6
Deferred tax credit in profit and loss account (Note 7(a))	6.5	(11.8)
Amount (credited)/charged to statement of total recognised gains and losses	(4.9)	9.6
Provision for deferred tax at 31 March	41.0	39.4

### 18. Called-up share capital

	2015 £	2014 £
<b>Allotted, called-up and fully paid:</b>		
503,442,224 ordinary shares of 50p each	251,721,112	251,721,112

## Notes to the financial statements

For the year ended 31 March 2015

### 19. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2014	23.2	5.1	7.2	299.1
Actuarial gain on pension schemes (Note 10)	-	-	-	(23.9)
Movement on deferred tax relating to actuarial gain recognised above	-	-	-	4.8
Reimbursement agreement relating to WPUPS pension scheme (Note 10(e))	-	-	-	23.1
Cash flow hedges transfer to net profit (net of tax)	-	-	(0.5)	-
Profit for the financial year	-	-	-	97.4
Dividends (Note 8)	-	-	-	(50.5)
<b>At 31 March 2015</b>	<b>23.2</b>	<b>5.1</b>	<b>6.7</b>	<b>350.0</b>

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

The hedging reserve relates to value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt. The gain is being amortised through the profit and loss account over the term of the debt.

### 20. Reconciliation of movements in equity shareholders' funds

	2015 £m	2014 £m
Profit for the financial year	97.4	127.7
Dividends on equity shares	(50.5)	(418.4)
Net movement in hedging reserve	(0.5)	(0.3)
Capital contribution*	-	37.2
Other recognised gains and losses relating to the year	4.0	(9.0)
Net increase/(decrease) in shareholders' funds	50.4	(262.8)
Opening equity shareholders' funds	586.3	849.1
Closing equity shareholders' funds	636.7	586.3

\* In January 2014, an indirect parent of the Company contributed its group relief receivable asset in respect of the Company to the Company for no consideration.

## Notes to the financial statements

For the year ended 31 March 2015

### 21. Capital and other commitments

a) There are annual commitments under operating leases (land and buildings) which expire :

	<b>2015</b>	2014
	<b>£m</b>	£m
In the second to fifth year	-	0.1
Over five years	<b>0.1</b>	0.1
	<b>0.1</b>	0.2

b) Fixed asset expenditure contracted but not provided for in the financial statements at 31 March 2015 was £2.1m (2014: £1.9m).

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

### 22. Related party transactions

The Company, a wholly-owned subsidiary undertaking, has taken the exemption available from related party disclosure requirements of FRS 8 as the financial statements of a parent company are available to the public (Note 23).

### 23. Ultimate parent undertaking

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

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

The largest group in which the results of the Company are consolidated is that headed by PPL Corporation, which is the ultimate parent undertaking. Copies of their accounts may be obtained from Two North Ninth Street, Allentown, Pennsylvania, PA18101-1179, US.

*Registered office:*

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

Telephone : 0117 933 2000  
Fax : 0117 933 2001  
eMail: [info@westernpower.co.uk](mailto:info@westernpower.co.uk)  
Registered number 2366985