

WPD TELECOMS LIMITED
(previously Surf Telecoms Limited)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018



WESTERN POWER
DISTRIBUTION

Serving the Midlands, South West and Wales

Contents	Page
Strategic report	1
Directors' report	5
Directors' responsibilities statement	7
Independent auditor's report to the member of WPD Telecoms Limited	8
Financial statements:	
Profit and loss account	11
Balance sheet	12
Statement of changes in equity	13
Notes to the financial statements	14

Strategic report

For the year ended 31 December 2018

The directors present their strategic report on WPD Telecoms Limited (the 'Company') (registered number 02386327) for the year ended 31 December 2018. Until 19 December 2018 the registered name was Surf Telecoms Limited.

Review of the business

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

The principal activities of the Company during the year under review continued to be the provision of:

- dark optical fibre capacity;
- carrier wholesale bandwidth;
- leasing of telecommunication sites and facilities; and
- regional non-switched leased lines.

These services provide links between cable landing stations, data centres and major towns and cities in South Wales and the South West and Midlands areas of England to the rest of the United Kingdom, interconnecting with other carrier networks in Bristol, Cardiff and London. The network boasts over seventy points of presence including Bristol, Bath, Exeter, Plymouth, Lands End, Bude, Cardiff, Newport and Swansea, Birmingham, Nottingham, Leicester, Coventry, Worcester and Gloucester.

WPD Telecoms Limited products are aimed at national and international telecommunications operators including large broadband media providers. Customers include the corporate, business, educational, public health and utility sectors of the market.

The Company also operates and maintains the telecommunications network for WPD and as such a proportion of turnover is attributable to work for other companies within the Group. This will continue to be the case for the foreseeable future.

WPD Telecoms Limited operates as a Public Electronic Communications Network provider under the authorisation scheme for 'electronic communications networks and services'. Regulation is implemented and administered by the Office of Communications ('Ofcom') who have set out requirements for network providers. This includes provision of a fund for liabilities and for interconnection registration.

Through the implementation and continuous review of quality and security management systems, WPD Telecoms Limited is accredited and certified to BS/EN ISO9001:2015, ISO27001:2013 and CESG Assured Service for Telecoms (CAS-T).

Strategic report (continued)

For the year ended 31 December 2018

The Company's financial and non-financial key performance indicators ('KPIs') during the year were as follows:

	2018 £'000	2017 £'000	Change %
Turnover	24,162	24,082	0%
Profit before interest and tax	2,470	2,260	9%
Profit for the financial year	1,870	1,662	13%
Equity shareholder's funds	32,033	30,163	6%
	%	%	%
Bandwidth availability	100.00	100.00	0%
Dark fibre availability	100.00	100.00	0%
Faults restored within service level agreements	296	404	(27)%
Faults restored within service level agreements (%)	100	100	0%
Average restoration time (minutes)	242	218	(11)%

Turnover on the provision to external customers decreased by 6% partly due to reductions in price being achievable on managed service contract renewals in response to the market's continued downward price point for this product set. We have also seen a reduction in the existing equipment requirements of mobile network operators as they realise savings from network sharing strategies.

Turnover on the provision to internal customers has increased by 7% due to the increase in work being carried out to other companies within the Group, this has involved expanding the communications network in all regions to meet the increased demands of providing monitoring for the Electricity network.

Principal risks and uncertainties

Competitive Risks

In order to minimise risk, the Company operates only in the wholesale telecommunications market, has a reliable network covering key sites in the South West and Midlands of England and South Wales, and has a strong regional presence. The Company offers a high quality service at competitive prices.

Compliance to Regulation and Standards

The Company aims to be compliant with all relevant industry standards. The Company is committed to the ISO 9001 standard (quality management). The Company is also compliant with the OHSAS 18001 standard (health and safety), and the ISO 27001 standard (information security management).

Reliance on Suppliers

The Company operates mainly over networks and sites that are its own or belong to fellow subsidiaries, and relies to a small extent on BT and other connectivity providers, who themselves are regulated. Where third party fibres are used, there is a supply arrangement with that party, mitigating material risk.

Strategic report (continued)

For the year ended 31 December 2018

Principal risks and uncertainties (continued)

Customers

In the wholesale market there is less exposure to customer 'churn', although consolidation in the market, notably for mobile phone operators and broadband providers, has seen the loss and consolidation of some contracts. The Company has significant business in the education sector and the public sector, which in general are currently under pressure to reduce costs. The Company is an accredited provider for Janet (UK), which is the procurement agency for universities and higher education establishments in the United Kingdom, which puts the Company in a good position for retaining and gaining business in this sector. The Company also has a direct relationship with academic establishments providing services as required on a case by case basis. The Company has significant business with mobile network operators and is well positioned to support their anticipated increase in site share requirements to meet their 5G roll out programmes.

Quality of Service

The service levels achieved during the year were consistently above industry standards:

- Bandwidth availability was 100%
- Dark fibre availability was 100%
- 100% of all faults were restored within the terms of service level agreements, in an average response time of 4 minutes and a total average restoration time of 242 minutes.

Following Appropriate Strategies

The Company's main focus remains on developing and extending its strong regional presence in the wholesale market, providing fibres and radio connectivity. To support this the Company has extended its fibre network to connect to a new Midlands based enterprise data centre, this is due to complete in 2019. Based on customer demand it has also extended its reach outside its geographical footprint with a presence in London based data centres already established, with the intention of replicating this arrangement in Manchester in 2019. Focus will remain on the wholesale market as this offers less risk than being in the retail market. The Company also has the benefit of being able to use the electricity network of its fellow WPD companies in the South West and Midlands areas of England, and South Wales. Compliance to current security standards and a high quality of service enables the Company to attract customers who operate in the public and corporate sectors.

Liquidity and interest rate risk

Western Power Distribution (South West) plc ('WPD South West'), a fellow subsidiary, provides day to day banking for WPD, including WPD Telecoms Limited. WPD South West is a regulated electricity distribution company which must maintain an investment grade credit rating. WPD affiliates pay or receive interest to/from the Company based on the Bank of England base rate.

Capital investment and future developments

WPD Telecoms Limited fibre optic network is predominantly attached to WPD South West and Western Power Distribution (South Wales) plc's ('WPD South Wales') high voltage electricity overhead line network and extends some 1,500km across the South West peninsula of England and the Southern area of Wales. The network is currently being extended to service additional points of presence throughout the Midlands area of England using both third party fibre and fibre attached to WPD's Midlands network.

Strategic report (continued)

For the year ended 31 December 2018

Capital investment and future developments (continued)

WPD Telecoms Limited will continue to improve its current range of services, expand its existing operations and invest in its network in order to meet the demands of the telecommunications market through existing and new channel partners and alliance business relationships, both within and outside its geographical area. Over the coming years the Company will be looking to increase the reach and density of the existing fibre network within region offering greater opportunity to provide current and potentially new services to new and existing customers over a

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



I R Williams
Director
30 April 2019

Directors' report

For the year ended 31 December 2018

The directors present their report for the year ended 31 December 2018.

Directors

The directors who served during the year and subsequently, unless otherwise stated were:

D C S Oosthuizen (Resigned 31 March 2018)

I R Williams (Appointed 1 April 2018)

P Swift (Resigned 15th January 2019)

G R Halladay (Appointed 14 January 2019)

There were no significant contracts subsisting during or at the end of the year with the Company in which any director is or was materially interested.

Insurance in respect of directors and officers is third party qualifying insurance and is maintained by the Group's ultimate parent, PPL Corporation. The insurance is subject to the conditions set out in the Companies Act 2006 and remains in force at the date of signing the Directors' report.

Results and dividends

The profit for the financial year amounted to £1,870,000 (2017: £1,662,000). The Company did not declare a dividend in the financial year (2017: £nil).

Going concern

The directors have considered the principal risks and uncertainties facing the Company, and the mitigations in place to respond to these risks. Having considered these risks, the directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future due to the overall balance sheet position which shows net current assets of £14.7m, its portfolio of contracts and the level of forecast future cash flows with the Company's affiliates.

Financial risk management

The principal financial risk to the Company is loss of contracts with external customers. The Company mitigates this risk by actively seeking new business spanning a range of product lines and industry sectors, as well as seeking to ensure customer retention is kept as high as possible by maintaining excellent standards of availability, reliability and customer service.

Impact of Brexit

The European Union referendum vote on 23 June 2016 resulted in considerable volatility to UK markets; however Brexit does not have significant operational impact for WPD Telecoms. All of WPD Telecom's revenue is generated in the UK and the Company relies mainly on the parent network and assets in UK to provide services to its customers. Thus as a UK focused business, the Company's exposure to risks from the EU market place is minimal.

Uncertainty around Brexit has resulted in weakening of sterling thus creating a potential credit risk. However since substantially all of WPD Telecom's transactions are made in sterling and the majority of receivables are repayable on demand, which pertain to WPD Group undertakings, the Company is not exposed to any significant financial risk as a result of Brexit.

Nevertheless the Company will continue to monitor the implications of Brexit on its operations including review of all technical notices issued by the UK Government offering advice to businesses on a 'no deal' Brexit.

Future developments

Details on the Company's future development strategy can be found in the Strategic Report under 'capital investment and future developments'.

Directors' report

For the year ended 31 December 2018

Disabled employees

The Company gives full consideration to applications for employment from disabled persons, where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to meet this aim.

Independent auditor

Elective resolutions to dispense with the holding of annual general meetings, the laying of financial statements before the Company and the appointment of auditors annually are currently in force. The auditor, Deloitte LLP, will therefore be deemed to have been reappointed at the end of 28 days beginning with the day on which copies of this report and financial statements are sent to the member.

Disclosure of information to the auditor

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

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

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



I R Williams
Director

30 April 2019

Directors' responsibilities statement

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

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

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

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

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

Independent auditor's report to the member of WPD Telecoms Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of WPD Telecoms Limited (the 'Company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 20.

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report to the member of WPD Telecoms Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the member of WPD Telecoms Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

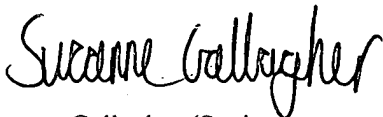
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Suzanne Gallagher (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

30 April 2019

Profit and loss account

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	4	24,162	24,082
Operating expenses	5	(21,692)	(21,827)
Operating profit		2,470	2,255
Profit on disposal of fixed assets		-	5
Profit before interest and tax		2,470	2,260
Interest receivable	7	90	30
Interest payable	8	(3)	(1)
Profit before tax		2,557	2,289
Tax	9	(687)	(627)
Profit for the financial year	18	1,870	1,662

All operations are continuing.

There is no other comprehensive income for the years ended 31 December 2018 or 31 December 2017 other than that included in the profits above and therefore no separate statement of comprehensive income has been prepared.

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

Balance sheet

As at 31 December 2018

	Note	2018 £000	2017 £000
Non-current assets			
Tangible assets	10	14,251	16,511
Intangible assets	11	4,449	5,118
		18,700	21,629
Current assets			
Debtors			
Amounts falling due within one year	12	20,235	16,326
Amounts falling due after more than one year	12	249	322
Cash at bank	13	799	799
		21,283	17,447
Creditors			
Amounts falling due within one year	14	(6,561)	(7,174)
Net current assets		14,722	10,273
Total assets less current liabilities		33,422	31,902
Creditors			
Amounts falling due after more than one year	14	(796)	(1,003)
Provisions for liabilities	15	(593)	(736)
Net assets		32,033	30,163
Capital and reserves			
Called up share capital	17	8,400	8,400
Profit and loss account	18	23,633	21,763
Equity shareholder's funds		32,033	30,163

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

The financial statements of the Company (registered number 02386327) on pages 11 to 29 were approved by the Board of Directors on 30 April 2019 and were signed on its behalf by :



I R Williams
Director

Statement of changes in equity

For the year ended 31 December 2018

	Called up share capital £000	Profit and loss account £000	Total £000
At 1 January 2017	8,400	20,101	28,501
Profit for the financial year	-	1,662	1,662
Total comprehensive income for the year	-	1,662	1,662
At 31 December 2017	8,400	21,763	30,163
Profit for the financial year	-	1,870	1,870
Total comprehensive income for the year	-	1,870	1,870
At 31 December 2018	8,400	23,633	32,033

Notes to the WPD Telecoms Limited financial statements

For the year ended 31 December 2018

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

The financial statements of WPD Telecoms Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 30 April 2019 and the balance sheet was signed on the Board's behalf by I R Williams. WPD Telecoms Limited is a private Company limited by shares incorporated in the UK and registered in England and Wales.

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

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards. The Company has used a true and fair view override in respect of the non amortisation of goodwill (see Note 2).

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

2. Significant accounting policies

Basis of preparation

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

Where required, equivalent disclosures are given in the group accounts of Western Power Distribution plc. The group accounts of Western Power Distribution plc are available to the public and can be obtained as set out in Note 20.

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

Going concern

The directors have considered the principal risks and uncertainties facing the Company, and the mitigations in place to respond to these risks. Having considered these risks, the directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future due to the overall balance sheet position which shows net current assets of £14.9m, its portfolio of contracts and the level of forecast future cash flows with the Company's affiliates.

Impact of New Financial Reporting Standards

The following new standards are effective for accounting periods beginning on or after 1 January 2018:

IFRS 15

IFRS 15 "Revenue from Contracts with Customers" supersedes the current revenue recognition guidance including IAS 18 Revenue and the related interpretations and establishes a single comprehensive five-step model to account for revenues arising from contract with customers, focusing on the identification and satisfaction of performance obligations.

The Company has assessed the impact of this standard and concluded that there will be no material change to the Company's financial statements.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Impact of New Financial Reporting Standards (continued)

IFRS 9

IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement" and impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The Company has assessed the impact of this standard and concluded that there will be no material change to the Company's financial statements.

Cash at bank

Cash at bank in the balance sheet comprises restricted funds as determined by regulatory requirements for the protection of customers based on the size of the Company's network. This amount is irrecoverable by the Company whilst it continues to trade as a communications provider.

Turnover

Turnover is measured at the fair value of the consideration received or receivable, stated net of value added tax and represents the lease activities of dark optical fibre, carrier wholesale bandwidth, communications sites and regional leased line services. It is recognised in accordance with the lease terms.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairments.

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

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

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

	<u>Years</u>
Other land and buildings	Up to 60
Radio sites	Up to 40
Network assets	Up to 20
Vehicles	Up to 10

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

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

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Intangible assets

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

Intangible assets acquired separately from a business combination are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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

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

Goodwill

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the Company amortised goodwill, a period of 20 years would have been chosen as its useful economic life. Profit for the year would have been £170,000 lower had goodwill been amortised on this basis.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Customer contracts

The value recognised for customer contracts relating to acquired telecommunications activities is amortised over 10 years on the basis that such contracts can be terminated and there is a degree of consolidation amongst mobile operator companies. It is written off if the activity is sold.

Computer software

Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the Company is satisfied that future economic benefits will flow to the Company and the cost can be separately identified and reliably measured. Software is measured initially at cost and amortised on a straight-line basis over its estimated useful life. Carrying amount is reduced by any provision for impairment where necessary. The estimated useful life assigned to computer software is up to five years.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

The Company as a lessee

Leases where the lessor retains substantially all of the risks and benefits of ownership of the assets are classified as operating leases and rentals payable are charged to profit and loss on a straight line basis over the lease term. Lease termination fees are allocated to the profit and loss account upon termination.

The Company as a lessor

Assets leased out under operating leases are included in fixed assets and depreciated over the estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the term of the lease. Lease termination fees are allocated to the profit and loss account upon termination.

Taxation

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

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

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Pension costs

The Company participates in one defined benefit pension scheme, a section of the Electricity Supply Pension Scheme ('ESPS'), to which most employees in the Group in the South West of England and South Wales belong, and which has approximately 10,175 members. The ESPS is a group defined benefit pension plan that shares risks between entities under common control. In accordance with International Accounting standard ('IAS') 19, Employee Benefits, the scheme has been accounted for as a defined benefit scheme by WPD South West and WPD South Wales as these businesses have legal responsibility for the plan. As there is no contractual arrangement or stated policy for charging the net defined benefit cost of the plan to individual group entities, the Company accounts for its ongoing contributions to the scheme as if it were a defined contribution scheme, and charges contributions to the profit and loss account as they become payable in accordance with the rules of the scheme.

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

Financial assets

Financial assets are classified as debt instruments at amortised cost, debt instruments at fair value through other comprehensive income "FVOCI", financial assets at fair value through profit and loss "FVTPL" or as equity instruments designated at FVOCI, as appropriate. The Company's financial assets include trade debtors and other receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in the profit and loss account.

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

Debt instruments at amortised cost

Debt instruments that meet the hold-to-collect business model test and sole payment principal and interest "SPPI" contractual cash flow test, 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 debt instruments are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade debtors and other receivables.

Impairment of financial assets

The Company has the following financial assets that are subject to IFRS 9's expected credit loss model "ECL":

Trade debtors and other receivables

The Company applies IFRS 9's simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables.

To measure the expected credit losses, trade debtors and other receivables have been grouped based on the days past due. The expected credit loss rates are primarily based on historical credit losses experienced. The historical loss rates are then adjusted for forward looking information, if any, on macroeconomic factors affecting the ability of the customers to pay.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

2. Significant accounting policies (continued)

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortised cost, as appropriate. The Company's financial liabilities include trade and other payables and accruals. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost 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. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs.

This category of financial assets includes trade and other payables and accruals.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of judgements, accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the WPD Telecoms Limited accounting policies. Estimates, assumptions and judgements are continually evaluated based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

The areas involving a higher degree of judgement or complexity are described below.

Carrying value of long-lived assets

The estimated useful lives of tangible fixed assets are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimate used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of the tangible fixed asset investment to WPD Telecoms Limited, variations between actual and estimated useful lives could impact operating results both positively and negatively.

WPD Telecoms Limited is required to evaluate the carrying value of tangible fixed assets for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash-generating units under review.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

4. Turnover

Turnover represents continuing activities, all of which are considered to be one class of business. The Company operates wholly in the United Kingdom and thus all turnover is generated in the United Kingdom.

5. Operating expenses

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

	2018 £000	2017 £000
Cost of sales	3,572	3,661
Operating lease charges	5,438	5,715
Staff costs (Note 6)	6,666	6,301
Transport, travel and subsistence	295	305
Administration and other expenses	1,746	1,904
Bad and doubtful debts	-	29
Depreciation (Note 10)	2,586	2,751
Amortisation of customer contributions	-	(192)
Amortisation of intangibles (Note 11)	660	669
Rent and rates	729	684
	21,692	21,827

We have reviewed the allocation of certain costs in the period and updated the comparatives accordingly. The total remains unchanged.

Administration and other expenses include an allocation of group central costs (including auditor's remuneration of £7,877 (2017: £7,693) for auditing these financial statements). There were no non-audit fees in the current or prior year.

6. Staff costs

a) Employee costs

	2018 £000	2017 £000
Total employee costs for the year amounted to:		
Wages and salaries	5,109	4,862
Pension costs (Note 16)	964	976
Social security costs	616	587
Total employee costs	6,689	6,425
Less allocated to capital expenditure	(23)	(124)
Charged to the profit and loss account	6,666	6,301

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

6. Staff costs (continued)

b) Number of employees

The average number of employees during the year was 91 (2017: 87). Employees are employed under contracts of service with affiliates, however, their time is substantially devoted to WPD Telecoms Limited.

	2018 Number	2017 Number
Commercial	13	12
Operations	78	75
Total Employees	91	87

c) Directors' emoluments

The directors did not directly receive remuneration in either the current or prior year for their services as directors of the Company as they are incidental to their roles elsewhere in the Group.

7. Interest receivable

	2018 £000	2017 £000
On amounts owed by Group undertakings	87	29
On restricted funds	3	1
	90	30

8. Interest payable

	2018 £000	2017 £000
On amounts owed to Group undertakings	3	1

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

9. Tax

a) Analysis of charge in the year	2018 £000	2017 £000
Current tax:		
UK corporation tax on profits for the year	829	776
Adjustment in respect of prior years	1	(13)
Total current tax charge	830	763
Deferred tax (Note 15):		
Origination and reversal of temporary differences	(159)	(135)
Impact of change in corporation tax rate	16	-
Adjustment in respect of prior years	-	(1)
Total deferred tax credit	(143)	(136)
Tax charge	687	627

b) Reconciliation of the total tax charge

The total tax assessed for the year is different to the effective standard rate of corporation tax in the UK of 19% (2017 : 19.25%). The differences are reconciled below:

	2018 £000	2017 £000
Profit before tax	2,557	2,289
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017 : 19.25%) :	486	441
Effects of:		
Expenses not deductible and income not taxable for tax purposes	184	182
Impact of change in corporation tax rate	16	18
Adjustment to tax charge in respect of prior years	1	(14)
Tax charge	687	627

c) Change in corporation tax rate

From 1 April 2017 the standard rate of corporation tax was reduced from 20% to 19%. In addition the Finance Act 2016 reduced the standard rate of corporation tax to 17% from 1 April 2020. This future change has been enacted and included in the calculation of deferred tax with respect to any temporary differences that are expected to reverse after the effective date.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

10. Tangible fixed assets

	Network assets £000	Radio sites £000	Other assets £000	Total £000
Cost				
At 1 January 2018	25,196	4,120	2,300	31,616
Additions	307	-	201	508
Transfers to Group undertakings	-	(189)	-	(189)
Disposals	(3,437)	-	(39)	(3,476)
At 31 December 2018	22,066	3,931	2,462	28,459
Depreciation				
At 1 January 2018	13,089	1,334	682	15,105
Charge for the year	2,115	273	191	2,579
Disposals	(3,437)	-	(39)	(3,476)
At 31 December 2018	11,767	1,607	834	14,208
Net book value				
At 31 December 2018	10,299	2,324	1,628	14,251
At 31 December 2017	12,107	2,786	1,618	16,511

Networks assets comprise mainly fibre optic cables and telecommunications equipment from which capacity is sold to customers under operating lease agreements. Certain items used within the business, such as computer equipment, are owned by other Group companies for which the Company is charged.

Other assets comprise mainly vehicles and property.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

11. Intangible assets

	Goodwill £000	Contracts £000	Software £000	Total £000
Cost				
At 1 January 2018 and 31 December 2018	2,933	6,160	95	9,188
Amortisation				
At 1 January 2018 and 31 December 2018	-	4,015	55	4,070
Charge for the year	-	660	9	669
At 31 December 2018	-	4,675	64	4,739
Net book value				
At 31 December 2018	2,933	1,485	31	4,449
At 31 December 2017	2,933	2,145	40	5,118

Goodwill acquired through business combinations has been allocated to one cash generating unit "CGU". This represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

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

The recoverable amount of the Company's CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a 5 year period.

The key assumptions for the value in use calculation are those regarding the discount rate, expected cash flows arising from revenues, direct costs, and capital expenditure during the period, and the growth rate used to extrapolate cash flows beyond the budget period.

The discount rate applied to cash flow projections is 12.0% (2017: 12.0%).

At 31 December 2018, WPD Telecom's recoverable amount exceeded its carrying amount by £18.5m (2017: £31.4m).

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

12. Debtors

	2018 £000	2017 £000
Amounts falling due within one year:		
Amounts owed by Group undertakings	16,951	12,648
Trade debtors	1,402	1,495
Other debtors	14	-
Prepayments	1,409	1,615
Accrued income	459	568
	20,235	16,326
Amounts falling due after more than one year:		
Prepayments	249	322
	20,484	16,648

Amounts owed by Group undertakings are unsecured and are repayable on demand.

13. Cash at bank

All of the cash at bank is restricted and is not readily available for the general purposes of the Company. The restrictions relate largely to minimum cash balances that are required to be maintained for regulatory purposes.

14. Creditors

	2018 £000	2017 £000
Amounts falling due within one year:		
Amounts owed to Group undertakings	421	394
Group relief payable	1,407	1,990
Trade creditors	43	110
Value added tax	201	139
Other creditors	3	55
Accruals	381	1,045
Deferred Income	4,105	3,441
	6,561	7,174
Amounts falling due after more than one year:		
Deferred income	796	1,003
	7,357	8,177

Amounts owed to Group undertakings are unsecured and are repayable on demand.

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

15. Provisions for liabilities - deferred taxation

	Accelerated capital allowances	
	2018 £'000	2017 £'000
At 1 January	736	873
Credit to profit and loss	(143)	(136)
Effect of change in tax rate - profit and loss	-	-
Adjustment in respect of prior years	-	(1)
At 31 December	593	736

16. Pension commitments

Defined benefit scheme

The Company participates in one defined benefit pension scheme, a section of the ESPS, to which most employees in the Group in the South West of England and South Wales belong, and which has approximately 10,175 members. The ESPS is a group defined benefit pension plan that shares risks between entities under common control. The ESPS is closed to new members.

There is no contractual agreement or stated policy for charging the net defined benefit cost and, therefore, WPD (South West) and WPD (South Wales), fellow subsidiaries of the Company that are jointly responsible for the scheme, recognise the whole of the scheme surplus or deficit in their financial statements, allocated in accordance with pensionable salaries. In accordance with IAS 19 (Revised 2011), the Company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2018 was £819,000 (2017: £849,000).

Further details of the Group defined benefit scheme are disclosed in the consolidated financial statements of Western Power Distribution plc, which are available as disclosed in Note 20 below.

Defined contribution scheme

The Company also participates in a defined contribution scheme, the Western Power Pension Scheme. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The total cost charged to income of £145,000 (2017: £127,000) represents contributions payable to this scheme by the Company at rates specified in the rules of the plan.

17. Called-up share capital

	2018 £000	2017 £000
Authorised		
8,401,000 shares of £1 each	8,401	8,401
	Number	£000
Allotted, called up and fully paid		
8,400,002 (2017 : 8,400,002) ordinary shares of £1 each	8,400	8,400

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

18. Profit and loss account

	2018 £000	2017 £000
At 1 January	21,763	20,101
Profit for the financial year	1,870	1,662
At 31 December	23,633	21,763

19. Capital and other commitments

Capital commitments

There was no capital expenditure contracted for at the balance sheet date that was not recognised in the financial statements (2017: £nil).

Operating lease commitments - Company as lessee

The Company leases in rights to capacity on third party fibre optic networks, and space and equipment at third party telecommunication sites, under non-cancellable operating lease arrangements, in order to extend its core fibre network for its point to point transmission services. The leases have various terms, escalation clauses and renewable rights. Lease terms and rentals to be paid during the lease term are defined within the agreement. In some cases, lease rentals may be subject to a rent review on dates specified within the agreement at the then prevailing market rate. Future minimum rentals payable are determined based on the remaining non-cancellable lease term and current rentals agreed as per the latest rent review.

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

	2018 £000	2017 £000
Within one year	1,952	666
Between two and five years	6,590	2,067
Expiring thereafter	1,464	628
	10,006	3,361

Notes to the WPD Telecoms Limited financial statements (continued)

For the year ended 31 December 2018

19. Capital and other commitments (continued)

Operating lease commitments - Company as lessor

The Company leases out rights to capacity on its fibre optic network, and space and equipment at its telecommunication sites, under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewable rights.

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

	2018 £000	2017 £000
Within one year	4,451	7,335
Between two and five years	13,922	14,713
Expiring thereafter	10,517	12,654
	28,890	34,702

20. Ultimate parent undertaking

The immediate parent undertaking of WPD Telecoms Limited 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 that headed by Western Power Distribution plc, incorporated in England and Wales. Copies of these financial statements may be obtained from Companies House or from the registered address; Avonbank, Feeder Road, Bristol BS2 0TB.

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

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