

**WESTERN POWER DISTRIBUTION PLC GROUP**

**For the year to 31 March 2018**

Western Power Distribution plc ("WPD") heads the WPD Group whose principal activity is the distribution of electricity in the South West, East and West Midlands areas of England and in South Wales. This activity is conducted by its subsidiaries Western Power Distribution (South West) plc ("WPD South West"), Western Power Distribution (East Midlands) plc ("WPD East Midlands"), Western Power Distribution (West Midlands) plc ("WPD West Midlands") and Western Power Distribution (South Wales) plc ("WPD South Wales").

	<b>2018</b>	<b>2017</b>	<b>Variance</b>	Variance <i>Favourable/ (adverse)</i>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Revenue	<b>1,620.9</b>	1,664.6	<b>(43.7)</b>	(2.6)
Operating costs	<b>(632.8)</b>	(592.6)	<b>(40.2)</b>	(6.8)
Other operating income	<b>3.6</b>	2.8	<b>0.8</b>	28.6
Other operating expense	<b>(1.0)</b>	(2.0)	<b>1.0</b>	(50.0)
Operating profit	<b>990.7</b>	1,072.8	<b>(82.1)</b>	(7.7)
Finance income	<b>9.6</b>	8.4	<b>1.2</b>	14.3
Finance costs	<b>(290.6)</b>	(271.3)	<b>(19.3)</b>	(7.1)
Net finance expense relating to pensions and other post-retirement benefits	<b>(4.4)</b>	(6.4)	<b>2.0</b>	31.2
Profit before income tax	<b>705.3</b>	803.5	<b>(98.2)</b>	(12.2)
Tax expense	<b>(119.3)</b>	(109.2)	<b>(10.1)</b>	(9.2)
Profit for the year	<b>586.0</b>	694.3	<b>(108.3)</b>	(15.6)

## **Management Narrative Analysis of Results**

### **Revenue**

Revenue for 2018 was £1,620.9m compared to £1,664.6m for the previous year, a decrease of £43.7m (2.6%). This was principally due to an average tariff decrease of 3.0% in WPD South West, 0.6% in WPD South Wales, 4.5% in WPD West Midlands and 2.6% in WPD East Midlands, effective 1 April 2017.

### **Operating costs**

Operating costs increased in comparison with the previous year by £40.2m (6.8%) from £592.6m in 2017 to £632.8m in 2018. This was due to an increase in direct costs of £15.1m and increases across pension charges, depreciation, indirect salaries and rates.

### **Other operating expense**

Other operating expenses have reduced by £1.0m (50.0%), which relates to the reduction in fair value of investment properties.

### **Finance costs**

Finance costs for 2018 were £290.6m compared to £271.3m for the previous year. The increase of £19.3m (7.1%) mainly arises due to increased accretion on index linked debt.

### **Net finance expense relating to pensions and other post-retirement benefits**

The net finance expense relating to pensions and other post-retirement benefits has decreased by £2.0m (31.2%). This is due to a larger reduction in the interest expense on plan liabilities compared to the reduction in the interest income on plan assets.

### **Tax expense**

Tax expense increased by £10.1m (9.2%) from £109.2m in 2017 to £119.3m in 2018. This was mainly due the reduction in future corporation tax rates processed in the prior year, offset by lower profit before tax.