

Western Power Distribution (West Midlands) plc
(formerly Central Networks West plc)

Regulatory Financial Statements

Year ended 31 March 2011

Western Power Distribution (West Midlands) plc
Regulatory Financial Statements for the year ended 31 March 2011

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1. Introduction

In accordance with Condition 44 of the Distribution Licence the directors are required to and have prepared regulatory financial statements to 31 March. These regulatory financial statements have similar content and format as annual statutory financial statements for the regulatory operations, except for the inclusion of a corporate governance statement, a cash flow statement and a statement of the links between directors' remuneration and service standards associated with activities subject to price regulation as required by section 42c of the Electricity Act 1989 (as amended by section 61 of the Utilities Act 2000). The regulatory financial statements are drawn up to a March year end, whereas the statutory financial statements have a December accounting reference date.

These regulatory financial statements have been prepared under the Company's own accounting policies and largely following the principles of UK Generally Accepted Accounting Practice ("UK GAAP"), the main difference being the treatment of customer contributions which are deducted from the cost of related fixed assets (see note 1 of section 9). In the opinion of the directors the treatment adopted is necessary to give a true and fair view.

2. Corporate report

2.1 Review of the year

Operational issues

Background

The principal activity of Western Power Distribution (West Midlands) plc ("the Company") during the year and at the year end was the distribution of electricity to industrial, commercial and domestic customers. It is regulated by the Gas and Electricity Markets Authority (Ofgem, the Regulator).

Throughout the period under review the Company was part of the Central Networks division of the E.ON UK Group which also included Central Networks East plc and Central Networks Services Limited.

On 1 April 2011, the Central Networks group of companies, including the Company, Central Networks East plc and Central Networks Services Limited, were acquired from E.ON UK plc by PPL Corporation.

PPL Corporation ("PPL") is an electricity utility based in Allentown, Pennsylvania, United States of America ("US"). PPL owns a number of other UK companies including Western Power Distribution (South West) plc ("WPD South West") and Western Power Distribution (South Wales) plc ("WPD South Wales").

Central Networks West plc changed its name to Western Power Distribution (West Midlands) plc on 1 April 2011. Also on this date, Central Networks East plc, a fellow group undertaking, changed its name to Western Power Distribution (East Midlands) plc and Central Networks Services Limited changed its name to WPD Midlands Networks Services Limited.

As part of the consideration for the sale, all non-trading balances with other E.ON entities were settled on behalf of Central Networks by PPL Corporation.

During the year ended 31 March 2011, the Company issued an additional 100,000,000 ordinary shares with a nominal value of £1 each to WPD Midlands Holdings Limited (formerly Central Networks Limited). This resulted in an increase in share capital of £100m with a corresponding increase in the share premium account of £714m. The consideration received for this was the settlement of a loan of £814m to the Company from WPD Midlands Holdings Limited. At the same time, the authorised share capital was increased from 50,000 to 200,000,000 ordinary £1 shares.

On 10 December 2010, the Company issued £250,000,000 5.5 per cent notes due 2025 under its £3,000,000,000 Euro Medium Term Note Programme. Prior to this, the Company was funded through arrangements with E.ON UK plc, the principal UK trading subsidiary for the E.ON Group. A further £800m of 5.75 per cent senior, unsecured notes due 16 April 2032 were issued in May 2011.

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2.1 Review of the year (continued)

Business developments

Distribution Price Control Review 5 ("DPCR5")

The year ended 31 March 2011 was the first year of DPCR5, the fifth five-yearly price control period which was agreed with the regulator in December 2009. By allowing an increased level of capital investment, 17% higher than in the last regulatory period, Ofgem has recognised the need to continue to maintain and improve the network.

Electricity distributed

The economic downturn and the reduction in industrial output held back the level of demand for electricity. Electrical power distributed during the year increased marginally compared to the prior year by 134 GWh (1%).

We anticipate that, during the DPCR5 period, the impact of the close out of the DPCR4 Losses Incentive will reduce revenues by £11.0m. This amount is a current estimate and subject to change as Ofgem finalises its calculation methodology and settlement data is published. It is not yet known when this will impact revenues, although it is likely to be in the regulatory year 2013/14 or 2014/15, and may be phased in.

Safety

Safety performance remained strong with the number of lost time injuries across the Central Networks division at similarly low levels to those achieved in 2009/10. Safety has remained the number one priority for the Company with key process and behavioural developments being realised during the period.

The Lost Time Injury Frequency ('LTIF') is a key safety measure monitored at a divisional level. LTIF is defined as the number of lost time injuries per 1,000,000 hours worked. The rate at 31 March 2011 was 2.86 compared to 1.98 at 31 March 2010 and remains in line with industry good practice bench marks. Although disappointing when compared to the improvement made during previous years, the 2010/11 performance should be considered against the business activities in the same period, for example improved reporting of injury incidents, increased activity with Alliancing, and reduced manpower figures. The number of lost time accidents has increased from 24 in 2009/10 to 28 in 2010/11.

Network performance

Network performance was mixed in 2010/11 with the number of Customer Minutes Lost ("CML") increasing by 12% but Customer Interruptions ("CI") decreasing by 5%. The measure of CML was 89.5 in 2010/11 (2009/10: 79.6) and the CI measure was 102.1 in 2010/11 (2009/10: 107.2).

Customer service

The customer satisfaction score for restoration of supply has decreased slightly during the period under review, with the 12 month rolling average reducing from 66% to 62% in March 2011.

2.1 Review of the year (continued)

Business developments (continued)

Cost

Net increases to fixed assets in the current year were £121m due to the ramp up agreed with Ofgem as part of the DPCR5 price control.

The Company anticipates that, as a result of the purchase of the Central Networks group of companies by PPL Corporation, significant economies of scale will be achieved going forwards through the combined operation of four electricity distribution network areas.

Future cost obligations

Under the Electricity Act 1989 the Company is required to comply with regulations to maintain minimum clearances of trees from overhead lines not only for safety but also to ensure continuity of supply (Electricity Safety, Quality & Continuity Regulations (ESQCR) amendment in 2006). These regulations required companies to be compliant with certain aspects of the regulations by 31 January 2009 and other aspects by dates in the future. The Company has increased its investment in tree cutting during recent years but is not yet compliant with that part of the regulations with a 31 January 2009 deadline and estimates that it will incur future costs of £24m to achieve compliance with this part.

Sustainability

The Company has continued its work on future networks, smart grids and a 2030 carbon strategy. The Company continues to focus on recruiting new apprentices (54 across the Central Networks division in 2010) to ensure that it has the resources to deliver the investment in its network.

Risk management

The corporate governance statement (section 2.2 below) and directors' report (section 2.3 below) describe the approach of the Company to risk management.

Use of resources

Throughout the period under review, the Company used a mix of directly employed staff and contractors for operational, capital and support work.

The Company seeks to ensure all contracts for materials, plant and services represent the maximum value with regard to cost, availability, performance and quality.

People

The directors' report in section 2.3 outlines the main policies and practices relating to people adopted by the Company.

Safety, health and the environment

Throughout the period under review, the Company had policies covering Safety, Health, the Environment and Quality ("SHEQ") and had integrated policies on SHEQ across all activities to maintain the focus across its business. Work has now started to integrate the Company and WPD West Midlands into the WPD South West and Wales Safety Management System.

2.1 Review of the year (continued)

Safety, health and the environment (continued)

Good safety and health performance is an essential part of business activity and personal behaviour both in and outside work. The Company aims to achieve the highest safety standards. The Company has a dedicated team to promote safety and health throughout the Company.

As part of its corporate responsibility report, E.ON UK plc, the Company's intermediate parent company during the period under review, published a detailed policy on the environment. In line with these policies, the Company sought to minimise the impact of its operations on the environment during the period under review.

Financial issues

This section details the key aspects of the financial performance of the Company for the year ended 31 March 2011 and where appropriate highlights variances with the year ended 31 March 2010.

Profit and loss account

Turnover increased by £51m in the year from £320m to £371m. This is due to increased base revenue allowances as a result of the DPCR5 settlement and incentive performance rewards which have moved from significant penalty in 2009/10 to reward in 2010/11.

Operating profit increased by £52m to £222m while net interest payments increased by £17m to £27m. The increase in operating profit reflects the increase in turnover above. The increase in interest is largely due to interest payments on the £250m bonds issued in December 2010 and early redemption charges paid on loans from group companies which were repaid in advance of the sale of the Company to PPL Corporation, less the release of a £3m interest accrual.

Profit on ordinary activities before taxation for the year ended 31 March 2010 was £195m, showing a £35m increase on the previous year.

Taxation

The effective current tax rate is the rate calculated by dividing the current tax charge for the year by the profit on ordinary activities before tax. For the year ended 31 March 2011 the effective current tax rate was 25.6% (2010: 26.3%). This is lower than the standard rate of corporation tax in the UK (28%) primarily due to timing differences on capital allowances.

Dividends

For the regulatory year ended 31 March 2011 a dividend of £442m was declared and settled by the issue of a loan note (2010: £nil).

Balance sheet

Total net assets at 31 March 2011 were £1,413m (2010: £886m), representing an increase of £527m. The movements are shown in note 16 to the regulatory financial statements.

Net increases to fixed assets in the current year were £121m and this reflects the progress made delivering the larger capital work programme agreed for the DPCR5 period.

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2.1 Review of the year (continued)

Generation and use of cash resources

Cash was generated through operating activities and the raising of external finance. In preparation for the sale of the Company, a dividend was paid and intercompany loans and other balances were consolidated.

Throughout the period under review the Company adopted a rigorous approach to the management of working capital and cash in order to reduce cash requirements and interest charges.

The net cash movement for the year ended 31 March 2011 was £nil (2010: £nil). The main drivers for this are:

- Cash inflow from operating activities of £261m (2010: £222m)
- Interest paid on borrowings of £27m (2010: £10m)
- Corporation tax paid of £66m (2010: £35m)
- Net capital expenditure of £167m (2010: £163m) on the capital work programme in order to deliver the DPCR5 contract
- Settlement of a dividend of £442m by the issue of a loan note (2010: nil)
- Net reduction in group borrowings of £619m (2010: £14m)
- Net increase in external borrowings of £246m (2010: nil)
- Issue of ordinary share capital of £814m (2010: nil)

Capital and debt structure

	2011	2010
	£m	£m
Called up share capital	100	-
Share premium account	714	-
Euro medium term loan note	246	-
Loan to E.ON UK plc	(14)	495
Net amounts owed to fellow group companies	46	156
Total	<u>1,092</u>	<u>651</u>

Amounts owed to fellow group companies comprise trading and non-trading balances.

Throughout the period under review, the treasury management activities of the Company were conducted by E.ON UK plc, the principal UK trading subsidiary of the E.ON UK Group. Until December 2010, the Company was funded through fixed and rolling loan arrangements with E.ON UK plc which were repaid in December 2010 and replaced with £250m of 5.5 per cent Euro Medium Term loan notes.

The treasury policy is detailed in the directors' report (section 2.3 below).

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2.1 Review of the year (continued)

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to weather and asset performance. Throughout the period under review, the management of risks was undertaken at E.ON UK plc consolidated ("group") level. To manage these risks, the group used a comprehensive risk management system that was embedded within the business and decision making process. The risk management system was designed to enable management to recognise risks early and take the necessary countermeasures. The process was continuously reviewed to ensure it remained effective and efficient.

Until December 2010, the Company was funded through an intercompany facility with E.ON UK plc. The formal loan arrangement with E.ON UK plc was repaid in December 2010 and replaced with £250m of 5.5 per cent Euro Medium Term loan notes. A further £800m of loan notes were issued in April 2011. Throughout the period under review, E.ON UK plc undertook the treasury management activities of the Company, operating within the E.ON AG framework for interest rate risk management.

Going forwards, the Company's debt will be substantially long term and at fixed interest rates, thus limiting exposure to interest rate fluctuations. Treasury activities are now undertaken by the treasury team of the Western Power Distribution ("WPD") Group. The WPD Group does not undertake transactions in financial derivative instruments for speculative purposes. The Company is required by its distribution licence to maintain an investment grade credit rating, which it has done.

Key performance indicators

Throughout the period under review, the Company was part of the Central Networks division of the E.ON UK Group. This division also included Western Power Distribution (East Midlands) plc (formerly Central Networks East plc) and WPD Midlands Networks Services Limited (formerly Central Networks Services Limited). The division considered its three main priorities to be safety, network performance and profitability. These priorities are closely aligned with Western Power Distribution's five key goals of safety, network reliability, customer service, environment and business efficiency.

Safety

LTIF is a key safety measure monitored at a divisional level. LTIF is defined as the number of lost time injuries per 1,000,000 hours worked. The safety of people is of vital importance to the Company and it is working hard to reduce the number of accidents. The LTIF rate at 31 March 2011 was 2.86 compared to 1.98 at 31 March 2010.

Network performance

Network performance covering the regulatory year to March is audited and published annually by Ofgem on their website www.ofgem.gov.uk.

Profitability

Profitability is monitored monthly through structured reporting of performance against budget and prior year.

2.1 Review of the year (continued)

Going concern

After consideration, the Directors have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the fact that the Company has net current liabilities, the relatively stable and regulated nature of the business, the forecast long term business plans and the anticipated ability of the Company to raise additional long term debt in the future.

In addition, the directors of the Company are obliged under condition 30 of its licence to prepare a certificate annually which states that there are sufficient financial resources in place that will enable the Company to carry on the distribution business for 12 months from the date of signing that certificate.

Insurance

Throughout the period, the Company had a range of insurance to cover commercial and operational risk. The policies were subject to excess or deductions on claims. Going forwards, the WPD Group has a wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey. Depending on the nature of the risk, the Company now carries an element of the risk itself ("self-insured") or it underwrites insurance with a combination of Aztec and external insurers. The distribution network itself is self insured. Insurance arrangements will be reviewed in detail annually.

Subsequent Events

Throughout the period under review the Company was part of the Central Networks division of the E.ON UK Group which also included Central Networks East plc and Central Networks Services Limited.

On 1 April 2011, E.ON UK sold the Central Networks business to PPL Corporation. The purchase price for the equity and the assumption of certain liabilities, including around £100m of the Group's pension provision, was approximately £4.1 billion. As part of the consideration for the sale, non-trading balances with other E.ON entities were settled on behalf of Central Networks by PPL Corporation.

PPL Corporation ("PPL") is an electricity utility based in Allentown, Pennsylvania, United States of America ("US"). PPL owns a number of other UK companies including Western Power Distribution (South West) plc ("WPD South West") and Western Power Distribution (South Wales) plc ("WPD South Wales").

As part of the WPD Group, the organisation will be fundamentally different to that which exists today and will have a smaller combined support structure. The WPD Group presented a new organisational structure in June 2011 and between 620 and 820 redundancies are expected as a result of this across what was the Central Networks group of companies. The Company's aim is to achieve staff reductions by voluntary means.

On 1 April 2011, the directors of the Company resigned and were replaced by three new directors and one non-executive director. The new directors of the Company believe the business is best served by a direct labour force for electrical trades and the Company is seeking through contract renegotiation to TUPE approximately 190 linesmen, jointers and fitters, 23 storekeepers and 25 pole planters into the WPD Group. A further 83 staff will be transferred to the WPD Group from E.ON UK under the sale and purchase agreement.

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2.1 Review of the year (continued)

Subsequent Events (continued)

Also on 1 April 2011, the Company changed its name to Western Power Distribution (West Midlands) plc. On this date, Central Networks East plc, a fellow group undertaking, also changed its name to Western Power Distribution (East Midlands) plc and Central Networks Services Limited changed its name to WPD Midlands Networks Services Limited.

In May 2011, the Company issued a further £800m of 5.75 per cent senior, unsecured notes due 16 April 2032 under its £3,000,000,000 Euro Medium Term Note Programme and in May a dividend of £530m was paid to WPD Midlands Holdings Limited (formerly Central Networks Limited).

2.2 Corporate Governance Statement

Corporate governance

This corporate governance statement for the Company covers the period from 1 April 2010 to 31 March 2011. During this period the Company has been operating in accordance with the policies and procedures of E.ON UK plc, including those relating to risk management.

For the remainder of this section the term "E.ON UK Group" is defined as the E.ON UK plc group of companies. The term "Board" refers to the board of directors of the Company.

The Combined Code on Corporate Governance contains principles of good governance applicable to listed companies. As an unlisted company, the Company is not strictly bound by The Combined Code but complies with certain aspects of the code relevant to its business activities.

The Board

During most of the period under review, the Board comprised three directors. There were no non-executive or independent directors. The directors who served throughout the year were as follows:

Dr P Golby
Mr G M Thompson
Mr J Crackett
Mr B J Tear (appointed 16 February 2011, resigned 3 March 2011)

On 1 April 2011, following the sale of the Company to PPL Corporation, all three of the above directors resigned and were replaced by three directors and one non-executive director, who together reflect a range of expertise and experience. These directors are:

Mr R A Symons, Chief Executive
Mr D G Harris, Resources and External Affairs Director
Mr D C S Oosthuizen, Finance Director
Mr R Klingensmith, Non-executive Director and President, PPL Global

The Board of the Company has not formally appointed a Chairman. However, Rick Klingensmith, who is the non-executive director of the Company, has been appointed Chairman of the holding company of the WPD Group.

2.2 Corporate Governance Statement (continued)

There were no contracts of significance during or at the end of the regulatory year in which a director of the Company was materially interested. None of the directors who held office at the end of the regulatory year had any interest in the shares of the Company or any other company within the E.ON UK Group in either year which required to be disclosed under the Companies Act 2006.

Throughout the period under review, the Board met as required, principally to approve financial statements and business plans. The Board held board meetings during the year, principally to pass written resolutions, approve financial statements and matters of importance. At least two directors attended the board meetings and every director signed the written resolutions. In addition, throughout the period under review, the directors at the time held monthly management meetings to discuss business objectives and to review performance.

Due to the nature of the ownership of the Company, there are no requirements for formal Nomination and Remuneration Committees going forwards. The current directors' remuneration has been set directly by PPL as shareholder. Prior to the sale of the Company, the functions of Audit Committee, Remuneration Committee and Nomination Committee, were carried out by the Company's ultimate parent company at the time, E.ON AG.

Throughout the period under review, the Board also had overall responsibility for the discharge of legal and regulatory obligations relating to the Company. Day to day management was discharged to the Distribution Leadership Team (see below).

Management structure

Throughout the period under review, the operations of the Company were controlled through the Central Networks Distribution Leadership Team which comprised the following staff members: Managing Director Distribution, Director of Operations and Asset Management, Infrastructure Services Director, Director of New Connections, Human Resources Director, IS Director, Finance and Regulation Director and Legal Counsel. The Managing Director, Distribution and Finance and Regulation Director were also members of the Board.

The Distribution Leadership Team met on a monthly basis and covered all areas of Company business and activities. The team was responsible for the determination and execution of the Company's strategies and objectives collectively and at a departmental level within the strategies and framework set by E.ON UK plc. All members of the Distribution Leadership Team had full and timely access to information required in order to operate the distribution business efficiently. The Directors' report describes policies on equal opportunities, safety and health and the environment. The Distribution Leadership Team was responsible for the development and application of statutory policies throughout the period under review. Following the sale of the Company by E.ON UK plc to PPL Corporation, the leadership of the Company has been assumed by the current Board of Directors.

Company internal control

Throughout the period under review, the Distribution Leadership Team was responsible for the Company's system of internal control and risk management. The Company had a comprehensive risk review process in place based around the identification and evaluation of risk and the preparation and monitoring of action plans to manage risk. Agreed risks and action plans were reviewed quarterly by the Distribution Leadership Team and were reported to E.ON's UK business team who reviewed risk across E.ON UK plc.

2.2 Corporate Governance Statement (continued)

Company internal control (continued)

The Distribution Leadership Team reviewed the effectiveness of the system of internal control and risk by:

- Implementing E.ON UK plc strategy through the preparation and approval of business plans and budgets.
- Reviewing the operational performance of the business, including internal controls, on a monthly basis and instigating corrective action to ensure objectives and targets are met. These reviews were comprehensive and covered financial performance, capital investment, safety, customer service, staffing, regulation and the environment.
- Maintaining an up to date system of delegated authorities. These were defined by E.ON UK plc to ensure all contracts, expenditure and income were controlled and approved at appropriate managerial and executive levels.
- The review of every member of staff within the Company through the performance development process to assess performance and development needs. This process together with a regular review of staff succession plans, sought to continually improve performance of staff and secure future staffing and skill requirements for the achievement of business objectives.
- Reviewing and approving the terms of reference and major findings of the E.ON UK plc Internal Audit department. Internal Audit worked to a programme agreed with the Company and E.ON UK plc. Within the Company all reports were reviewed and actioned by managers and the Distribution Leadership Team.
- Reviewing reports from management and external auditors on the effectiveness of internal controls and risk processes. E.ON UK plc Internal Audit provided audit reports on the Company to the E.ON UK plc Chief Executive Officer, Chief Financial Officer and external auditors.
- Approving, as recommended by The Combined Code, the operation and effectiveness of the internal controls framework.

Going forwards, the directors of the Company have overall responsibility for the system of internal controls and for reviewing the effectiveness of the system. There are many cultural features in the WPD Group that contribute directly to its success and the results that it has achieved. These include:

- Good definition and communication of short term business objectives and targets.
- Commitment to achievement of objectives and targets.
- Speedy decision making.
- Business environment that empowers managers.
- An uncomplicated management structure that aids the flow of information both ways through the organisation.

Controls start at director level, have clear policies and levels of authority and are communicated to all levels of staff. As the WPD Group is owned by a US publicly quoted company, the Company will be subject to the requirements of the US Sarbanes-Oxley Act 2002 going forwards.

Independence of external auditors

During the period, the E.ON UK Group reviewed statutory audit arrangements and had approval procedures in place for reviewing any non-audit work undertaken to fulfil its responsibility regarding the independence of the external auditors. The statutory auditors also have various requirements to confirm their independence under International Standards on Auditing (UK and Ireland).

2.2 Corporate Governance Statement (continued)

Independence of external auditors (continued)

As a result of the sale of the Company to PPL, PricewaterhouseCoopers LLP has resigned as the Company's statutory auditor and has been replaced by Ernst & Young LLP.

Systems

Throughout the period under review, the Company operated an integrated management information and control system covering planning, procurement, materials management, asset management, project management, sales, human resources and finance.

Related party transactions

WPD Midlands Networks Services Limited (formerly Central Networks Services Limited) provides new connections services to the Company. Other related party transactions during the period related almost exclusively to services provided by E.ON UK plc for corporate services and shared service functions. The services were mainly non discretionary and the directors assessed that, while the Company was part of the E.ON Group, it was not appropriate to source these services from outside the E.ON UK Group due to potential cost and quality implications.

Corporate responsibility

The Company seeks to take account of its decisions on the economy, environment and community. A full corporate responsibility report reviewing the E.ON UK Group, of which the Company was a part for the whole of the period under review, has been published by E.ON UK plc.

Contributions for political and charitable purposes

No donations to charitable organisations were made during the year ended 31 March 2011 by the Company (2010: £650). No political donations were made (2010: £nil).

Compliance with regulatory matters

The Company has a department dedicated to ensuring compliance with the terms of its Distribution Licence, that all regulatory returns are made, and that these accurately reflect relevant information. Where returns to Ofgem require significant judgement or are sensitive because of the values or nature of the information disclosed, approval is sought from the Board.

2.3 Directors' report

The directors present their report and the audited regulatory financial statements of the Company for the year ended 31 March 2011.

Principal activities, review of business and future developments

The principal activity of the Company during the year was the distribution of electricity to industrial, commercial and domestic customers. A review of business and future developments is included in section 2.1, Review of the year.

2.3 Directors' report (continued)

Results and dividends

The Company's operating profit for the year was £222m (2010: £170m). A dividend of £442m was declared during the year and settled by the issue of a loan note (2010: £nil).

Policy and practice on payments of creditors

Where appropriate in relation to specific contracts, during the period under review the Company's practice was to:

1. settle the terms of payment with the supplier when agreeing the terms of each transaction;
2. ensure that those suppliers were made aware of the terms of payment by inclusion of other relevant terms in the contracts; and
3. pay in accordance with its contractual and other legal obligations.

For all other cases the Company supported the Better Payments Practice Code and had in place well developed arrangements with a view to ensuring that this was observed. Trade creditors at the regulatory year end represented 14 days (2010: 14 days) of purchases.

Going forwards, the WPD Group's policy in respect of its suppliers (other than those providing electricity utility supplies and services) is to require suppliers to accept our terms unless alternative terms of mutual benefit can be agreed.

Employees

The employees undertaking asset management and engineering services within the company are legally employed by WPD Midlands Networks Services Limited (formerly Central Networks Services Limited), a fellow group undertaking. The costs relating to these employees are initially borne by WPD Midlands Networks Services Limited and are then fully recharged to the company.

Equal opportunities

The WPD Group is committed to equality of opportunity 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 the WPD Group continues by way of making adjustments to their role and/or working environment or through retraining as appropriate. It is the policy of the WPD Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The WPD Group places considerable value on the involvement of its employees in its affairs. Throughout the year, principally through regular team briefings and meetings with staff and their representatives, the Company has consulted and communicated with employees on matters relating to business performance and objectives. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest.

2.3 Directors' report (continued)

Safety and health

The Company considers that good safety and health performance is an essential part of business activities and the business aims to achieve the highest standards. All aspects of safe and healthy working practices are promoted throughout the business in the interests of employees, customers, suppliers and the wider community.

Environment

As part of the E.ON UK Group the Company seeks to minimise the impact of its operations on the environment. The business holds full ISO 14001 accreditation.

Financial risk management

Throughout the period under review, the Company was a member of the E.ON UK Group. During the period, treasury management for all companies within the E.ON UK Group, including the Company, was conducted by E.ON UK plc. E.ON UK plc, in common with other major E.ON AG subsidiaries, was required to comply with E.ON AG financial management and treasury policies and procedures but was also required to have its own local operational treasury team which serviced the treasury requirements of the business. The teams liaised closely with the local business to ensure that liquidity and risk management needs were met within the requirements of the E.ON AG policies and procedures. The treasury team worked closely with the treasury and corporate finance teams at E.ON AG.

During the period, E.ON AG's central department was responsible for financing and treasury strategy, policies and procedure throughout the E.ON AG Group. The corporate finance team at E.ON AG planned and executed major strategic financings and corporate finance actions. A treasury team also co-ordinated currency and interest risk management as well as cash management for the whole E.ON AG Group.

E.ON UK plc also operated its own specific treasury procedures within the overall E.ON AG treasury framework.

Throughout the period under review, the E.ON UK plc treasury team employed a continuous forecasting and monitoring process to ensure that the E.ON UK Group complied with all its banking and other non-financial covenants, and also the regulatory constraints that apply to the financing of the UK business. E.ON UK treasury worked in close liaison with the various operating businesses within the E.ON UK Group, when considering hedging requirements on behalf of their activities. A group-wide cash forecasting and currency exposure reporting process ensured regular reporting into treasury of future positions, both short and medium term. Information was submitted to E.ON AG for incorporation into E.ON AG Group forecasting processes on a monthly and quarterly basis.

It was not the policy of E.ON UK plc to enter into speculative treasury arrangements. Accordingly, all transactions in financial instruments were matched to an underlying business requirement, such as committed purchases or forecast debt requirements. Treasury activities were reviewed by internal audit on a regular basis.

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2.4 Statement of directors' responsibilities in respect of regulatory financial statements

The directors are required under Condition 44 of the Distribution Licence to prepare regulatory financial statements for each year to 31 March, which are subject to audit.

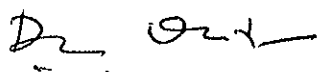
The regulatory financial statements are prepared on a similar basis to annual statutory financial statements which a company is required to produce under UK GAAP. This requires the directors to prepare financial statements for each financial year which fairly present the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those accounts, the directors are required to:

1. Select suitable accounting policies which are used and applied consistently in the preparation of the financial statements;
2. Make reasonable and prudent judgements and accounting estimates in the preparation of the accounts;
3. Confirm, so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware;
4. State whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the regulatory financial statements (see below for departures from the Companies Act);
5. Prepare the regulatory financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business; and
6. Ensure, in the case of each director in office at the date the directors' report is approved, so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Company maintains liability insurance for its directors and officers. This is a qualifying indemnity provision for the purposes of the Companies Act 2006.

The directors, having met to consider these matters, confirm that they have complied with the above requirements in preparing the regulatory financial statements, which have been prepared on a going concern basis, and that the accounting records and reporting arrangements that are necessary to enable the licensee to prepare and publish regulatory financial statements in accordance with Condition 44 of the Distribution Licence have been kept. The accounting policy for the treatment of customer contributions represents a departure from the Companies Act 2006, however in the opinion of the directors the treatment adopted is necessary to give a true and fair view (see Accounting Policies, section 9).

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.



D C S Oosthuizen
Finance Director
19 September 2011

3. Profit and loss account

	Section 9 Note	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Turnover	1,2	371	320
Cost of sales	2	(21)	(21)
Gross profit	2	350	299
Net operating expenses	2, 3	(128)	(129)
Operating profit	2, 4	222	170
Interest payable and similar charges	6	(27)	(10)
Profit on ordinary activities before taxation		195	160
Tax charge on profit on ordinary activities	6	(40)	(13)
Profit for the financial year	15	155	147

There is no difference between the profit on ordinary activities before taxation and the retained profit for either of the regulatory years stated above and their historical cost equivalents.

All the above amounts relate to continuing operations.

The accounting policies and the notes to the regulatory financial statements in sections 8 and 9 on pages 23 to 39 form part of these regulatory financial statements.

4. Statement of total recognised gains and losses

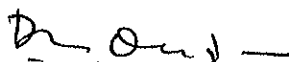
	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit for the regulatory year	155	147
Total recognised gains since last annual report	155	147

The accounting policies and the notes to the regulatory financial statements in sections 8 and 9 on pages 23 to 39 form part of these regulatory financial statements.

5. Balance sheet

	Section 9 Note	As at 31 March 2011 £m	As at 31 March 2010 £m
Fixed assets			
Tangible assets	8	1,779	1,658
Current assets			
Stocks	8	5	5
Debtors	9	72	82
		<u>77</u>	<u>87</u>
Creditors: amounts falling due within one year	10	(124)	(344)
Net current liabilities		<u>(47)</u>	<u>(257)</u>
Total assets less current liabilities		<u>1,732</u>	<u>1,401</u>
Creditors: amounts falling due after more than one year	12	(246)	(432)
Provisions for liabilities and charges	13	(73)	(83)
Net assets		<u>1,413</u>	<u>886</u>
Capital and reserves			
Called-up share capital	14	100	-
Share premium account	15	714	-
Profit and loss account	15	599	886
Total shareholders' funds	16	<u>1,413</u>	<u>886</u>

The regulatory financial statements on pages 16 to 19 and 26 to 39 were approved by the board of directors on 19 September 2011 and signed on its behalf by:



D C S Oosthuizen
Finance Director

The accounting policies and the notes to the regulatory financial statements in sections 8 and 9 on pages 23 to 39 form part of these regulatory financial statements.

6. Cash flow statement

	Section 9 Note	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Net cash inflow from operating activities	17	261	222
Interest paid		(27)	(10)
Returns on investments and servicing of finance		(27)	(10)
Corporation tax paid		(66)	(35)
Taxation		(66)	(35)
Purchase of tangible fixed assets		(167)	(163)
Capital expenditure and financial investment	18	(167)	(163)
Equity dividends		-	-
Net cash inflow before financing		1	14
Financing			
Decrease / (Increase) in group debtors	19	13	(33)
(Decrease) / Increase in group creditors	19	(579)	100
(Decrease) in group loan	19	(495)	(81)
Increase in external financing	19	246	-
Issue of ordinary share capital	14	814	-
		(1)	(14)
Change in net cash in the year		-	-

The accounting policies and the notes to the regulatory financial statements in sections 8 and 9 on pages 23 to 39 form part of these regulatory financial statements.

7. Independent auditors' report

Independent Auditors' report to the Gas and Electricity Markets Authority (the Authority, referred to as the "Regulator") and Western Power Distribution (West Midlands) plc

We have audited the regulatory financial statements of Western Power Distribution (West Midlands) plc (the "Company") for the year ended 31 March 2011, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, and the related notes (the "Regulatory Accounts"). These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Regulator, the Directors and the Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Condition 44 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report or for the opinions we have formed.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts 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 Regulatory Accounts. However, we have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Regulatory Licence. Where the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of Western Power Distribution (West Midlands) plc. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

7. Independent auditors' report (continued)

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts:

- fairly present, in accordance with Condition 44 of the Company's Regulatory Licence and the accounting policies set out on pages 26 to 28, the state of the Company's affairs at 31 March 2011 and its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with Condition 44 of the Regulatory Licence and the accounting policies.

Basis of preparation

Without modifying our opinion, we draw attention to the Statement of Accounting Policies which describes the basis of preparation of the Regulatory Accounts. The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Regulatory Licence

The Company's Regulatory Licence (Condition 44), requires the Regulatory Accounts and the Corporate Report to be prepared as if the licensee was a quoted company and as if these were the licensee's statutory financial statements prepared in accordance with Part 15 of the Companies Act 2006. The Directors have therefore prepared a Corporate Report, Directors' Remuneration Report and Corporate Governance Statement accompanying the Regulatory Accounts. Under the terms of our contract we have assumed responsibility to provide those opinions that would be provided if this was the statutory annual report of a quoted company, in accordance with the Companies Act 2006.

In our opinion:

- the information given in the Introduction (section 1), the Corporate Report (section 2), the Corporate Governance Statement (section 2) and the non-emolument information within the Directors' Remuneration Report (section 8) for the financial year for which the Regulatory Accounts are prepared is consistent with the Regulatory Accounts;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Corporate Governance Statement set out in section 2 with respect to internal control and risk management systems is consistent with the Regulatory Accounts.

7. Independent auditors' report (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where, under Condition 44 of the Company's Regulatory Licence, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from operating locations not visited by us;
- the Regulatory Accounts and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made;
- a corporate governance statement has not been prepared by the Company; and
- we have not received all the information and explanations we require for our audit.

Other matters

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 December 2010 on which we reported on 9 February 2011, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors,
East Midlands
10 September 2011

Notes:

1. The maintenance and integrity of the Western Power Distribution (West Midlands) plc's web site is the responsibility of the Company's directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.
2. Legislation in the United Kingdom governing the preparation and dissemination of statutory financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

8. Directors' remuneration report

Directors (non-auditable part)

The directors who held office during the year are given below:

Dr P Golby
Mr G M Thompson
Mr J Crackett
Mr B J Tear (appointed 16 February 2011, resigned 3 March 2011)

Directors' remuneration (auditable part)

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Aggregate emoluments	958	485

Throughout the period under review, Mr G M Thompson and Mr J Crackett were directors of both the Company and Central Networks East plc, a fellow group undertaking. They shared their management time equally between these two companies. As a result, their emoluments for the years ended 31 March 2011 and 2010, have been split equally between the Company and Central Networks East plc.

Dr P Golby and Mr B J Tear received no emoluments from the Company during the year (2010: £nil). Their remuneration was borne by E.ON UK plc and not recharged.

Retirement benefits accrued to two (2010: two) directors under a defined benefit scheme. The number of directors entitled to shares under a long-term incentive scheme during the year was two (2010: two). During the year no directors exercised options over shares they were rewarded for services to the E.ON Group (2010: none). During the year two (2010: two) directors exercised Stock Appreciation Rights over shares in the ultimate parent company, E.ON AG, that they were awarded for services to the E.ON UK Group.

Highest paid director

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Total emoluments, excluding gains on the exercise of share options and benefits accruing under long-term incentive schemes	670	293
Defined benefit pension scheme:		
Accrued pension at end of period	71	65

During the year the highest paid director exercised Performance Rights over shares in E.ON AG, the ultimate parent company at the time, which they were awarded for services to the E.ON UK Group.

8. Directors' remuneration report (continued)

Directors' remuneration and electricity service standards

Section 42c of the Electricity Act 1989 (as amended by section 61 of the Utilities Act 2000) requires the Company to publish a statement regarding the links between directors' remuneration and service standards associated with activities subject to price regulation.

Arrangements for 2010

The Company's Managing Director was remunerated on the basis of performance across a number of key business activities. These activities include the financial performance of the business, health and safety measures and delivery against regulatory targets.

Elements of the annual bonus paid by the Company to its Managing Director were also based on the achievement of both customer service and network performance standards. These form a part of the price regulated "service standards" referred to above, with targets set annually for the calendar year. Results were assessed, and any bonus was paid, following the end of the calendar year.

In 2010, the Company met its targets for both Network Performance and Customer Service. These achievements were recognised in the bonus paid to its Managing Director.

Network performance in terms of Customer Minutes Lost was on target despite poor weather in February 2010. High Voltage restoration was slightly worse than target. The new 'alliance' organisational structure was implemented successfully from 1 April 2010 and actual performance against target was achieved.

The Company's Customer Service performance remained strong in 2010 with customer complaints below 2009 levels.

Given the strong business performance against these key indicators, a bonus of 20% was awarded to the Managing Director for Network Performance and Customer Service Performance. (When establishing the objectives in early 2010, 'on target' bonus was agreed at 15% for Network Performance and Customer Service Performance targets).

Similar targets were also incorporated into other senior managers' objectives but no other legal directors of the business were remunerated based directly on these measures.

Arrangements up to 31 March 2011

The Company had similar arrangements in place for its Managing Director for the calendar year 2011, however the Company was sold to PPL on 1 April 2011 and the existing Managing Director resigned on that date.

An on target, pro rata bonus was paid to the Company's Managing Director in April 2011 in relation to customer and network performance for quarter 1, 2011.

8. Directors' remuneration report (continued)

The Company's former directors who resigned following the sale on 1 April 2011 received termination payments of £612,000. This is not recorded in the regulatory financial statements as no liability existed at 31 March 2011.

Arrangements for the current Directors, appointed on 1 April 2011

Set out below is the bonus structure in effect for the Company's current directors for the calendar year ending 31 December 2011. The bonus currently relates to performance in WPD South West and WPD South Wales but it is expected that these arrangements will be extended to cover performance in WPD Midlands in 2012. This shows the maximum bonus amounts related to standards of performance included in the annual bonus programme. No bonuses are paid to directors unless the PPL consolidated group achieves a threshold level of earnings.

	Maximum Bonus Amount (% of base pay)		
	Chief Executive	Finance Director	Resources and External Affairs Director
Network reliability:			
Minutes lost per customer	6.75%	6.00%	5.25%
Customer interruptions	2.25%	2.00%	1.75%
Customer impact:			
Contact Centre performance	4.50%	4.00%	3.50%
Total	13.50%	12.00%	10.50%

Notes:

- (i) 'Minutes lost per customer' and 'Customer interruptions' are defined as per Ofgem's Information and Incentives Scheme ("IIS") definitions.
- (ii) 'Contact Centre performance' relates to the time taken to answer telephone calls from customers who have lost supply.

9. Notes to the financial statements and accounting policies

1. Accounting policies

(a) Basis of preparation

These regulatory financial statements, which represent the regulatory operations of the Company, have been prepared on the going concern basis and under the historical cost convention. They are prepared in accordance with the Companies Act 2006 (and applicable United Kingdom Accounting Standards, all of which have been consistently applied) except for the accounting policy for customer contributions (see tangible fixed assets and depreciation below) where an alternative treatment has been adopted in order to present, in the opinion of the directors, a true and fair view. The principal accounting policies are set out below.

(b) Turnover

Turnover comprises revenue from the distribution of electricity to industrial and commercial and domestic customers and is recognised when supplied. Turnover excludes value added tax.

Turnover, relating to the distribution of electricity, represents the value of charges for electricity distributed during the year including estimates of the sales value of units distributed to consumers between the date of the last meter reading and the year end.

All the Company's turnover arises in the course of the Company's principal activity in the United Kingdom. Turnover also includes amounts billable to third parties in respect of subcontracted services in relation to the distribution of electricity.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at their historic purchase or production cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over their useful economic lives. Tangible fixed assets are not revalued. The estimated useful economic lives used for the principal categories of fixed assets are as follows:

	<i>Life in years</i>
<u><i>Distribution network:</i></u>	
<i>Distribution network assets and customer contributions</i>	<i>40-70</i>
<i>Meters</i>	<i>10-20</i>
<u><i>Other assets:</i></u>	
<i>Plant, machinery, fixtures, equipment and tools</i>	<i>Up to 10</i>
<i>Vehicles and mobile plant</i>	<i>Up to 10</i>

1. Accounting policies (continued)

(c) Tangible fixed assets and depreciation (continued)

Customer contributions are deducted from the cost of the related fixed assets. This accounting treatment represents a departure from the Companies Act 2006 which requires fixed assets to be included at their purchase price or production cost and therefore any contribution would be presented as deferred income. However, it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view, as the contributions relate directly to the cost of fixed assets used in the distribution network. Customers' contributions towards distribution network assets are credited to the profit and loss account over the life of the distribution network assets to which they relate by virtue of a reduction in the depreciation charge.

Charges for impairments of assets are recognised when indicators suggest that an asset may be impaired and an impairment charge is calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the income generating unit to which the asset belongs.

(d) Stocks and stores

Stocks and stores are stated at the lower of cost and net realisable value. In general, stocks are recognised in the profit and loss account on a weighted average cost basis. Where necessary, provision is made for obsolete, slow moving or defective stocks. The Companies Act 2006 requires stocks to be categorised between raw materials, work in progress and finished goods. Stocks and stores are raw materials under this definition.

(e) Pension costs

Throughout the period under review the Company contributed to a defined contribution pension scheme and also a defined benefit group pension scheme operated by E.ON UK plc, the assets of which are invested in separate trustee-administered funds. Further details of these schemes are available in the consolidated financial statements of E.ON UK plc.

The Company is unable to identify its share of the underlying assets and liabilities of the group pension scheme. The Company has accounted for its contribution to the group pension scheme as if the scheme was a defined contribution scheme and accounts for contributions payable to the group pension scheme in the accounting period in which they fall due.

(f) Taxation

The tax charge for the year is based on the profits or losses on ordinary activities for the year and takes into account full provision for deferred tax in respect of timing differences on a discounted basis, using the approach set out in Financial Reporting Standard 19 'Deferred tax'. Timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets. Deferred tax liabilities are 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.

Deferred tax is measured at the tax rates that are expected to apply in the periods which the timing differences are expected to reverse, based on tax laws that have been enacted or substantially enacted by the balance sheet date.

1. Accounting policies (continued)

(g) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(h) Provisions

Provisions are recognised in the balance sheet 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 embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it.

(i) Borrowings

A financial liability is initially recognised net of issue costs incurred. Costs that are incurred directly in connection with the issue of a capital instrument are netted against the liability and amortised at a constant rate over the life of the underlying instrument.

(j) Financial instruments

The Company has not adopted Financial Reporting Standard 26 'Financial instruments: recognition and measurement' as the current financial instruments are not listed on a regulated market for the purposes of Directive 2004/39/EC. Therefore the disclosure requirements of Financial Reporting Standard 29 'Financial instruments: disclosures' are not applicable.

(k) Going concern

Notwithstanding the fact that the Company has net current liabilities, the directors have prepared the regulatory financial statements on the going concern basis. The directors have put in place sufficient committed borrowing facilities such that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these regulatory financial statements.

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2. Segmental reporting

From 1 April 2010, Condition 44.7 of the licence requires a segmental analysis as follows:

	Distribution	Distributed generation	Excluded Services (excl. Metering)	Metering Equipment and Services	Other Consented Activity	Out of Area Networks	De minimis Activity	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Turnover	357	(2)	11	4	-	-	1	371
Cost of sales	(12)	-	(9)	-	-	-	-	(21)
Gross profit	345	(2)	2	4	-	-	1	350
Operating costs	(125)	-	-	(1)	-	-	(2)	(128)
Operating profit	220	(2)	2	3	-	-	(1)	222
Capital expenditure	200	-	-	-	-	-	-	200

Excluded services (excluding metering) comprises engineering work for third parties (such as diversions for road works), supply top up and standby and any sole use connections work which is defined as excluded under DPCR5 reporting requirements.

Metering comprises income from the service of providing legacy metering equipment.

Other consented activity comprises any business or activity conducted to which the Authority has given its consent.

Capital expenditure is shown gross of customer contributions.

2. Net operating expenses

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Recharged staff costs (note 5)	41	40
Depreciation (note 8)	45	43
Other operating expenses	42	46
	<u>128</u>	<u>129</u>

3. Operating profit

Operating profit is stated after charging:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Depreciation of tangible fixed assets:		
Owned assets	45	43
Loss on disposal of fixed assets	1	-
Operating lease charges:		
Vehicles	4	3
Auditors' remuneration:		
Statutory audit services	0.1	0.1
	0.1	0.1

Auditors' remuneration in relation to the audit of the Regulatory Financial Statements and work on the other regulatory submissions was £45,696 (2010: £45,500).

Auditors' remuneration includes half the audit fee of WPD Midlands Holdings Limited (formerly Central Networks Limited) of £3,000 (2010: £3,000), a fellow group undertaking, which has not been recharged. Non-audit fees of £23,000 were incurred during the year in relation to the bond issue (2010: £nil). These fees were capitalised with other related fees and will be amortised over the life of the bond.

The Auditor's also carried out work during the period in relation to PPL's post acquisition financing. The total remuneration paid was £285,000 and was borne by PPL WEM Holdings Limited and not recharged.

4. Employee information

The employees undertaking asset management and engineering services within the Company are legally employed by WPD Midlands Networks Services Limited (formerly Central Networks Services Limited), a fellow subsidiary undertaking. The costs relating to these employees are initially borne by WPD Midlands Networks Services Limited and are then fully recharged to the Company.

The average number of employees undertaking these activities for the current and prior year were 1,553 employees for 2011 (2010: 1,395). Associated salary and related costs of employees recharged to the company by WPD Midlands Networks Services Limited were £72m for 2011 (2010: £70m). A total of £31m (2010: £30m) of these costs were capitalised in fixed assets.

5. Interest payable and similar charges

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Interest payable to group undertaking	23	10
Interest payable on external borrowings	4	-
	<u>27</u>	<u>10</u>

Interest payable to group undertakings includes a market value financing charge of £9m on repayment of long term debt to E.ON UK plc, less the reversal of a £3m interest accrual during the year.

6. Tax on profit on ordinary activities

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Current tax:		
UK corporation tax on profits for the year	50	41
Adjustment in respect of previous periods	-	1
Total current tax	<u>50</u>	<u>42</u>
Deferred tax:		
Origination and reversal of timing differences	5	4
Changes in tax laws and rates	(16)	-
Adjustment in respect of previous periods	(4)	1
Movement in deferred tax discount	5	(34)
Total deferred tax (note 13)	<u>(10)</u>	<u>(29)</u>
Tax charge on profit on ordinary activities	<u>40</u>	<u>13</u>

The difference between the current tax on the profit on ordinary activities for the year and the tax assessed on the profit on ordinary activities for the year assessed at the standard rate of corporation tax in the UK of 28% (2010: 28%) can be explained as follows:

7. Tax on profit on ordinary activities (continued)

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit on ordinary activities before tax	195	160
Tax on profit on ordinary activities before tax at 28% (2010: 28%)	55	45
<i>Effects of:</i>		
Capital allowances in excess of depreciation	(5)	(4)
Adjustment in respect of previous periods	-	1
Current tax charge for the year	50	42

The corporation tax payable for the year has been reduced by £37m (2010: £42m) because of group relief received from a fellow group undertaking for which a payment has been made.

7. Tangible fixed assets

	Distribution network £m	Customers' contributions £m	Other assets £m	Total £m
Cost				
At 1 April 2010	3,012	(611)	13	2,414
Additions	197	(33)	3	167
Disposals	(3)	-	-	(3)
At 31 March 2011	3,206	(644)	16	2,578
Accumulated depreciation				
At 1 April 2010	927	(177)	6	756
Charge for the year	55	(12)	2	45
Disposals	(2)	-	-	(2)
At 31 March 2011	980	(189)	8	799
Net book amount				
At 31 March 2011	2,226	(455)	8	1,779
At 31 March 2010	2,085	(434)	7	1,658

	As at 31 March 2011 £m	As at 31 March 2010 £m
<i>Fixed asset expenditure commitments:</i>		
In respect of contracts placed	6	11

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8. Stocks

	As at 31 March 2011 £m	As at 31 March 2010 £m
Raw materials and consumables	5	5

9. Debtors

	As at 31 March 2011 £m	As at 31 March 2010 £m
Trade debtors	44	41
Amounts owed by group undertakings	26	39
Other debtors	1	2
Prepayments and accrued income	1	-
	<u>72</u>	<u>82</u>

On 1 March 2011, the Company granted a £100m multi-currency revolving credit facility to E.ON UK plc, with an expiry date of 1 March 2012. The drawn amount relating to this facility at the year end, included within amounts owed by group undertakings above, is £13.7m (2010: £nil). This loan is unsecured and bears interest at 0.05% below LIBOR per annum. The loan has since been repaid. Remaining amounts owed by group undertakings are unsecured, interest free and are repayable on demand. On 1 April 2011, PPL settled the Company's non-trading intercompany balances with E.ON UK and a new intercompany relationship was created with PPL WEM Holdings Ltd.

10. Creditors: amounts falling due within one year

	As at 31 March 2011 £m	As at 31 March 2010 £m
Trade creditors	8	9
Amounts owed to group undertakings	58	258
Corporation tax	27	43
Other taxation and social security	10	8
Accruals and deferred income	21	26
	<u>124</u>	<u>344</u>

The Company had a £500m rolling loan facility with E.ON UK plc, expiring on 8 July 2013, which was repaid in March 2011 as part of preparations for the sale of the Company to PPL, therefore the balance as at 31 March 2011 was £nil (2010: £63.5m). Remaining amounts owed to group undertakings are unsecured, interest free and are repayable on demand. On 1 April 2011, PPL settled the Company's non-trading intercompany balances with E.ON UK and a new intercompany relationship was created with PPL WEM Holdings Ltd.

11. Creditors: amounts falling due after more than one year

	As at 31 March 2011 £m	As at 31 March 2010 £m
Amounts owed to group undertakings	-	432
Amount owed to external debt holders 5.5% Sterling Bond 2025	246	-
	246	432

The £250m 5.5% fixed rate sterling bond is shown net of issue costs. The issue costs are amortised at a constant rate based on the carrying amount of debt over the life of the underlying instruments. Notwithstanding the investor put and issuer call options, the bond is otherwise due for repayment on 9 May 2025. There is no material difference between the book value and the fair value. On issue, the coupon rate on the bond was 5.5 per cent. As a result of the downgrade to the Company's credit rating upon the purchase of the Company by PPL, the coupon rate will increase to 6.25% after the payment of the first coupon on 10 December 2011.

The Company repaid its fixed term agreements with E.ON UK plc in February 2011 as part of its preparations for the sale to PPL.

12. Provisions for liabilities and charges

Provisions for liabilities and charges relate entirely to deferred tax. The deferred tax provision comprises:

	As at 31 March 2011 £m	As at 31 March 2010 £m
Accelerated capital allowances	213	229
Supply gain held over	20	51
Offset by:		
Available capital losses	(20)	(51)
Undiscounted provision for deferred tax	213	229
Discount	(140)	(146)
Discounted provision for deferred tax	73	83

The opening and closing deferred tax positions can be reconciled as follows:

	£m
Deferred tax provision at 1 April 2010	83
Credit to the profit and loss account (Note 7)	(10)
Deferred tax provision at 31 March 2011	73

13. Provisions for liabilities and charges (continued)

During the year there were two changes to the corporation tax rate that have been included in the financial statements. The change from 28% to 27% with effect from 1 April 2011 was enacted by Finance Act 2010. The change to 26% with the same effective date was substantively enacted on 29 March 2011.

Further reductions to 25% from 1 April 2012 and 1% annually thereafter to 23% from 1 April 2014 have been announced but not substantively enacted at the balance sheet date and therefore are not included in these financial statements. The impact of the expected reduction in tax rates to 23% is expected to reduce the deferred tax liability provided at 31 March 2011 by approximately £5.8m in 2012, £6.3m in 2013 and £6.3m in 2014 with corresponding credits to the profit and loss account.

The deferred tax balance has been discounted in line with FRS19. The discount periods used are the number of years between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used are the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

14. Called up share capital

	As at 31 March 2011 £m	As at 31 March 2010 £m
Authorised		
200,000,000 (2010: 50,000) ordinary shares of £1 each	200	-
Allotted and fully paid		
100,050,000 (2010: 50,000) ordinary shares of £1 each	100	-

On 1 March 2011 the Company issued 100,000,000 new, authorised, ordinary shares of £1 each for a consideration of £813,643,843, satisfied by a floating rate loan note due from E.ON UK plc.

15. Reserves

	Share premium account £m	Profit and loss account £m	Total £m
At 1 April 2010	-	886	886
Profit for the financial year	-	155	155
Dividend	-	(442)	(442)
Issue of shares (note 14)	714	-	714
At 31 March 2011	714	599	1,313

16. Reconciliation of movements in shareholders' funds

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit for the financial year	155	147
Dividend paid	(442)	-
Increase in share capital	100	-
Increase in share premium	714	-
Net increase in shareholders' funds	<u>527</u>	<u>147</u>
Opening shareholders' funds at 1 April	886	739
Closing shareholders' funds at 31 March	<u>1,413</u>	<u>886</u>

On 28 February 2011, the Directors resolved that an interim dividend of £442,000,000 for the year ending 31 December 2011 be paid to Central Networks Limited (now WPD Midlands Holdings Limited) and that the proposed interim dividend be satisfied by the issue of a loan note to Central Networks Limited.

17. Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Operating profit	222	170
Loss on sale of tangible fixed assets	1	-
Depreciation charge	45	43
Decrease in stocks	-	1
(Increase) in amounts owed by external debtors	(3)	(3)
Increase / (decrease) in amounts owed to external creditors	(4)	11
Net cash inflow from operating activities	<u>261</u>	<u>222</u>

18. Capital expenditure cash flow

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Purchase of tangible fixed assets	(200)	(208)
Customers' contributions to tangible fixed assets	33	45
Total capital expenditure and financial investment	<u>(167)</u>	<u>(163)</u>

Western Power Distribution (West Midlands) plc
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19. Analysis of changes in net debt

	At 31 March 2010 £m	Cash flow £m	Non-cash movement £m	At 31 March 2011 £m
Group debtors	39	(13)	-	26
Group creditors	(195)	579	(442)	(58)
Group loan	(495)	495	-	-
External financing	-	(246)	-	(246)
Net debt	(651)	815	(442)	(278)

Non-cash movement comprises the issue of a loan note as settlement for dividend.

20. Financial commitments

The Company had annual commitments under non-cancellable operating leases in respect of vehicles expiring as follows:

	As at 31 March 2011 £m	As at 31 March 2010 £m
Within two to five years	3	3
	3	3

21. Related Party Transactions

WPD Midlands Networks Services Limited (formerly Central Networks Services Limited) (an entity within the Central Networks division of the E.ON UK Group) provides new connections services to the Company. Other related party transactions relate almost exclusively to services provided by E.ON UK plc for corporate services and shared service functions.

21. Related Party Transactions (continued)

Related party transactions during the year were as follows:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Interest paid (note 6)	23	10
Net loan movement from group undertakings (note 19)	495	(81)
Net loan movement to group undertakings	14	-
DUoS income billed to group companies	(51)	(37)
Recharges from group companies	73	78
	555	(30)

Balances owed to and from group undertakings at the year end are disclosed in notes 10 to 12.

22. Subsequent Events

Throughout the period under review the Company was part of the Central Networks division of the E.ON UK Group which also included Central Networks East plc and Central Networks Services Limited.

On 1 April 2011, E.ON UK sold the Central Networks business to PPL Corporation. The purchase price for the equity and the assumption of certain liabilities, including around £100m of the Group's pension provision, was approximately £4.1 billion. As part of the consideration for the sale, non-trading balances with other E.ON entities were settled on behalf of Central Networks by PPL Corporation.

PPL Corporation ("PPL") is an electricity utility based in Allentown, Pennsylvania, United States of America ("US"). PPL owns a number of other UK companies including Western Power Distribution (South West) plc ("WPD South West") and Western Power Distribution (South Wales) plc ("WPD South Wales").

As part of the WPD Group, the organisation will be fundamentally different to that which exists today and will have a smaller combined support structure. The WPD Group presented a new organisational structure in June 2011 and between 620 and 820 redundancies are expected as a result of this across what was the Central Networks group of companies. The Company's aim is to achieve staff reductions by voluntary means.

On 1 April 2011, the directors of the Company resigned and were replaced by three new directors and one non-executive director. The new directors of the Company believe the business is best served by a direct labour force for electrical trades and the Company is seeking through contract renegotiation to TUPE approximately 190 linesmen, jointers and fitters, 23 storekeepers and 25 pole planters into the WPD Group. A further 83 staff will be transferred to the WPD Group from E.ON UK under the sale and purchase agreement.

22. Subsequent Events (continued)

Also on 1 April 2011, the Company changed its name to Western Power Distribution (West Midlands) plc. On this date, Central Networks East plc, a fellow group undertaking, also changed its name to Western Power Distribution (East Midlands) plc and Central Networks Services Limited changed its name to WPD Midlands Networks Services Limited.

In April 2011, the Company issued a further £800m of 5.75 per cent senior, unsecured notes due 16 April 2032 under its £3,000,000,000 Euro Medium Term Note Programme and in May a dividend of £530m was paid to WPD Midlands Holdings Limited (formerly Central Networks Limited).

23. Ultimate parent undertaking and controlling party

The immediate parent company is now WPD Midlands Holdings Limited (formerly Central Networks Limited (formerly Central Networks plc)). The ultimate parent undertaking and controlling party is PPL Corporation, a company incorporated in the United States. Prior to 1 April 2011, the ultimate parent undertaking and controlling party was E.ON AG, which was the parent undertaking of the largest group to consolidate these financial statements.

Copies of E.ON AG's accounts are available from the offices of E.ON AG at the following address:

E.ON AG
E.ON- Platz 1
D-40479
Düsseldorf
Germany

Copies of PPL Corporation's accounts may be obtained from:
Two North Ninth Street
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PA18101-1179
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