

Registered Number: 4267536

**WESTERN POWER DISTRIBUTION HOLDINGS LIMITED  
AND SUBSIDIARY UNDERTAKINGS**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**For the year ended 31 March 2009**

**WESTERN POWER**   
**DISTRIBUTION**  
*Serving the South West and Wales*

## Contents

	Page
<b>Directors' report</b>	1
<b>Group Financial Statements:</b>	
Statement of directors' responsibilities	14
Independent Auditors' Report on the Group financial statements	15
Consolidated income statement	16
Consolidated statement of recognised income and expense	17
Consolidated balance sheet	18
Consolidated cash flow statement	19
Notes to the Group financial statements	20
<b>Company Financial Statements:</b>	
Statement of directors' responsibilities	62
Independent Auditors' Report on the Company financial statements	63
Company balance sheet	64
Notes to the Company balance sheet	65

## **Directors' report**

For the year ended 31 March 2009

The directors present their annual report and the audited financial statements of Western Power Distribution Holdings Limited (the "Company") and its subsidiary undertakings (the "WPD Group" or "Group") for the year ended 31 March 2009. These are prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements of the parent Company have continued to be prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

### **OWNERSHIP**

The Company is owned by PPL Corporation, an electricity utility of Allentown, Pennsylvania, United States of America ("US"). The Company is the UK parent of the WPD Group whose principal operating activity is conducted by Western Power Distribution (South West) plc ("WPD South West") and Western Power Distribution (South Wales) plc ("WPD South Wales").

### **PRINCIPAL ACTIVITIES**

The WPD Group's principal activity is the distribution of electricity. Distribution involves the delivery of electricity across the WPD Group's distribution network within its authorised areas of South West England and South Wales.

The WPD Group also has ancillary business activities which support the main business, including telecommunications and property. The WPD Group's telecommunications subsidiary, Surf Telecoms Limited, is developing an income stream from the rental of fibre optic cables primarily attached to the WPD Group's overhead electricity distribution network. The WPD Group owns a portfolio of properties occupied by WPD Group businesses or external tenants. It also owns generating assets used to back up the distribution network and provides metering services to businesses across the UK.

### **BUSINESS REVIEW**

WPD South West and WPD South Wales are regulated monopolies which operate under a price control regime. The current electricity distribution price control agreed with the regulatory body the Gas and Electricity Markets Authority (known as "Ofgem") commenced on 1 April 2005 and covers the five year period until 31 March 2010. As part of the review, Ofgem confirmed its intention to continue with the inflation adjusted RPI - X form of price control. WPD South West and WPD South Wales were allowed to increase their prices by inflation plus 1.5% (i.e. "P0" = +1.5%) and 6.2% (i.e. "P0" = +6.2%), respectively, from 1 April 2005. In each of the subsequent four years prices are allowed to increase by no more than the rate of inflation (i.e. X = 0).

The allowed increase in revenue was in recognition of a number of additional cost challenges that Distribution Network Operators ("DNOs") face over the five year period, particularly in relation to increased investment requirements together with additional tax and pension costs. In comparative terms, the WPD Group was allowed the second highest aggregate P0 rise in the sector and many of the additional cost pressures identified are "pass through" costs which fall on WPD and which Ofgem has allowed WPD to recover. If these are excluded, then WPD has effectively suffered an underlying P0 price reduction of approximately 3%.

The current price control maintains the emphasis on achieving further efficiencies in day to day running costs although at a lower scale than previous reviews with a 1.5% per annum overall reduction in underlying costs required. The current price control also places a greater emphasis on performance than previous reviews and incorporates incentive mechanisms to encourage the reduction of electrical losses and improve the quality of service for customers particularly in relation to the number and duration of interruptions and the quality of telephone response.

Ofgem is currently undertaking the fifth distribution price control review (known as "DPCR5") which will apply for the five year period commencing 1 April 2010. Ofgem has carried out two consultations identifying the key policy areas and asked DNOs to submit detailed business plan forecasts for the period under review. The policy areas are broadly defined as being either customer, environment, network or finance related. As part of the review process Ofgem has established a number of joint industry working groups and workshops to tackle specific policy issues such as regulatory cost reporting, future network security, reviewing electricity distribution commercial arrangements and competition in connections. WPD is pleased to play an active role in supporting these work streams and is providing a leading role in addressing a number of the key network issues for the future. Ofgem published initial proposals in August and will publish final proposals in November/December 2009.

The focus for the business during the year has been to continue to concentrate on the five key goals of safety, network reliability, customer service, environment and business efficiency. Continued pressure on overheads, particularly at corporate level, with minimal impact on field staff, has ensured that customer service is not affected and customer service measures remain at an all time high. Operationally, the WPD Group has completed another successful year and continues to be a frontier performer in terms of network reliability despite a year of challenging weather conditions. Ofgem acknowledged WPD's exceptional operating performance during the previous price control review process and in recognition of WPD's strong performance within the sector rewarded WPD with a 1% P0 increase as part of the price control mechanism and this was included in the P0 changes outlined above.

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

For the year ended 31 March 2009

### **BUSINESS REVIEW (continued)**

A combination of targeted investment and close monitoring of performance has ensured that we have out-performed in all areas of the business. During the year we exceeded all of Ofgem's National Customer Guarantee Service Standards and met all of our targets under the Quality of Service incentive scheme by a significant margin.

A series of road show presentations by the directors each year ensure that all staff within the WPD Group are aware of, and can contribute to, the corporate goals of safety, network reliability, customer service, environment and business efficiency.

### **Safety**

Safety continues to be at the forefront of all of our business activities and a clear commitment to a practical and pragmatic safety culture from the "top down" remains an imperative. WPD continues to play an active role in many national committees and steering groups which concentrate on the future of safety and training policies across the industry. A major £1.3m investment to provide improved lecture rooms and training facilities at the WPD Taunton Training Centre was completed during the year and formally opened in April 2008 by Sir (now Lord) John Mogg, Chairman of Ofgem.

The number of lost time accidents for WPD South West and WPD South Wales were zero and four in 2008/09, compared to one and zero in 2007/08, respectively. Non lost time accidents for the WPD Group fell from 43 to 36, a reduction of 16.3%. These are the lowest numbers of accidents (lost time and non lost time) ever recorded within WPD.

A number of initiatives during the year included the issue of updated and revised Distribution Safety Rules to all operational staff and contractors, and the implementation of a new "Safety Flash" near miss reporting and safety suggestion scheme. A video entitled "Stop and Think" was produced in-house about the five steps to successful risk assessment. This has been shown at all team meetings and every member of staff has been issued with a personal copy.

WPD runs an annual safety competition for staff where teams are encouraged to develop safety initiatives and to suggest ideas. In addition, a cash prize for charity is offered to the teams that achieve the highest number of accident free days. The Company takes its role of educating the public about the dangers of electricity very seriously and this is an integral part of WPD's wider community support policy. Young people are very much the target and WPD regularly attends Crucial Crew and Junior Life Skills events where representatives join together with members of the emergency services to educate children about the risks associated with electricity. In addition, staff from the Company visit schools in areas where vandalism or incidents have occurred to reinforce the safety message.

No formal notices were received from Local Authorities, Department of Energy and Climate Change ("DECC") or the Health & Safety Executive ("HSE") during 2008/09. WPD continues to work in a constructive, collaborative manner with the HSE and DECC, an example being new guidance regarding the reporting of 'Near Misses' under Reg. 31 of the Electricity Safety, Quality and Continuity Regulations ("ESQCR"), which was drafted by the WPD Safety & Training Manager and has now been accepted by the HSE and the Energy Networks Association as the national standard.

WPD also conforms to OHSAS 18001 Occupational Health and Safety Management Systems, which is similar to the more widely recognised ISO 9001 quality standard. This is an indication that WPD health and safety management systems meet the standards expected by law and by the HSE.

### **Network performance**

Performance of the distribution network is measured in two key ways:

Security - the number of supply interruptions recorded per 100 connected customers ("CI"); and

Availability - the number of customer minutes lost per connected customer ("CML").

All licensees who operate a distribution system are required to report annually to Ofgem on their performance in maintaining system Security and Availability. The Quality of Service incentive scheme, also known as the Information and Incentives Scheme ("IIS") which was introduced by Ofgem in April 2002, financially incentivises all licensees including WPD with respect to both the Security and Availability of supply delivered to customers. In addition Ofgem incentivises the quality of telephone response customers receive when they contact the licensee. This is assessed by a customer survey carried out on a monthly basis.

## Directors' report (continued)

For the year ended 31 March 2009

### BUSINESS REVIEW (continued)

#### Network performance (continued)

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

	<u>South West</u>		<u>South Wales</u>	
	Actual	Target	Actual	Target
IIS Minutes lost per customer 2008/09	51.7		39.5	
Excluded events	(7.8)		(2.7)	
<b>IIS Performance 2008/09</b>	<b>43.9</b>	<b>62.2</b>	<b>36.8</b>	<b>72.2</b>
IIS Performance 2007/08	50.1	62.2	41.9	72.2
IIS Interruptions per 100 customers 2008/09	61.3		69.1	
Excluded events	(2.9)		(3.0)	
<b>IIS Performance 2008/09</b>	<b>58.4</b>	<b>84.5</b>	<b>66.1</b>	<b>95.3</b>
IIS Performance 2007/08	76.4	84.5	77.7	96.8

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD South West and WPD South Wales networks including those caused by bad weather and other faults together with 50% of CI and CML due to pre-arranged shutdowns for maintenance and construction. The 11kV network is the principal driver of customer minutes lost, with faults on overhead lines being the major contributor. In addition to the performance reported under IIS above, 84.4% of customers off supply in the South West and 88.5% in South Wales as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring. We believe that the WPD Group has the best one hour restoration performance of any DNO.

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

- **WPD South West** - February 2009 was a month of bitterly cold weather conditions with snow, ice and blizzards affecting much of the UK. Described by the Met. Office as the worst snow for two decades, the arctic conditions caused major disruption across the whole of the UK. The South West was particularly badly affected between 5-7 February when almost 45,000 customers were without an electricity supply. In total WPD dealt with almost 500 incidents with the entire area affected but particularly North Somerset and the county of Devon where over 80% of all incidents occurred. For these two areas the work load was the equivalent of one month's work in two days. To maximise the speed of restoration, resources were deployed from every other office in WPD to assist with network switching and the repair of faults. As a result, supplies were restored to 55% of affected customers within the hour and all customers were restored within the Ofgem standard of 48 hours for this type of event. The impact of this event was 2.9 CI and 7.8 CML which, subject to Ofgem confirmation, will be excluded from the IIS performance for the year.

- **WPD South Wales** - on 25 May 2008, wind speeds of over 70 mph caused disruption across much of South Wales. The entire area was affected but particularly Swansea and the Gower coast. In total over 32,000 customers were affected across WPD South Wales, representing 3% of the total customer base. To maximise the speed of restoration, resources were deployed from less affected areas in WPD to assist with network switching and repair of faults, with staff working throughout the night in appalling weather conditions to achieve swift restoration of customers. As a result, supplies were restored to 69% of affected customers within the hour and all customers were restored within the Ofgem standard of 24 hours for this type of event. The impact of this event was 3.0 CI and 2.7 CML which, subject to Ofgem confirmation, will be excluded from the IIS performance for the year.

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

For the year ended 31 March 2009

### **BUSINESS REVIEW (continued)**

#### **Network performance (continued)**

The total impact of the exceptional events on the year's performance is 7.8 CML and 2.9 CI for WPD South West and 2.7 CML and 3.0 CI for WPD South Wales. For WPD South West, the IIS-corrected CML and CI of 43.9 and 58.4 per 100 customers for the year are within our Ofgem targets of 62.2 and 84.5 respectively. For WPD South Wales, the IIS-corrected CML and CI of 36.8 and 66.1 are also within our Ofgem targets of 72.2 and 95.3 respectively. The low level of CML relative to the targets set by Ofgem is particularly gratifying as it shows the results of our focus on operational excellence and has been achieved in a year when the number of weather related network faults increased significantly and we faced a number of operational challenges related to restoring customers in difficult working conditions.

Work by Ofgem at the last price control review identified WPD as the best overall performer for network performance and we are pleased to be able to continue to demonstrate good restoration performance during harsh weather conditions. Ofgem has also recognised the wide gaps in performance between DNOs and acknowledged the severity of the targets set for WPD compared with the rest of the sector. We have agreed targets for the current five year period and are continuing to work with Ofgem to assist them in making comparisons between DNOs on an equitable basis.

The WPD Group will continue with those initiatives that have clearly demonstrated good improvements to quality of supply to date, and will seek new opportunities and initiatives for the future. Our focus for 2009/10 and beyond will be to further reduce interruptions by progressing an ongoing programme to increase the automation of the HV network. Good progress was made during the year when a total of 126 new automation schemes were commissioned in WPD South West and 158 in WPD South Wales. This will ensure that, when an HV fault occurs, the maximum number of customers have their supplies restored within three minutes through automated sequence switching logic.

#### **Customer service**

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

If customers are not happy with our efforts to resolve their complaint, they have historically been able to ask the statutory body "energywatch" to review the matter. The introduction of the Consumers, Estate Agents and Redress ("CEAR") Act 2007 resulted in the closure of energywatch in October 2008. The CEAR Act also requires every DNO to become a member of an approved redress scheme. Customers may refer complaints to the scheme once the DNO has had an opportunity to resolve them, so that they are investigated and determined by an independent person. WPD joined The Energy Ombudsman, a service operated by The Ombudsman Service Limited, on a voluntary basis on 31 March 2008. The CEAR Act requires Ofgem to formally approve the scheme and Ofgem approval for a statutory scheme operated by The Ombudsman Service Limited was received on 1 October 2008.

We have developed a good working partnership with the Ombudsman to identify potential customer issues and resolve them before they develop into customer complaints. Regular meetings between WPD and the Ombudsman have resulted in a number of initiatives to improve our overall service to customers and drive standards up. WPD is the only network company to have zero complaints referred to the Ombudsman during the first six months of operation of the statutory scheme.

This focus on customer service and the commitment our staff have shown in following the golden rule has enabled the WPD Group to reduce distribution complaints to energywatch/Ombudsman substantially over the last ten years. In 2008/09, the WPD Group maintained its position as the best performing DNO in terms of the lowest number of complaints to either energywatch or the Ombudsman. During the 2008/09 year, energywatch/Ombudsman received no complaints in respect of either WPD South West or WPD South Wales. This is the fourth consecutive year that WPD South West has achieved a complaint-free year and the sixth consecutive year for WPD South Wales.

During the year Ofgem made further awards under its Discretionary Reward Scheme which was introduced as part of the current price control as a mechanism to recognise best practice in areas of customer service that cannot be easily measured or incentivised through more mechanistic incentives. Now in its third year, Ofgem made awards in two categories. WPD was assessed to be the top performer in the UK for its work with vulnerable customers and for responding to the specific communication needs of harder to reach customers and will receive £150,000 in recognition of its work in this area.

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

For the year ended 31 March 2009

### **BUSINESS REVIEW (continued)**

#### **Customer service (continued)**

Ofgem also conducted a survey on the views of customers of the telephone response that they receive when they contact a DNO. Results published by Ofgem for the year show that the WPD Group performed above the national average. WPD South West was ranked third and WPD South Wales second in the league table of all DNOs for the quality of its call centre performance. Ofgem also compared the speed of response that a DNO call centre provides and WPD was identified as a top performer with an average speed of response below 2 seconds compared to a national average of 34 seconds.

WPD's excellent customer service was further recognised when it was awarded a Charter Mark for a record fifth time in 2005. Charter Mark is the Government standard for customer service to the public and WPD is the only energy company to have held the Charter Mark continuously since its launch in 1992. The standard is now re-assessed annually to ensure ongoing compliance across each of the six different criteria which cover a total of 63 different categories of customer service. In 2009, WPD was found to have maintained its high standards across all of the criteria and, as a result, it has been confirmed that we will retain the Charter Mark for a further year.

The Government has launched a re-branded scheme to replace Charter Mark - the "Customer Service Excellence Standard" - from April 2010 and WPD will make the transition to the new standard in 2009.

#### **Social, community and environmental matters**

WPD's Community Support Policy is reviewed annually by WPD's executive and endorsed by our Chief Executive Officer. We identify areas where business issues link to social issues, and determine criteria that all community support projects must meet. We work in partnership with local community groups to deliver a wide range of projects. Our key themes are Education, Safety and Environment.

- The WPD tree scheme has been running for over 17 years and is one of our main community environmental initiatives. We work in partnership with British Trust for Conservation Volunteers and Silvanus Trust and use their expertise to help schools and community groups to improve and appreciate their environment through the planting of trees and shrubs. Each year thousands of trees and shrubs are planted as part of schemes across the WPD region.
- WPD's Charitable Trust supports community groups, often identified by staff, that help disadvantaged children and young adults. This year we helped:
  - a centre in North Devon that supports people suffering from the effects of social exclusion and deprivation.
  - a group in South Devon that provides training and work experience for people with disabilities.
  - a centre in West Wales that provides help and advice for disabled people.
  - a group in Somerset which promotes independence and equality for people with learning disabilities.
  - a community group in Bristol run by parents of disabled children and young adults.
  - a primary school in Bristol with literacy resources to support children with English as a second language.
- One of the main social impacts of our network is to keep the public safe from the potential hazards of our equipment. Our main focus with children is to raise awareness of electricity safety. We deliver our safety message to over 50,000 children each year at over 30 events across our region. We work with local authorities and emergency services to support a number of joint safety initiatives such as Crucial Crew, Junior Life skills, Hazard Alley and the Safety Zone. Our operational staff and apprentices attend many of these events. As well as the safety benefit, our safety message also has a business benefit by reducing vandalism to our substations and equipment, therefore reducing supply interruptions for our customers. Where incidents have occurred, we will work with local schools to target our safety message to prevent further incidents.

The WPD Group is committed to conducting its business as a responsible steward of the environment. WPD plan new routes so as to minimise, as far as economically possible, their impact on the environment.

Every member of staff is made aware of WPD's environmental commitment to abide by environmental laws, regulations and corporate environmental policies, and their responsibilities for reporting any concerns on potential environmental compliance issues so that appropriate action can be taken.

WPD, which was the first DNO to gain independent accreditation (by Lloyds Register) against British Standard PAS55 - Asset Management, has successfully passed subsequent surveillance audits in 2007/08. Whilst an asset management specification, PAS55 encompasses risk management, setting of and adherence to policies and procedures, and thus has relevance to control of environmental risk.

## Directors' report (continued)

For the year ended 31 March 2009

### BUSINESS REVIEW (continued)

#### Social, community and environmental matters (continued)

##### *Fluid filled cables*

The design of very high voltage underground cables has evolved over many years and our new cables all use a solid plastic like insulation. Old designs of 33kV and higher voltage cables used an insulating oil in ducts inside the cable. Whilst these cables are normally very reliable, in the event of a fault, or commonly damage by third parties digging the street, this oil may leak out, sometimes many hundreds of litres. In common with other UK distribution companies, WPD works to an operating code agreed with the Environment Agency ("EA"), and assesses both the condition and the environmental risk posed by the 214 km of fluid filled cables which WPD owns. The losses from WPD Group's fluid filled cables can vary from year to year dependent on the number of small leaks at disparate locations rather than high volume single events, often caused by third parties.

##### *Fluid losses (litres)* *WPD Group*

2005/06	6,778
2006/07	2,053
2007/08	3,880
2008/09	4,532

At the start of 2008, WPD has initiated a regime of monthly leak reporting to the EA, following agreement in the joint EA and Energy Networks Association ("ENA") fluid filled cables group.

##### *SF6 gas*

Sulphur hexafluoride (SF6) is a manmade gas which has had widespread use such as in double glazing, tennis balls, training shoes as well as a number of industrial applications including high voltage switchgear. Unfortunately it is also a strong greenhouse gas, with a global warming potential 23,900 times greater than CO2.

WPD carefully monitors its SF6 equipment and employs the ENA Engineering Recommendation S38 methodology for the reporting of SF6 banks, emissions and recoveries. That ENA document, drafted by WPD, employs approaches set out by The Intergovernmental Panel on Climate Change ("IPCC"), set up by the World Meteorological Organisation and the United Nations Environmental Programme.

WPD's losses from SF6 equipment in 2008/09 amounted to 217kg representing 0.90 % of its bank. The majority of this loss was due to leakage from older technology bulk 132kV SF6 circuit breakers on one site. These circuit breakers are of complex high pressure design and account for some 3,500kg of WPD's SF6 bank. During the year, WPD used specialist contractors to recover 114kg of SF6 from equipment being scrapped. WPD have included a proposal in its price control submissions (DPCR5) for early retirement of these circuit breakers by 2015.

##### *Electric and magnetic fields ("EMFs")*

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the United States of America ("US") and the UK have reviewed this issue. The US National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence of EMFs causing adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukaemia, but that this evidence is difficult to interpret without supporting laboratory evidence. The UK National Radiological Protection Board (part of the UK Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines.

In April 2007, the Stakeholder Group on Extremely Low Frequency EMF, set up by the UK Government, issued its interim assessment which describes a number of options for reducing public exposure to EMFs. This assessment is being considered by the UK Government. PPL Corporation and its subsidiaries believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities.

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

For the year ended 31 March 2009

### **BUSINESS REVIEW (continued)**

#### **Social, community and environmental matters (continued)**

##### *General*

WPD has continued its tree scheme for the seventeenth year, which is an integral part of its community support programme. Our partnerships with Silvanus Trust and the British Trust for Conservation Volunteers enable us to use local knowledge and experience. During 2008, over 8,600 trees and shrubs were planted. WPD funding was also used for different projects such as the creation of orchards, wildlife areas, and tree nursery management.

To inform the Ofgem debate on sustainability and environmental impact issues on network losses from 11kV overhead lines, a research project has been undertaken by Bath University to undertake a Life Cycle Assessment study. The work examined carbon/energy impacts of conductor sizing choice both at new build and on early intervention to save losses prior to the need to uprate for network capacity reasons. The work also considers the undergrounding of overhead lines. This report has been shared with Ofgem to inform the debate on network losses.

In addition to pursuing recycling opportunities for office type waste, WPD has signed up to a utility industry agreement ('WRAP') on use of recycled and stabilised materials in road excavations. Road spoil had previously formed a major component of WPD's generated waste stream.

WPD has a training centre in Taunton and, as part of a major extension completed during the year, photovoltaic solar panels were installed to provide the centre with its own renewable energy source. Under the Building Research Establishment's 'BREEAM' environmental benchmarking scheme, WPD has also been awarded an 'Excellent' rating for its new depot in Tavistock.

#### **Capital investment**

Capital investment (before customers' contributions) during the year was £221.2m (2008: £225.4m) across the two regions and included the replacement of both overhead lines and switchgear together with the introduction of new technology.

A number of significant projects were tackled during the year:

- In the last few years WPD has made tremendous progress and gained valuable experience from overhead automation to enable it to now concentrate on its underground network. During the year a new project was launched to put high-tech fault detection equipment on WPD's underground power network in towns and cities. The use of radio controlled systems capable of providing information via the network control system ENMAC linked to our control centre in Cardiff will ensure that if a fault is detected, an automatic sequence operates that can enable at least half of the circuit to get back on supply quickly. The aim is for this sequence of events to take place in less than three minutes. The investment, which totals over £3m during the current year to tackle 109 HV circuits, will increase the security of supplies to customers still further.
- A challenging £1m scheme which saw power cables moved under ground and a 33kV tower line relocated has been successfully completed in Bridgwater. The scheme, which will enable new homes to be built, began when the cables were moved. This proved to be particularly challenging as the routing of the cables through ancient catacombs and an old plague burial ground meant close working with archaeologists as well as council officials and bodies like the Highways Agency, British Waterways and the Environment Agency. This was followed by tower removal work and the final phase of the scheme involved transferring the conductors from the original tower to a new tower and connecting the new underground cables that had already been laid through the centre of Bridgwater.
- A £5m scheme to reinforce the 132kV network in the Plymouth area to accommodate changing demand and generation patterns in South Devon was completed during the year. The scheme included re-conductoring approximately 10km of densely populated urban network using a new type of conductor from Japan known as Gap which had previously been used on National Grid's 400kV network but never on the UK 132kV system. Refurbishing overhead lines in built-up areas is very demanding both from a technical and a customer relations perspective and completion of the scheme included negotiating three major dual carriageways, the main Paddington to Penzance railway line and several schools as well as over 200 homes.
- Bath is a city with a population of approximately 100,000 and is a UNESCO World Heritage site as well as being one of the prime tourist destinations in the South West of England. To provide additional network security for city centre customers in the event of a double 132kV cable fault, a new 33kV interconnector was established between Radstock and Bath to provide an additional 25MVA of back feed capacity. This scheme forms part of ongoing work associated with the power infrastructure in the city to facilitate a multi million pound re-development initiative currently being undertaken.

## Directors' report (continued)

For the year ended 31 March 2009

### BUSINESS REVIEW (continued)

#### Capital investment (continued)

- A £1.2m scheme to reconductor the 132kV line between Seabank to the west of Bristol and Radstock in north Somerset used two contractors to work on different sections to minimise the system risk by halving the normal shutdown time. An upgraded conductor was fitted to increase circuit ratings and alleviate voltage problems.
- The Cardiff West site is situated next to the Cardiff Bay link road and sits adjacent to a major redevelopment area which includes a new Cardiff City football stadium and numerous large commercial outlets. As a consequence load growth has accelerated in this area, and this project was initiated to replace the two 60MVA transformer units with two new 90MVA units fitted with low maintenance "vacu tap" tap changers. This £800,000 scheme completes proposals to improve security and reliability to the area, which began in 2005 with a major gas cable overlay scheme between Cardiff West and Wood Street in Cardiff city centre.
- Morryston Grid is an existing grid site which sits at the centre of the lower Swansea valley urban redevelopment zone and feeds much of the industrial, commercial and domestic load in this area. Demand has increased and the existing 132/11kV 30MVA transformer units were in need of support to meet load growth. The project entailed the installation of two new 132/11kV 30MVA transformer units along with a new 11kV switchboard, and extensive 11kV reorganisation to allow equitable customer distribution across the network.

#### Financial key performance indicators

	2009	2008
Revenue	<b>£443.9m</b>	£458.1m
Profit before tax	<b>£187.1m</b>	£223.0m
RAV Gearing (1)	<b>75%</b>	70%
Interest cover (2)	<b>4.8 times</b>	4.5 times
Capital expenditure on property, plant and equipment	<b>£221.2m</b>	£225.4m

(1) RAV gearing is measured as borrowing net of cash and short-term deposits divided by the provisional Regulatory Asset Value ("RAV").

(2) Interest cover is the number of times the underlying finance cost is covered by operating profit before depreciation. Net underlying interest expense is calculated as the underlying cost of borrowings excluding any pension adjustment.

#### REGULATORY ISSUES

2008/09 was the fourth year of a five year price control period. In their final proposals, Ofgem confirmed that the RPI-X mechanism will remain and that X will be set at 0% with a one-off P0 increase in 2005/06 for WPD South West of +1.5% and WPD South Wales of +6.2%. The cost of capital has been set at 4.8% post-tax. The final proposals, along with the detailed modifications to our distribution licence, were incorporated into our licence to take effect from 1 April 2005. Ofgem confirmed that the RPI-X methodology will be continued into the next price control period which will run from 2010 to 2015.

In order to comply with the requirements of our licence and the Competition Act, the WPD Group continued with its compliance programme to ensure that all our policies and procedures meet the legal requirements. As part of the programme, all staff have received an updated code of conduct on fair competition.

During the seventh full year of Ofgem's IIS, the WPD Group believes it has, at a minimum, met its regulatory targets for each of the three key areas to which the incentive scheme applies, namely:

- the number of interruptions that customers experience;
- the duration of those interruptions; and
- the quality of telephone response from the distribution business to the customer.

As discussed previously, the incentive scheme can lead to an increase or a reduction in revenue of up to 3% depending on performance. Subject to confirmation of the declared year-end results by Ofgem, we have exceeded our targets for network performance and earned an income uplift for the year.

We have been set targets by Ofgem for customer minutes lost and customer interruptions for the duration of the current price control period which runs until March 2010.

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

For the year ended 31 March 2009

### **PRINCIPAL RISKS AND UNCERTAINTIES**

#### *Regulatory risk*

The substantial part of the Group's revenue is regulated and is subject to a review every five years. The current review period ends on 31 March 2010.

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

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

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

The Group's regulated income and also the Regulatory Asset Value ("RAV") are to some extent linked to movements in the Retail Price Index ("RPI"). Reductions in the RPI would adversely impact revenues and the debt/RAV ratio.

#### *Network disruption*

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

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

#### *Reliance on suppliers*

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

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

#### *Environment*

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

#### *Creditworthiness of customers*

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

#### *Pensions*

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

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

For the year ended 31 March 2009

### **PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

#### *Internal control environment*

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

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

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

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

It is important for an organisation to have a clearly defined structure of control expectations. The controls start at director level and make it clear to everyone concerned how the business should be conducted (policy) and how far each person can go in conducting that business (authority levels). This information is communicated effectively to all levels of staff.

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

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

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

Firstly, Group level controls which are pervasive across the Group are documented and tested. The controls cover the COSO elements of effective internal control which encompass:

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

Secondly, all the major financial processes have been documented with specific detail on the controls in place. Management monitor and test these controls on an ongoing basis. In addition, the controls are reviewed by the Internal Audit department and any issues identified and communicated back to management and the process owners to enable improvement to the controls. Annually, WPD's compliance with the Act is also reviewed in detail by the WPD Group's external auditors. Good controls together with appropriate documentation must be maintained, and this is subject to testing by management and both internal and external auditors on an annual basis. Since inception of the Act, no significant deficiencies nor material weaknesses have been identified in WPD's financial control environment.

## Directors' report (continued)

For the year ended 31 March 2009

### PRINCIPAL RISKS AND UNCERTAINTIES (continued)

#### **FINANCIAL RISK MANAGEMENT**

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

The Group also enters into derivative transactions, principally interest rate and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. Currently the Group does not hold any interest rate swaps.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

#### *Interest rate risk*

WPD has issued debt to finance its operations. WPD utilises financial derivative products to lock in UK treasury rates (and interest rate spreads over treasury rates) in anticipation of future financing, when appropriate, to reduce its exposure to the expected future cash flow variability of its debt instruments.

#### *Foreign exchange risk*

WPD is exposed to foreign currency risk, primarily through its US dollar-denominated borrowings. WPD has adopted a foreign currency risk management programme designed to hedge certain foreign currency exposures, including firm commitments and recognised assets or liabilities. WPD holds cross-currency swaps to hedge the interest payments and principal value of its US dollar-denominated bonds with maturity dates ranging from December 2017 to December 2028.

#### *Credit risk*

Credit risk relates to the risk of loss that WPD would incur as a result of non-performance by counterparties of their contractual obligations. WPD maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, WPD has concentrations of customers among electric utilities and other energy marketing and trading companies. These concentrations of counterparties may impact WPD's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions.

#### *Liquidity risk and going concern*

On a day-to-day basis, WPD South West provides liquidity to the WPD Group. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2009, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £150m maturing October 2009; at 31 March 2009, it had drawn £70.0m against these facilities and thus had £80.0m undrawn. In addition, it had uncommitted facilities of £65.0m of which £56.6m was undrawn at 31 March 2009.

Subsequent to the year end, in July 2009 WPD South West replaced its existing £150m committed borrowing facilities with £210m committed borrowing facilities expiring July 2012.

In addition, at 31 March 2009 Western Power Distribution Holdings Limited has a £150m committed borrowing facility that expires in January 2013 of which all conditions precedent had been met at that date; at 31 March 2009, it had drawn £145.0m against this facility and thus had £5m undrawn. Of the £145m drawdown, £125m was utilised to fund a credit facility granted to a US based fellow subsidiary of PPL; this expires on 31 March 2010 and any drawdown can be for a maximum of six months.

After consideration, the directors of the Group have concluded that the Group 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 availability of facilities as set out above including the recent replacement of the committed credit facilities within the Group, the relatively stable and regulated nature of the business, the forecast long term business plan, and the anticipated ability of the Group to be able to raise additional long term debt in the future.

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

For the year ended 31 March 2009

### **PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

#### ***FINANCIAL RISK MANAGEMENT (continued)***

##### *Commodity price risk*

The Group's exposure to price risk is minimal.

### **RESULTS AND DIVIDENDS**

The WPD Group reports a profit for the financial year of £148.6m (2008: £185.8m).

Dividends of £18.8m have been paid during the year (2008: £30.0m).

### **PAYMENT OF CREDITORS**

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 which are displayed on our official orders unless alternative terms of mutual benefit can be agreed. The average length of time for the payment of creditors during the year was 17 days (2008: 15 days).

### **CHARITABLE DONATIONS**

During the year ended 31 March 2009, donations of £85,000 were made by the WPD Group to community organisations of which £19,000 was donated to charities. In addition, WPD South West established a charitable foundation in 1996 with a £1.0m donation and, in May 2001, an affiliate donated a further £1.0m to the foundation. The foundation made donations of £136,000 in 2008/09.

### **POLITICAL DONATIONS AND EXPENDITURE**

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

### **EQUAL OPPORTUNITIES**

The WPD Group is committed to equality of opportunity in employment and this is reflected in its equal opportunities policy and employment practices. Employees are selected, treated, and promoted according to their abilities and merits and to the requirements of the job. Applications for employment by people with disabilities are fully considered, and in the event of members of staff becoming disabled, every effort is made to ensure that their employment with the WPD Group continues by way of making adjustments to their role and/or working environment or through retraining arranged 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 CONSULTATION**

The WPD Group places considerable value on the involvement of its employees in its affairs. Staff are kept informed of the WPD Group's aims, objectives, performance and plans, and their effect on them as employees through newsletters, regular team briefings and other meetings, as well as through the WPD Group's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of road show presentations by the directors each year ensure that all staff are aware of, and can contribute to, WPD's corporate goals.

### **REGULATORY FINANCIAL STATEMENTS**

As a condition of its Electricity Distribution Licence, WPD South West and WPD South Wales are required to prepare and publish separate financial statements for their distribution businesses for each year ending 31 March. The WPD Group has published information on its website and this information is also available from the registered office as shown below.

## Directors' report (continued)

For the year ended 31 March 2009

### DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

	<u>Appointed</u>	<u>Resigned</u>
RA Symons, Chief Executive	21 December 2001	-
DCS Oosthuizen, Finance Director	6 September 2001	-
DG Harris, Resources and External Affairs Director	1 April 2004	-
RW Burke	23 January 2004	9 January 2009
RR Clelland, alternate director	1 February 2007	10 January 2009
RR Clelland	10 January 2009	-
RL Klingensmith	21 December 2001	-
JM Simmons	1 February 2007	-
AJ Torok, alternate director	10 January 2009	-
CR Watts, independent director	22 April 2003	-

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

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

### STATEMENT OF DISCLOSURE TO AUDITORS

In the case of each of the persons who were directors at the time when the report is approved under Section 234A of the Companies Act, the following applies:

- (a) so far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and
- (b) the directors 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 Group's auditors are aware of this information.

### AUDITORS

The auditors appointed during the year, Ernst & Young LLP, have expressed their willingness to continue in office and a resolution proposing their re-appointment will be put before the Annual General Meeting.

By Order of the Board,

RA Symons  
Chief Executive

### Western Power Distribution Holdings Limited

Avonbank  
Feeder Road  
Bristol BS2 0TB

22 September 2009

## Statement of directors' responsibilities

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

Company law requires the directors to prepare Group financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group. The Companies Act 1985 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

## **Report of the independent auditors to the members of Western Power Distribution Holdings Limited**

We have audited the Group financial statements of Western Power Distribution Holdings Limited for the year ended 31 March 2009 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Western Power Distribution Holdings Limited for the year to 31 March 2009.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether, in our opinion, the information given in the Directors' report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

### **Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with the IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2009 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

### **Ernst & Young LLP**

Registered Auditor, Bristol

September 2009

## Consolidated income statement

For the year ended 31 March 2009

	Note	2009 £m	2008 £m
<b>Revenue</b>	3	<b>443.9</b>	458.1
Operating costs	4	(191.7)	(195.0)
Other operating income	5	<b>0.8</b>	0.9
Other operating expense	5	(11.0)	-
<b>Operating profit</b>	3,4	<b>242.0</b>	264.0
Finance revenue	6	<b>118.6</b>	134.4
Finance costs	6	(173.5)	(175.4)
<b>Profit before income tax</b>		<b>187.1</b>	223.0
Income tax expense	9	(38.5)	(37.2)
<b>Profit for the year attributable to equity holders of the parent</b>	27	<b>148.6</b>	185.8

All operations are continuing.

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

## Consolidated statement of recognised income and expense

For the year ended 31 March 2009

	Note	2009 £m	2008 £m
<b>Income and expense recognised directly in equity</b>			
Gains on cash flow hedges taken to equity		123.5	7.6
Actuarial (losses)/gains on defined benefit pension plans	24	(299.0)	7.9
<b>Transfers to the income statement</b>			
On cash flow hedges - finance costs		(92.7)	11.6
Tax on items taken directly to or transferred from equity	9	75.2	(5.8)
<b>Net (expense)/income recognised directly in equity</b>			
		(193.0)	21.3
<b>Profit for the year</b>			
		148.6	185.8
<b>Total recognised (expense)/income for the year attributable to equity holders of the parent</b>			
		(44.4)	207.1

## Consolidated balance sheet

31 March 2009

	Note	2009 £m	2008 £m
<b>ASSETS</b>			
Property, plant and equipment	11	2,399.1	2,256.6
Investment property	12	41.2	51.4
Intangible assets	13	121.7	121.9
Available-for-sale financial assets		0.1	0.1
Trade and other receivables	16	1.1	1.1
Derivative financial instruments	22	69.6	5.9
<b>Non-current assets</b>		<b>2,632.8</b>	<b>2,437.0</b>
Inventories	15	6.4	6.4
Trade and other receivables	16	204.1	89.1
Derivative financial instruments	22	4.6	6.2
Deposits	17	-	40.0
Cash and cash equivalents	18	13.0	39.4
<b>Current assets</b>		<b>228.1</b>	<b>181.1</b>
<b>Total assets</b>	3	<b>2,860.9</b>	<b>2,618.1</b>
<b>LIABILITIES</b>			
Loans and other borrowings	20	238.1	126.4
Derivative financial instruments	22	0.7	22.1
Trade and other payables	19	99.5	107.0
Current tax liabilities		4.9	21.3
Provisions	25	1.0	1.5
<b>Current liabilities</b>		<b>344.2</b>	<b>278.3</b>
Loans and other borrowings	20	1,071.6	1,013.4
Derivative financial instruments	22	12.7	44.1
Deferred income tax liabilities	23	264.5	325.6
Retirement benefit obligations	24	329.4	90.3
Trade and other payables	19	475.9	436.9
Provisions	25	9.3	13.0
<b>Non-current liabilities</b>		<b>2,163.4</b>	<b>1,923.3</b>
<b>Total liabilities</b>	3	<b>2,507.6</b>	<b>2,201.6</b>
<b>Net assets</b>		<b>353.3</b>	<b>416.5</b>
<b>EQUITY</b>			
Share capital	26	29.0	29.0
Share premium	27	45.9	45.9
Merger reserve	27	328.3	328.3
Hedging reserve	27	33.7	11.5
Retained (deficit)/earnings	27	(83.6)	1.8
<b>Total equity</b>		<b>353.3</b>	<b>416.5</b>

The financial statements on pages 16 to 61 were approved by the Board of Directors on 22 September 2009 and signed on its behalf by:

R A Symons  
Chief Executive

D C S Oosthuizen  
Finance Director

## Consolidated cash flow statement

For the year ended 31 March 2009

	Note	2009 £m	2008 £m
<b>Operating activities</b>			
Cash generated from operations	28	312.5	346.4
Interest paid		(70.2)	(75.6)
Interest received		6.8	9.3
Income taxes paid		(39.9)	(24.8)
<b>Net cash from operating activities</b>		<b>209.2</b>	<b>255.3</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(218.8)	(209.5)
Proceeds from sale of property, plant and equipment		0.7	0.9
Purchase of investment properties		(0.2)	(0.3)
Proceeds from sale of investment properties		-	1.0
Purchase of intangible assets		(0.2)	(0.3)
Loan to related party	31	(126.2)	-
Sale of short-term deposits		40.0	105.0
<b>Net cash used in investing activities</b>		<b>(304.7)</b>	<b>(103.2)</b>
<b>Financing activities</b>			
Net increase in short-term borrowings		225.1	0.9
Issue costs of long-term borrowings		-	(0.2)
Repayments of long-term borrowings		(136.0)	(105.0)
Dividends paid to equity holders		(18.8)	(30.0)
<b>Net cash from/(used in) financing activities</b>		<b>70.3</b>	<b>(134.3)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(25.2)</b>	<b>17.8</b>
<b>Cash and cash equivalents at beginning of year</b>	18	<b>29.1</b>	<b>11.3</b>
<b>Cash and cash equivalents at end of year</b>	18	<b>3.9</b>	<b>29.1</b>

## Notes to the Group financial statements

For the year ended 31 March 2009

### 1. Corporate information

Western Power Distribution Holdings Limited (the "Company") is a limited company incorporated and domiciled in England & Wales. The address of the registered office is given on page 74. The Group's operations and its principal activities are set out in the Directors' Report at pages 1 to 13. The consolidated financial statements of the Company for the year ended 31 March 2009 comprise those of the Company and its subsidiaries (together referred to as the "Group"). The financial statements were authorised for issue by the Directors on 22 September 2009.

### 2.1 Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2009 and applied in accordance with the Companies Act 1985. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2009.

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

### Going concern

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This is discussed further under 'financial risk management - liquidity risk' within the Directors' report.

### Basis of consolidation

The Group financial statements consolidate the financial statements of Western Power Distribution Holdings Limited (the "Company") and entities controlled by the Company (its subsidiaries).

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### 2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year.

#### *New standards, amendments and interpretations effective in these financial statements*

Standards and interpretations adopted in the year had no significant impact on the financial statements.

#### *New standards, amendments and interpretations effective but not relevant to the Group's operations*

- IFRIC 12, 'Service Concession Arrangements'

#### *New standards, amendments and interpretations issued but not yet effective and not early adopted by the Group:*

##### *IFRS 8, 'Operating Segments'*

IFRS 8, 'Operating Segments' was issued in October 2006 and defines operating segments as components of an entity about which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The new standard sets out the required disclosures for operating segments and is effective for annual periods beginning on or after 1 January 2009. The Group has not yet completed its evaluation of the impact on its disclosures of adopting IFRS 8. There will be no effect on the Group's reported income or net assets. IFRS 8 has been adopted by the EU.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.2 Changes in accounting policy and disclosures (continued)

#### *New standards, amendments and interpretations issued but not yet effective and not early adopted by the Group (continued):*

##### *IAS 23, 'Borrowing Costs'*

A revised IAS 23 'Borrowing Costs' was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 April 2009. No changes will be made for borrowing costs incurred to this date that have been expensed. The revised standard has been adopted by the EU.

##### *IAS 1 (amendment), 'Presentation of Financial Statements - A Revised Presentation'*

In September 2007, the IASB issued Amendments to IAS 1 'Presentation of Financial Statements - A Revised Presentation', which requires separate presentation of owner and non-owner changes in equity by introducing the statement of comprehensive income. The statement of recognised income and expense will no longer be presented. Whenever there is a statement or reclassification, an additional balance sheet, as at the beginning of the earliest period presented, will be required to be published. The revised standard is effective for annual periods beginning on or after 1 January 2009. There will be no effect on the Group's reported income or net assets. IAS 1 revised has been adopted by the EU.

##### *IFRS 3 (revised), 'Business Combinations'*

In January 2008, the IASB issued a revised version of IFRS 3 'Business Combinations'. The revised standard still requires the purchase method of accounting to be applied to business combinations but will introduce some changes to existing accounting treatment. For example, contingent consideration should be measured at fair value at the date of acquisition and subsequently remeasured to fair value with changes recognised in profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009. Assets and liabilities arising from business combinations occurring before the date of adoption by the Group will not be restated and thus there will be no effect on the Group's reported income or net assets on adoption. The revised standard has not yet been adopted by the EU.

##### *IFRIC 18, 'Transfers of Assets from Customers'*

IFRIC Interpretation 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009. The interpretation clarifies the accounting for arrangements where an item of property, plant and equipment, which is provided by the customer, is used to provide an ongoing service. This is particularly relevant to the utility sector with the provision of the service being that of, for example, gas or electricity. The Group is evaluating the impact the interpretation will have on the financial position or performance of the Group when it is first adopted. The interpretation has not yet been adopted by the EU.

#### *New standards, amendments and interpretations issued but not yet effective and not expected to be relevant to the Group's operations:*

- IAS 27 (revised), 'Consolidated and Separate Financial Statements'
- IFRS 2 (amendment), 'Share-based Payment'
- IAS 32 (amendment), 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation'
- IFRIC 13, 'Customer Loyalty Programmes'
- IFRIC 15, 'Agreements for the Construction of Real Estate'
- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'
- IFRIC 17, 'Distributions of Non-cash Assets to Owners'
- IFRS 1 (amendment), 'First-time Adoption of International Financial Reporting Standards'
- IFRS 7 (amendment), 'Financial Instruments: Disclosures'
- IAS 39 (amendment), 'Financial Instruments: Recognition and Measurement'
- IFRIC 9 (amendment), 'Reassessment of Embedded Derivatives'

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies

#### Foreign currencies

The consolidated financial statements are presented in sterling. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in the line which most appropriately reflects the nature of the item or transaction.

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

#### Revenue recognition

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

Revenue from use of energy systems includes an estimation of the volume of electricity distributed or transmitted to customers based on independently procured electricity settlements system data. Annual revenue is dependent on being approved by the industry regulator, Ofgem. Certain circumstances may result in the regulatory 'allowed' income being over- or under-recovered in the financial year. Any over- or under-recovery is included in the calculation of future charges in respect of use of system revenue. No adjustment is made for over- or under-recoveries in the year that they arise.

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

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

#### Other operating income

Other operating income includes profits and losses arising on the disposal of properties by the Group's property management business, which is considered to be part of the normal recurring operating activities of the Group.

#### Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated weighted life of the related assets of 55 years.

#### Finance costs

Finance expenses comprise interest payable on borrowings, the release of discount on provisions, and interest on pension scheme liabilities. Interest charges are recognised in the income statement as they accrue, on an effective rate basis.

#### 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.

##### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies (continued)

#### Leases (continued)

##### *Group as a lessor*

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

#### Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any impairment losses.

Expenditure on electricity infrastructure assets relating to increases in capacity or enhancements of the network are treated as additions. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred.

Employee costs incurred in implementing the capital schemes of the Group are capitalised within infrastructure assets together with the cost of materials and an appropriate proportion of production overheads. Finance costs are not capitalised.

Cost includes expenditure that is directly attributable to the acquisition or construction of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

It is the Group's policy to capitalise replacement expenditure and depreciate it over the expected useful life of the replaced asset.

No depreciation is provided on freehold land.

Other property, plant and equipment are depreciated, principally on a straight line basis, at rates estimated to write off their book values over their estimated useful lives.

The depreciation periods for the principal categories of property, plant, and equipment are, in general, as shown below.

	Years
Distribution network assets:	
Overhead lines and poles	45
Underground cables	60
Plant and machinery (transformers and switchgear)	45
Meters	Up to 10
Other (towers and substation buildings)	Up to 55
Buildings - freehold	Up to 60
Buildings - long leasehold	Up to 60
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

Depreciation methods, residual values and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other operating income.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies (continued)

#### Investment property

Investment property, comprising principally freehold office buildings held for long term rental yields, is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the balance sheet date, as determined by either a qualified surveyor who is an employee of the Group, or by external valuers. Gains or losses arising from changes in the fair value of an investment property are included in the income statement in the year in which they arise.

Investment property is derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property, plant and equipment up to the date of change in use. Any difference between the carrying amount and the fair value will be recorded in equity if the fair value is higher than the carrying amount or immediately in the profit and loss if the fair value is lower. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

#### Business combinations and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries. On transition to IFRS, the Group elected not to apply IFRS 3 'Business Combinations' retrospectively to acquisitions that occurred before 1 April 2004. Goodwill arising on the acquisition of a business which occurred between 1 January 1998 and 1 April 2004 is included in the balance sheet at original cost, less accumulated amortisation to the date of transition and any provisions for impairment. Goodwill arising on the acquisition of a business which occurred prior to 1 January 1998 was written off directly to retained earnings. From the date of transition, goodwill is not amortised but is tested annually for impairment, or more frequently if events or circumstances indicate that goodwill might be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

On acquisition of a subsidiary undertaking, joint venture or associate, at the transaction date fair values are attributed to the acquired identifiable tangible and intangible assets, liabilities and contingent liabilities. Goodwill, which is capitalised, represents the difference between the fair value of the purchase consideration and the acquired interest in the fair values of those assets and liabilities. Any negative goodwill is credited to the income statement in the year of acquisition. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity or investment sold. Goodwill previously written off to retained earnings is not recycled to the income statement on disposal of an entity.

#### Other intangible assets

Other intangible assets relate to computer software.

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

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies (continued)

#### Other intangible assets (continued)

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Carrying amount is reduced by any provision for impairment where necessary.

The estimated useful lives assigned to the principal categories of other intangible assets are as follows:

Computer software	Up to 5 years
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#### Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

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

#### Inventories

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

#### Taxation

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

Deferred tax is 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. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies (continued)

#### Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Pension benefits

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date.

All actuarial gains and losses as at 1 April 2004, the date of transition to IFRS, were recognised in full. All subsequent actuarial gains and losses are recognised outside the income statement in retained earnings and presented in the consolidated statement of recognised income and expense.

Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets, together with adjustments for unrecognised past service costs.

The cost of providing pension benefits to employees relating to the current year's service is included within the income statement within employee costs less an appropriate proportion charged to property, plant and equipment representing the cost of providing pension benefits to employees involved in self-construction. The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within finance income and finance costs, respectively. Actuarial gains and losses are recognised in the consolidated statement of recognised income and expense.

#### Share-based compensation

The Group issues cash-settled share-based payments to certain employees.

Cash-settled share-based payments are measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

#### Restructuring costs

Costs arising from Group restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the income statement in the year in which the Group becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies (continued)

#### Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's directors.

#### Financial assets

Financial assets are classified as loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments, and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

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

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains and losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is included in the income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

##### *Derivatives designated as hedging instruments in an effective hedge*

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

#### Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

##### *Loans and receivables*

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

##### *Available-for-sale financial assets*

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value as it cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies (continued)

#### **Derecognition of financial assets**

Financial assets are derecognised on sale or settlement.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within loans and other borrowings in current liabilities on the balance sheet.

#### **Financial liabilities**

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

##### *Derivatives designated as hedging instruments in an effective hedge*

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

##### *Financial liabilities measured at amortised cost*

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

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

#### **Derivative financial instruments and hedging activities**

The Group uses derivative financial instruments, such as interest rate swaps and cross currency swaps, to hedge risks associated with interest rate and foreign currency fluctuations.

All derivative transactions are undertaken, or maintained, with a view to providing a commercial hedge of the interest or currency risk associated with the financing of the Group's underlying business activities.

Derivatives instruments are recognised on the balance sheet at fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the risk being hedged.

Currently the Group just has cash flow hedging reserves. This relates to fixed to fixed cross currency swaps designated as a hedge of the exchange rate risk on foreign currency denominated liabilities.

For the purpose of hedge accounting, hedges are classified as cash flow hedges, where they hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.3 Summary of significant accounting policies (continued)

#### Derivative financial instruments and hedging activities (continued)

Hedges meeting the criteria for hedge accounting are accounted for as follows:

##### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

#### Segmental information

Segmental information is prepared in conformity with the accounting policies issued for preparing and presenting the entity's financial statements.

### 2.4. Significant accounting judgements, estimates and assumptions

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

#### *Goodwill*

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

#### *Carrying value of long-lived assets*

The estimated useful lives of property, plant and equipment ("PP&E") 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 PP&E investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively.

The Group is required to evaluate the carrying value of PP&E 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.

#### *Pension obligations*

The Group has a commitment, mainly through the Electricity Supply Pension Scheme ("ESPS"), to pay pension benefits. The cost of these benefits and the present value of WPD's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees, the return that the pension fund assets will generate in the time before they are used to fund the pension payments and the discount rate at which the future pension payments are discounted. Based on advice from external actuaries, WPD uses estimates for all these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and management's judgement regarding future expectations.

#### *Deferred tax*

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 2.4. Significant accounting judgements, estimates and assumptions

#### *Income tax*

The actual income tax charged on profits is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which is recognised in the financial statements. The estimates, assumptions and judgements can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements.

#### *Financial instruments*

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

#### *Investment properties*

Investment properties are carried on the balance sheet at fair value. These valuations are prepared in accordance with IFRS and the appraisal and valuation manual issued by the Royal Institution of Chartered Surveyors. Valuations are carried out having regard to comparable market evidence. In assessing fair value, current and potential future income (after deduction of non-recoverable outgoings) is capitalised using yields derived from market evidence.

### 3. Segmental information

The primary segments are as reported for management purposes and reflect the day-to-day management of the business. The Group's primary segments are the distribution of electricity in the South West of England and the distribution of electricity in South Wales.

Distribution involves the delivery of electricity across the Group's distribution network. Other businesses include telecommunications, property management and helicopter operations which all support the main business.

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

All revenues and profit before tax arise from operations within the UK.

a) Revenue by segment	Total revenue		Inter-segment revenue		External revenue	
	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	£m	£m
<b>Distribution network systems</b>						
South West	245.0	261.6	(5.0)	(4.5)	240.0	257.1
South Wales	186.6	184.8	(0.1)	(0.1)	186.5	184.7
	431.6	446.4	(5.1)	(4.6)	426.5	441.8
<b>Other businesses</b>	26.9	25.9	(9.5)	(9.6)	17.4	16.3
	458.5	472.3	(14.6)	(14.2)	443.9	458.1

## Notes to the Group financial statements

For the year ended 31 March 2009

### 3. Segmental information (continued)

b) Operating profit by segment	2009 £m	2008 £m
<b>Distribution network systems</b>		
South West	135.1	154.8
South Wales	112.6	104.3
	<b>247.7</b>	259.1
<b>Other businesses</b>	(1.7)	10.2
<b>Corporate and unallocated</b>	(4.0)	(5.3)
	<b>242.0</b>	264.0

### c) Assets and liabilities

	Segment assets (i)		Segment liabilities (ii)		Capital additions to property, plant and equipment, intangible assets and investment properties	
	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	£m	£m
<b>Distribution network systems</b>						
South West	1,424.6	1,338.8	323.1	304.6	139.9	135.8
South Wales	1,138.0	1,099.5	231.6	221.0	86.3	92.7
	<b>2,562.6</b>	2,438.3	<b>554.7</b>	525.6	<b>226.2</b>	228.5
<b>Other businesses</b>	95.5	92.1	16.0	17.6	4.3	2.9
<b>Corporate and unallocated</b>	202.8	87.7	1,936.9	1,658.4	(8.9)	(5.3)
	<b>2,860.9</b>	2,618.1	<b>2,507.6</b>	2,201.6	<b>221.6</b>	226.1

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

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

### d) Other non-cash expenses

	Depreciation on property, plant and equipment (note 11)		Amortisation of intangible assets (note 13)	
	2009	2008	2009	2008
	£m	£m	£m	£m
<b>Distribution network systems</b>				
South West	44.9	43.0	0.4	0.4
South Wales	27.9	27.4	-	-
	<b>72.8</b>	70.4	<b>0.4</b>	0.4
<b>Other businesses</b>	5.3	4.8	-	-
	<b>78.1</b>	75.2	<b>0.4</b>	0.4
<b>Less: charged to property, plant and equipment</b>	(6.3)	(5.2)	-	-
<b>Charged to consolidated income statement</b>	<b>71.8</b>	70.0	<b>0.4</b>	0.4

## Notes to the Group financial statements

For the year ended 31 March 2009

### 4. Operating costs

Group operating costs can be analysed as follows:

	<b>2009</b>	2008
	<b>£m</b>	£m
Cost of sales	<b>26.2</b>	29.1
Distribution network costs	<b>145.5</b>	142.3
Administration costs	<b>20.0</b>	23.6
	<b>191.7</b>	195.0

Group operating profit is stated after charging the following items:

	<b>2009</b>	2008
	<b>£m</b>	£m
Employee benefit expense (note 7)	<b>36.0</b>	42.9
Depreciation of property, plant and equipment	<b>71.8</b>	70.0
Amortisation of intangibles	<b>0.4</b>	0.4
Operating lease rentals	<b>3.2</b>	2.9
Amortisation of grants and contributions	<b>(10.2)</b>	(9.2)
Research and development expenditure	<b>0.3</b>	0.4

### Services provided by the Group's auditor

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

	<b>2009</b>	2008
	<b>£m</b>	£m
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	<b>0.1</b>	0.1
Fees payable to Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries pursuant to legislation	<b>0.2</b>	0.2
- Other services pursuant to legislation	<b>0.3</b>	0.3
- All other services	<b>-</b>	-
	<b>0.6</b>	0.6

## Notes to the Group financial statements

For the year ended 31 March 2009

<b>5. Other operating income/(expense)</b>	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Other operating income</b>		
Net gain on disposal of property, plant and equipment	<b>0.3</b>	0.2
Net gain on disposal of investment properties	-	0.2
Increase in fair value of investment properties	<b>0.4</b>	0.3
Other	<b>0.1</b>	0.2
	<b>0.8</b>	0.9
<b>Other operating expense</b>		
Reduction in fair value of investment properties	<b>(11.0)</b>	-
<b>Net other operating (expense)/income</b>	<b>(10.2)</b>	0.9
<b>6. Net finance costs</b>	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Finance revenue</b>		
Return on pension scheme assets (note 24)	<b>110.8</b>	123.9
Interest on bank deposits	<b>3.6</b>	9.4
Interest on loan to related party (note 31)	<b>3.1</b>	-
Interest accrued on tax prepayments	<b>0.9</b>	0.8
Other interest receivable	<b>0.2</b>	0.3
<b>Total finance revenue</b>	<b>118.6</b>	134.4
<b>Finance costs</b>		
Interest on pension scheme liabilities (note 24)	<b>(105.9)</b>	(92.6)
Interest payable on bank loans and overdrafts	<b>(3.7)</b>	(1.0)
Interest payable on other loans	<b>(63.4)</b>	(81.2)
Foreign exchange (loss)/gain on US\$ denominated financial assets and liabilities	<b>(92.7)</b>	11.6
Transfers from the hedging reserve in relation to foreign currency cash flow hedges	<b>92.7</b>	(11.6)
Amortisation of bond issue costs	<b>(0.5)</b>	(0.6)
<b>Total finance costs</b>	<b>(173.5)</b>	(175.4)
<b>Net finance costs</b>	<b>(54.9)</b>	(41.0)

## Notes to the Group financial statements

For the year ended 31 March 2009

### 7. Employee benefit expense

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

	<b>2009</b>	2008
	<b>£m</b>	£m
Wages and salaries	<b>81.5</b>	82.9
Severance costs	-	0.8
Social security costs	<b>6.8</b>	7.1
Pension costs (note 24)	<b>8.6</b>	12.1
	<b>96.9</b>	102.9
Less: amounts capitalised as part of property, plant and equipment	<b>(60.9)</b>	(60.0)
Charged to the income statement	<b>36.0</b>	42.9

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

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

	<b>2009</b>	2008
	<b>Number</b>	Number
Electricity distribution	<b>2,229</b>	2,311
Other activities	<b>46</b>	45
	<b>2,275</b>	2,356

The Group issues to directors and senior employees share appreciation rights ("SARs") relating to the shares of the WPD Group's ultimate parent, PPL Corporation. The SARs require the Group to pay the intrinsic value of the SAR to the director or employee at the date of exercise. The Group has recorded liabilities of £0.8m (2008: £2.8m). Fair value of the SARs is determined by using the Black-Scholes option-pricing model using the assumptions noted below. In 2009, the Group recorded total credits of £0.8m (2008: £1.5m expense) allocated evenly between WPD South West and WPD South Wales. The total intrinsic value at 31 March 2009 was £0.2m (2008: £2.6m).

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

	<b>2009</b>	2008
Expected volatility	<b>26.06%</b>	20.85%
Expected life (years)	<b>6</b>	6
Risk-free rate	<b>2.07%</b>	2.95%
Expected dividend yield	<b>3.48%</b>	3.10%

Expected volatility was determined by calculating the historical volatility of PPL Corporation's share price over the previous 5.4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 8. Directors' emoluments

The service contracts for the executive directors are with WPD South West. However, their emoluments include those for services to the Group as a whole, which principally comprises WPD South West and WPD South Wales. The emoluments detail given in this note represents total emoluments of the directors for all services provided to Group companies. The costs are apportioned evenly between WPD South Wales and WPD South West.

	Highest paid director		Total	
	2009 £000	2008 £000	2009 £000	2008 £000
The emoluments of the executive directors comprised:				
Base salary (note i)	372	350	818	774
Performance dependent bonus (note ii)	331	311	656	619
Long term incentive plan (note iii)	740	385	1,334	385
Pension compensation allowance (note iv)	248	200	651	528
Fees to the independent non executive director (note vi)	-	-	30	15
	<b>1,691</b>	1,246	<b>3,489</b>	2,321

(i) Base salary also includes benefits in kind.

(ii) The amount of the annual bonus is based on the Group's financial performance, the reliability of the electricity network, customer satisfaction, and other factors.

(iii) Under a long term incentive plan, the three executive directors receive phantom stock options. The option price is set at the quoted share price of the WPD Group's parent in the US, PPL Corporation, at the date the phantom options are granted. The options may be exercised during fixed periods and the gain is payable through the payroll. The values above include any payments made to the executive directors in respect of gains in value of phantom options exercised in the year. In 2009, 3 executive directors exercised options (2008: nil). In addition, WPD's Chief Executive Officer is also Vice President of PPL Global. As a result, he also receives annually a grant of PPL Corporation shares which he cannot generally access for 3 years. The value of these shares is shown within this line.

(iv) In anticipation of the change in tax applicable to UK pensions effective 6 April 2006, the executive directors resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - note 24) on 5 April 2006 and elected for enhanced protection. WPD thus no longer contributes for ongoing service to the ESPS in respect of the executive directors. Instead, WPD pays cash compensation to them individually equivalent to the value of WPD's contribution in to the fund that would have been made had they remained active members (as determined by external actuaries).

(v) The three executive directors are deferred members of the ESPS (see (iv) above). At 31 March 2009, the highest paid director had accrued annual pension benefits of £347,878 (2008: £326,737). The benefits shown assume that an option to convert an element of the annual benefits to a lump sum payable on retirement is not exercised.

(vi) The independent UK non executive director is entitled to fees as determined by the Board. No emoluments are paid to US based non-executive directors, who are officers of PPL, in respect of their services as directors to the Group.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 9. Income tax expense

The major components of income tax expense are:

	2009 £m	2008 £m
Current tax		
Current income tax expense	33.6	46.1
Adjustments in respect of prior years	(9.2)	(5.9)
Deferred tax (Note 23)		
Relating to the origination and reversal of temporary differences	22.1	17.6
Adjustments in respect of prior years	(8.0)	0.3
Effect of change of UK corporation tax rate	-	(20.9)
	<b>38.5</b>	<b>37.2</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 28% (2008: 30%) as follows:

	2009 £m	2008 £m
Profit before income tax	187.1	223.0
Profit before income tax multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)	52.4	66.9
Effects of:		
Expenses not deductible and income not taxable for tax purposes	7.4	(0.1)
Effect of change of UK corporation tax rate	-	(20.9)
Adjustments to tax charge in respect of prior years	(17.2)	(5.6)
Group relief surrendered at non-standard rates	(4.1)	(3.1)
Total taxation (continuing operations)	<b>38.5</b>	<b>37.2</b>

Tax relating to items (charged) or credited to equity

	2009 £m	2008 £m
Deferred tax:		
Revaluation of cash flow hedges	(8.6)	(5.5)
Deferred tax on defined benefit pension schemes	83.8	(0.3)
	<b>75.2</b>	<b>(5.8)</b>

### 10. Dividends

	2009 £m	2008 £m
Equity dividends on ordinary shares (65p per £1 share (2008: 103p per £1 share))	18.8	30.0

## Notes to the Group financial statements

For the year ended 31 March 2009

### 11. Property, plant and equipment

	Generation £m	Distribution network £m	Non-network land & buildings £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
<b>Cost</b>						
At 31 March 2007	0.5	2,957.5	24.6	113.5	32.8	3,128.9
Additions	-	202.6	-	14.1	8.7	225.4
Transfers	-	(0.6)	-	1.9	-	1.3
Disposals	-	(26.3)	(0.9)	(30.6)	(2.8)	(60.6)
At 31 March 2008	0.5	3,133.2	23.7	98.9	38.7	3,295.0
Additions	-	206.8	0.2	12.9	1.3	221.2
Transfers	-	-	(0.2)	-	-	(0.2)
Disposals	-	(17.4)	(0.5)	(18.4)	(4.5)	(40.8)
<b>At 31 March 2009</b>	<b>0.5</b>	<b>3,322.6</b>	<b>23.2</b>	<b>93.4</b>	<b>35.5</b>	<b>3,475.2</b>
<b>Accumulated depreciation</b>						
At 31 March 2007	0.3	932.4	4.9	72.6	15.6	1,025.8
Depreciation charge for the year	-	58.9	0.4	13.1	2.8	75.2
Transfers	-	2.0	-	(2.9)	-	(0.9)
Disposals	-	(26.4)	(0.9)	(31.1)	(3.3)	(61.7)
At 31 March 2008	0.3	966.9	4.4	51.7	15.1	1,038.4
Depreciation charge for the year	0.1	60.2	0.3	13.9	3.6	78.1
Transfers	-	-	-	-	-	-
Disposals	-	(17.4)	(0.5)	(18.3)	(4.2)	(40.4)
<b>At 31 March 2009</b>	<b>0.4</b>	<b>1,009.7</b>	<b>4.2</b>	<b>47.3</b>	<b>14.5</b>	<b>1,076.1</b>
<b>Net book value</b>						
<b>At 31 March 2009</b>	<b>0.1</b>	<b>2,312.9</b>	<b>19.0</b>	<b>46.1</b>	<b>21.0</b>	<b>2,399.1</b>
At 31 March 2008	0.2	2,166.3	19.3	47.2	23.6	2,256.6
At 31 March 2007	0.2	2,025.1	19.7	40.9	17.2	2,103.1

Included in distribution network at 31 March 2009 was an amount of £15.4m (2008: £15.2m) relating to expenditure on assets in the course of construction.

The carrying amount of the Group's distribution network and non-network land and buildings include amounts of £0.2m (2008: £0.2m) and £1.3m (2008: £1.3m), respectively, in respect of long leasehold properties.

## Notes to the Group financial statements

For the year ended 31 March 2009

<b>12. Investment property</b>	<b>2009</b>	2008
	<b>£m</b>	£m
Fair value at 1 April	<b>51.4</b>	51.7
Additions	<b>0.2</b>	0.3
Valuation (losses)/gains	<b>(10.6)</b>	0.3
Transfers	<b>0.2</b>	(0.1)
Disposals	<b>-</b>	(0.8)
<b>Fair value at 31 March</b>	<b>41.2</b>	51.4

The fair value of investment property is based mostly on a valuation by a qualified surveyor who is an employee of the Group, with the remainder carried out by independent valuers (Alder King, or King Sturge and Co, or Charterwood Limited), who hold recognised and relevant professional qualifications. The valuers all have recent experience in the location and category of the investment property being valued. The properties were valued on the basis of open market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The amounts recognised in the income statement for rental income from investment property are £3.6m (2008: £3.5m).

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during the period of occupation. This service charge amounted to £0.7m (2008: £0.5m) for which a similar amount is included within operating costs.

### 13. Intangible assets

	<b>Goodwill</b>	<b>Computer software</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost:</b>			
At 31 March 2007	120.9	6.4	127.3
Additions	-	0.4	0.4
Disposals	-	(4.8)	(4.8)
At 31 March 2008	120.9	2.0	122.9
Additions	-	0.2	0.2
Disposals	-	(0.4)	(0.4)
<b>At 31 March 2009</b>	<b>120.9</b>	<b>1.8</b>	<b>122.7</b>
<b>Aggregate amortisation and impairment:</b>			
At 31 March 2007	-	5.4	5.4
Charge for the year	-	0.4	0.4
Disposals	-	(4.8)	(4.8)
At 31 March 2008	-	1.0	1.0
Charge for the year	-	0.4	0.4
Disposals	-	(0.4)	(0.4)
<b>At 31 March 2009</b>	<b>-</b>	<b>1.0</b>	<b>1.0</b>
<b>Carrying amount</b>			
<b>At 31 March 2009</b>	<b>120.9</b>	<b>0.8</b>	<b>121.7</b>
At 31 March 2008	120.9	1.0	121.9
At 31 March 2007	120.9	1.0	121.9

## Notes to the Group financial statements

For the year ended 31 March 2009

### 13. Intangible assets (continued)

Goodwill acquired through business combinations has been allocated to groups of cash generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. The carrying amount of goodwill stated above has all been allocated to the WPD South Wales electricity distribution CGU.

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 Group calculates the recoverable amount as the value in use using a discounted cash flow model. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenues and direct costs during the period. The future cash flows are discounted using a pre-tax rate adjusted for risks specific to the CGU. The discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the CGU. Changes in revenues and direct costs are based on past practices and expectations of future changes in the market.

The pre-tax rate used to discount the forecast cash flows from WPD South Wales is 9.8% (2008: 9.6%).

For the WPD South Wales CGU cash flows are derived from the corporate business plan approved by the board. For determining the value in use, cash flows for a period of 17 years have been discounted and aggregated with a terminal value. A period of greater than five years has been used, as the period is covered by the corporate business plan, and the long-term average growth rate implied by cash flows beyond five years does not exceed industry growth forecasts.

The WPD South Wales recoverable amount exceeds its carrying amount by £16m. Based on sensitivity, it is estimated that: (i) an increase of 1% in the discount rate would reduce the WPD South Wales value in use by £67m and, if the discount rate increases to 10.0% the value in use of WPD South Wales would equal its carrying amount; (ii) a decrease of 5% in the premium to RAV assumed in the terminal value would reduce the WPD South Wales value in use by £20m and, if the premium to RAV decreases from 20% to 16% the value in use of WPD South Wales would equal its carrying amount.

### 14. Subsidiary undertakings

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 2 to the Company's separate financial statements.

### 15. Inventories

	2009 £m	2008 £m
Raw materials	4.4	4.3
Work in progress	2.0	2.1
	<b>6.4</b>	6.4

## Notes to the Group financial statements

For the year ended 31 March 2009

### 16. Trade and other receivables

	2009 £m	2008 £m
<b>Current receivables</b>		
Trade receivables	66.8	79.0
Loan to related party (note 31)	126.2	-
Other receivables	2.8	2.7
Prepayments and accrued income	8.3	7.4
	<b>204.1</b>	89.1
<b>Non-current receivables</b>		
Prepayments and accrued income	1.1	1.1
	<b>205.2</b>	90.2

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

As at 31 March 2009, trade receivables at nominal value of £1.7m (2008: £1.1m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows.

	2009 £m	2008 £m
At 1 April	1.1	1.2
Provision for receivables impairment	2.7	1.7
Amounts written off as uncollectible	(0.4)	(0.4)
Amounts recovered during the year	(1.7)	(1.4)
At 31 March	1.7	1.1

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

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

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

	Total £m	Neither past due nor impaired £m	Past due but not impaired				
			<30 days £m	30-60 days £m	60-90 days £m	90-120 days £m	>120 days £m
<b>2009</b>	<b>66.8</b>	<b>65.1</b>	<b>0.1</b>	<b>0.9</b>	<b>0.5</b>	-	<b>0.2</b>
2008	79.0	77.6	-	0.9	0.5	-	-

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

## Notes to the Group financial statements

For the year ended 31 March 2009

### 16. Trade and other receivables (continued)

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

Where necessary, suppliers can ensure they are within the 85% indebtedness threshold by providing collateral to increase their 'Credit Limit'. This can be in the form of a letter of credit or equivalent bank guarantee, an escrow account deposit, a cash deposit, or any other form of collateral agreed between WPD and the supplier. At 31 March 2009, WPD held collateral in relation to trade receivables in the form of cash £1.3m (2008: £1.3m), letters of credit £22.5m (2008: £22.6m), and parent company guarantees £8.1m (2008: £10.3m).

At 31 March 2009 all suppliers were within the 85% indebtedness target.

### 17. Deposits

	2009 £m	2008 £m
Bank deposits	-	40.0

The fair value of bank deposits is considered to approximate their carrying amount.

### 18. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank	13.0	14.7
Short-term bank deposits	-	24.7
Cash and cash equivalents	13.0	39.4

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

Cash at bank earns interest at floating rates based on short-term bank deposit rates.

At 31 March 2009, the Group had available £85.0m (2008: £300.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates. At 31 March 2009, it also had available undrawn uncommitted facilities of £56.6m (2008: £65.0m). Subsequent to the year end, WPD South West replaced its £150m committed borrowing facility expiring October 2009 with a £210m committed borrowing facility expiring July 2012.

Included in cash and short-term deposits are amounts totalling £8.6m (2008: £9.7m) held by the Group's insurance subsidiary, none of which was readily available for the general purposes of the Group.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 18. Cash and cash equivalents (continued)

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	<b>2009</b>	2008
	<b>£m</b>	£m
Cash and cash equivalents (from above)	<b>13.0</b>	39.4
Bank overdrafts (Note 20)	<b>(9.1)</b>	(10.3)
Cash and cash equivalents in the cash flow statement	<b>3.9</b>	29.1

Bank overdrafts comprise principally unrepresented cheques at the year end.

### 19. Trade and other payables

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Current payables</b>		
Trade payables	<b>10.0</b>	10.3
Social security and other taxes	<b>4.0</b>	3.6
Other payables	<b>31.8</b>	40.3
Deferred grants and contributions	<b>10.2</b>	6.9
Accruals and deferred income	<b>43.5</b>	45.9
	<b>99.5</b>	107.0
<b>Non-current payables</b>		
Deferred grants and contributions	<b>475.9</b>	436.9
	<b>575.4</b>	543.9

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 17 days (2008: 15 days).

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

Deferred grants are those amounts received under government grant schemes. Deferred contributions are those amounts received from customers in respect of new connections to the network. Of the £52.6m (2008: £55.1m) grants and contributions received in the year, £nil related to grants (2008: £0.1m).

## Notes to the Group financial statements

For the year ended 31 March 2009

<b>20. Borrowings</b>	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Current</b>		
Bank overdrafts (note 18)	9.1	10.3
Bank borrowings	224.7	-
6.500% US\$225m bonds due 2008	-	112.2
Loan from UK affiliate	4.3	3.9
	<b>238.1</b>	126.4
<b>Non-current</b>		
7.250% US\$100m bonds due 2017	65.4	45.5
7.375% US\$202m bonds due 2028	126.0	86.0
9.250% GB£150m bonds due 2020	178.8	181.2
5.875% GB£250m bonds due 2027	247.1	247.0
4.804% GB£225m bonds due 2037 (i)	218.4	218.2
1.541% + RPI GB£105m index linked bonds 2053 (i) (ii)	110.1	109.9
1.541% + RPI GB£120m index linked bonds 2056 (i) (ii)	125.8	125.6
	<b>1,071.6</b>	1,013.4
<b>Total borrowings</b>	<b>1,309.7</b>	1,139.8

The carrying amounts and fair value of borrowings are as follows:

	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>£m</b>	£m	<b>£m</b>	£m
Current borrowings	238.1	126.4	238.1	129.8
Non-current borrowings	1,071.6	1,013.4	902.1	1,021.4
	<b>1,309.7</b>	1,139.8	<b>1,140.2</b>	1,151.2

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

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

	<b>2009</b>	2008
	<b>£m</b>	£m
US dollar	317.6	243.7
UK pound	992.1	896.1
	<b>1,309.7</b>	1,139.8

(i) Callable in December 2026.

(ii) Adjusted for movements in the Retail Prices Index ("RPI") with reference to a base RPI established at trade date. The RPI is the UK general index of retail prices (for all items) as published by HM Government's Office for National Statistics (Jan 1987=100).

## Notes to the Group financial statements

For the year ended 31 March 2009

### 21. Financial instruments

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

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

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

It is, and has been throughout 2009 and 2008, the Group's policy that no speculative trading in financial instruments shall be undertaken.

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

#### *Market risk*

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

#### *Interest rate risk*

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

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

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

	<b>2009</b>	2008
	<b>Carrying</b>	Carrying
	<b>amount</b>	amount
	<b>£m</b>	£m
Interest bearing/earning assets and liabilities:		
Fixed	<b>(779.2)</b>	(908.1)
Floating	<b>(94.6)</b>	29.1
Index-linked	<b>(235.9)</b>	(235.5)
	<b>(1,109.7)</b>	(1,114.5)
Represented by:		
Cash and cash equivalents	<b>13.0</b>	39.4
Deposits	<b>-</b>	40.0
Loan to related party	<b>126.2</b>	-
Derivative financial assets	<b>74.2</b>	12.1
Derivative financial liabilities	<b>(13.4)</b>	(66.2)
Loans and borrowings	<b>(1,309.7)</b>	(1,139.8)
	<b>(1,109.7)</b>	(1,114.5)

## Notes to the Group financial statements

For the year ended 31 March 2009

### 21. Financial instruments (continued)

#### *Interest rate sensitivity*

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

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

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

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

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

The 2009 analysis below reflects a larger reasonably possible change in interest rates than in 2008, due to increased volatility in the financial markets.

	2009		2008	
	Income statement	Equity	Income statement	Equity
	(before tax)	(before tax)	(before tax)	(before tax)
	+/- £m	+/- £m	+/- £m	+/- £m
Interest Rate +/- 100bp (2008: +/-50bp)	0.9	-	0.1	-

#### *Inflation risk*

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

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

	2009	2008
	£m	£m
Index-linked debt	235.9	235.5

## Notes to the Group financial statements

For the year ended 31 March 2009

### 21. Financial instruments (continued)

#### *Inflation sensitivity*

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

The 2009 analysis below reflects a larger reasonably possible change in inflation than in 2008, due to increased volatility in the financial markets.

	2009		2008	
	Income statement (before tax)	Equity	Income statement (before tax)	Equity
	+/- £m	+/- £m	+/- £m	+/- £m
UK Retail Prices Index +/- 1.00% (2008: +/- 0.50%)	2.4	-	1.2	-

#### *Foreign currency risk*

The Group's assets are principally sterling denominated; however, the Group has access to various international debt capital markets and raises foreign currency denominated debt. Where debt is denominated in a currency which is not sterling, the Group's policy is to swap 100% of the foreign currency denominated principal and interest cash flows into sterling through the use of cross-currency swaps. As a result, the Group has no exposure to movements in exchange rates.

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

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

	2009 \$m	2008 \$m
Loan to related party	181.0	-
Borrowings	(483.0)	(527.0)
Gross exposure	(302.0)	(527.0)
Effect of cross-currency swaps	302.0	527.0
Net exposure	-	-

As set out in note 6 there is a nil net effect in the income statement.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 21. Financial instruments (continued)

#### Foreign currency sensitivity

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

	2009		2008	
	Income statement (before tax) £m	Equity £m	Income statement (before tax) £m	Equity £m
10% increase in exchange rates	-	(7.5)	-	(4.0)
10% decrease in exchange rates	-	9.2	-	4.9

#### Price risk

The Group's exposure to price risk is minimal.

#### Credit risk

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

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

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

	2009 £m	2008 £m
Cash and short-term deposits	13.0	39.4
Deposits	-	40.0
Trade receivables	66.8	79.0
Loan to related party	126.2	-
Other receivables	2.8	2.7
Available for sale financial assets	0.1	0.1
Derivative financial instruments	74.2	12.1
	<b>283.1</b>	173.3

The table above does not take into account collateral held in relation to trade receivables in the form of cash £1.3m (2008: £1.3m), letters of credit £22.5m (2008: £22.6m), and parent company guarantees £8.1m (2008: £10.3m).

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

## Notes to the Group financial statements

For the year ended 31 March 2009

### 21. Financial instruments (continued)

#### Liquidity risk

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

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

On a day-to-day basis, WPD South West provides liquidity to the WPD Group. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2009, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £150.0m maturing October 2009; at 31 March 2009, it had drawn £70.0m against these facilities and thus had £80.0m undrawn. In addition, it had uncommitted facilities of £65.0m of which £56.6m was undrawn at 31 March 2009. Subsequent to the year end, WPD South West replaced its £150m committed borrowing facility expiring October 2009 with a £210m committed borrowing facility expiring July 2012.

In addition, at 31 March 2009 the Western Power Distribution Holdings Limited ("WPDHL") has a £150m committed borrowing facility that expires in January 2013 of which all conditions precedent had been met at that date; at 31 March 2009, it had drawn £145.0m against these facilities and thus had £5m undrawn. Of the £145m drawdown, £125m was utilised to fund a credit facility granted to a US based fellow subsidiary of PPL; this expires on 31 March 2010 and any drawdown can be for a maximum of six months.

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

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

<b>2009</b>	<b>Less than one year £m</b>	<b>One to five years £m</b>	<b>Five to fifteen years £m</b>	<b>Greater than fifteen years £m</b>	<b>Total £m</b>
Borrowings	296.7	293.3	720.3	1,887.5	3,197.8
Trade and other payables	85.3	-	-	-	85.3
<b>Total</b>	<b>382.0</b>	<b>293.3</b>	<b>720.3</b>	<b>1,887.5</b>	<b>3,283.1</b>

  

<b>2008</b>	<b>Less than one year £m</b>	<b>One to five years £m</b>	<b>Five to fifteen years £m</b>	<b>Greater than fifteen years £m</b>	<b>Total £m</b>
Borrowings	189.0	273.2	694.9	2,388.4	3,545.5
Trade and other payables	96.5	-	-	-	96.5
<b>Total</b>	<b>285.5</b>	<b>273.2</b>	<b>694.9</b>	<b>2,388.4</b>	<b>3,642.0</b>

## Notes to the Group financial statements

For the year ended 31 March 2009

### 21. Financial instruments (continued)

#### Liquidity risk (continued)

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

2009	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments	13.9	69.3	164.9	158.0	406.1
Cross currency derivative receipts	(15.5)	(77.3)	(189.0)	(182.6)	(464.4)
<b>Total</b>	<b>(1.6)</b>	<b>(8.0)</b>	<b>(24.1)</b>	<b>(24.6)</b>	<b>(58.3)</b>

  

2008	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments	159.2	69.3	169.7	167.1	565.3
Cross currency derivative receipts	(131.7)	(55.7)	(139.9)	(139.1)	(466.4)
<b>Total</b>	<b>27.5</b>	<b>13.6</b>	<b>29.8</b>	<b>28.0</b>	<b>98.9</b>

#### Capital risk management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2009 and 31 March 2008.

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

	2009 £m	2008 £m
Borrowings	1,309.7	1,139.8
Cross currency swaps	(60.8)	54.1
Less cash and cash equivalents	(13.0)	(39.4)
Less deposits	-	(40.0)
<b>Net debt</b>	<b>1,235.9</b>	<b>1,114.5</b>
<b>Regulatory Asset Value</b>	<b>1,656.3</b>	<b>1,590.7</b>
<b>Gearing ratio</b>	<b>75%</b>	<b>70%</b>

## Notes to the Group financial statements

For the year ended 31 March 2009

### 22. Derivative financial instruments

The fair value of derivative financial instruments at 31 March is set out below.

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Cross-currency swaps - cash flow hedge						
Current	4.6	(0.7)	3.9	6.2	(22.1)	(15.9)
Non-current	69.6	(12.7)	56.9	5.9	(44.1)	(38.2)
	<b>74.2</b>	<b>(13.4)</b>	<b>60.8</b>	12.1	(66.2)	(54.1)

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

At 31 March 2009, the Group had outstanding cross currency swap agreements in cash flow hedges against borrowings with a total principal amount of \$302.0m (2008: \$527.0m) and a swapped notional principal of £181.9m (2008: £317.9m). The hedges were assessed to be highly effective. The cross currency swaps have a remaining term ranging from 8 to 19 years (2008: 8 months to 20 years) to match the underlying hedged borrowings consisting of semi-annual interest payments and the repayment of principal amounts. Under the swaps the Group receives US dollar interest at an average fixed rate of 7.3% (2008: 7.0%) and pays sterling interest at an average fixed rate of 7.6% (2008: 7.3%).

Forward currency contracts have been designated as cash flow hedges against currency cash flows associated with the forecast invoice cash flows arising on certain US dollar denominated supplies. At 31 March 2009, the Group had no outstanding forward currency contracts for purchases of currency (in 2008 the Group had forward currency contracts with a total notional principal of £0.2m).

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

### 23. Deferred tax

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

	Accelerated capital allowances £m	Retirement benefit obligations £m	Chargeable gains on sale of assets £m	Other £m	Total £m
At 31 March 2007	330.2	(48.2)	38.8	2.0	322.8
(Credit)/charge to the income statement	(20.7)	22.6	(2.6)	(2.3)	(3.0)
Charge to equity	-	0.3	-	5.5	5.8
At 31 March 2008	309.5	(25.3)	36.2	5.2	325.6
Charge/(credit) to the income statement	5.6	16.9	(7.0)	(1.4)	14.1
(Credit)/charge to equity	-	(83.8)	-	8.6	(75.2)
<b>At 31 March 2009</b>	<b>315.1</b>	<b>(92.2)</b>	<b>29.2</b>	<b>12.4</b>	<b>264.5</b>

## Notes to the Group financial statements

For the year ended 31 March 2009

### 23. Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>2009</b>	2008
	<b>£m</b>	£m
Deferred tax liabilities	<b>368.0</b>	361.7
Deferred tax assets	<b>(103.5)</b>	(36.1)
Net deferred tax liabilities	<b>264.5</b>	325.6

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £2.7m (2008: £2.6m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The net deferred tax liability due after more than one year is £273.4m (2008: £337.7m).

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the deferred tax benefit through future taxable profits is probable. The Group has no trading loss carry-forwards. The Group did not recognise deferred income tax assets of £80.1m (2008: £79.5m) in respect of capital losses amounting to £286.0m (2008: £283.9m) that can be carried forward against future taxable chargeable gains.

Deferred income tax (charged)/credited directly to equity during the year is as follows:

	<b>2009</b>	2008
	<b>£m</b>	£m
Cash flow hedge reserve	<b>(8.6)</b>	(5.5)
Retirement benefit obligations	<b>83.8</b>	(0.3)
	<b>75.2</b>	(5.8)

### 24. Retirement benefit obligations

#### *Introduction*

The Group operates three defined benefit schemes, the Western Power Distribution Group segment of the Electricity Supply Pension Scheme ("ESPS"), the Western Power Utilities Pension Scheme ("WPUPS"), and the Infralec 1992 Pension Scheme ("Infralec 92"). The assets of all three schemes are held separately from those of the Group in trustee administered funds.

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity supply industry. On 1 April 2002, the separate funds for both WPD South West and WPD South Wales were merged to form the Western Power Distribution Group segment of the ESPS.

WPD South Wales is the principal employer for the WPUPS, which is a defined benefit scheme providing benefits based on final pensionable pay relating to previous employees of various Hyder group companies and was transferred from Hyder in April 2002. However, Western Power Distribution Holdings Limited has taken financial responsibility for this scheme. Hyder was acquired by an affiliate of Western Power Distribution Holdings Limited and previously owned WPD South Wales.

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

WPUPS and Infralec 92 are closed to active members.

The Group also has an unfunded obligation which relates to previous executives of Hyder.

The Group also operates a defined contribution scheme. There are no active members and thus no charge has been made. The market value of assets at 31 March 2009 is £1.1m (2008: £1.4m).

## Notes to the Group financial statements

For the year ended 31 March 2009

### 24. Retirement benefit obligations (continued)

#### Defined benefit plans

The principal assumptions made by the actuary were:

	2009			2008		
	ESPS %	WPUPS %	Infralec 92 %	ESPS %	WPUPS %	Infralec 92 %
Inflation	2.75	2.75	2.75	3.30	3.30	3.30
Rate of general long-term increase in salaries	4.00	Not applicable		4.55	Not applicable	
Rate of increase to pensions in payment	2.80	2.80	2.80	3.30	3.30	3.30
Discount rate for scheme liabilities	7.00	7.00	7.00	6.90	6.90	6.90

The assumptions relating to longevity underlying the pension liabilities at 31 March 2009 are based on standard actuarial mortality tables as follows:

#### ESPS

The mortality assumptions are based on the recent actual mortality experience of members within the scheme and also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 25.7 years if they are male and for a further 28.2 years if they are female. For a member who retires in 2029 at age 60 the assumptions are that they will live on average for a further 27.0 years after retirement if they are male and for a further 29.2 years after retirement if they are female.

#### WPUPS

The mortality assumptions are based on the recent actual mortality experience of members within the scheme and also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 24.7 years if they are male and for a further 27.2 years if they are female. For a member who retires in 2029 at age 60 the assumptions are that they will live on average for a further 26.0 years after retirement if they are male and for a further 28.3 years after retirement if they are female.

#### Infralec 92

The mortality assumptions are based on the recent actual mortality experience of members of the ESPS scheme as set out above as the Infralec 1992 scheme is not large enough for a credible mortality analysis to be carried out.

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

	2009				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Present value of obligations	1,167.7	309.0	7.5	3.0	1,487.2
Fair value of plan assets	(896.4)	(255.6)	(5.8)	-	(1,157.8)
Liability recognised in the balance sheet	271.3	53.4	1.7	3.0	329.4

  

	2008				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Present value of obligations	1,251.9	327.6	8.0	3.1	1,590.6
Fair value of plan assets	(1,180.1)	(312.6)	(7.6)	-	(1,500.3)
Liability recognised in the balance sheet	71.8	15.0	0.4	3.1	90.3

## Notes to the Group financial statements

For the year ended 31 March 2009

### 24. Retirement benefit obligations (continued)

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

	2009			2008		
	ESPS %	WPUPS %	Infralec 92 %	ESPS %	WPUPS %	Infralec 92 %
Equities	9.0	9.0	9.0	9.0	9.0	9.0
Property	8.0	n/a	n/a	8.0	n/a	n/a
Government bonds	4.25	4.25	4.25	4.5	4.5	4.5
Corporate bonds	8.0	8.0	8.0	6.9	n/a	6.9
Other	2.0	2.0	2.0	6.0	6.0	6.0
Average expected long-term rate of return	7.9	6.8	7.8	7.8	7.3	7.8

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

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

	2009			2008		
	ESPS %	WPUPS %	Infralec 92 %	ESPS %	WPUPS %	Infralec 92 %
Equities	58	48	66	64	62	70
Property	6	-	-	3	-	-
Government bonds	19	43	17	20	35	23
Corporate bonds	17	8	13	11	-	2
Other	-	1	4	2	3	5

The amounts charged to profit before interest and taxation are as follows:

	2009				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Current service cost	7.6	-	-	-	7.6
Past service cost	-	-	-	-	-
Curtailement gain	(1.0)	-	-	-	(1.0)
Settlement cost	2.0	-	-	-	2.0
	8.6	-	-	-	8.6
Less amount capitalised as part of property, plant & equipment	(4.6)	-	-	-	(4.6)
Total operating charge	4.0	-	-	-	4.0

  

	2008				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Current service cost	11.3	-	-	-	11.3
Past service cost	2.2	-	-	-	2.2
Curtailement gain	(1.4)	-	-	-	(1.4)
	12.1	-	-	-	12.1
Less amount capitalised as part of property, plant & equipment	(6.8)	-	-	-	(6.8)
Total operating charge	5.3	-	-	-	5.3

## Notes to the Group financial statements

For the year ended 31 March 2009

### 24. Retirement benefit obligations (continued)

The total operating charge is included in operating costs in the income statement.

The amounts credited/(charged) to finance income and costs are as follows:

	2009				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Expected return on plan assets	88.4	21.8	0.6	-	110.8
Interest cost	(83.4)	(22.0)	(0.5)	-	(105.9)
	5.0	(0.2)	0.1	-	4.9

  

	2008				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Expected return on plan assets	98.0	25.3	0.6	-	123.9
Interest cost	(72.8)	(19.3)	(0.5)	-	(92.6)
	25.2	6.0	0.1	-	31.3

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

	2009				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Defined benefit obligation at 1 April 2008	1,251.9	327.6	8.0	3.1	1,590.6
Current service cost	7.6	-	-	-	7.6
Interest cost	83.4	22.0	0.5	-	105.9
Past service cost	-	-	-	-	-
Employees' contribution	3.7	-	-	-	3.7
Net benefits paid out	(77.0)	(18.2)	(0.5)	(0.1)	(95.8)
Curtailments (relates to transfer of employees to a third party)	(1.0)	-	-	-	(1.0)
Settlements (relates to transfer of employees to a third party)	(13.0)	-	-	-	(13.0)
Actuarial gains on scheme liabilities	(87.9)	(22.4)	(0.5)	-	(110.8)
Defined benefit obligation at 31 March 2009	1,167.7	309.0	7.5	3.0	1,487.2

  

	2008				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Defined benefit obligation at 1 April 2007	1,387.3	365.2	9.1	3.4	1,765.0
Current service cost	11.3	-	-	-	11.3
Interest cost	72.8	19.3	0.5	-	92.6
Past service cost	2.2	-	-	-	2.2
Employees' contribution	3.6	-	-	-	3.6
Net benefits paid out	(77.1)	(17.3)	(0.3)	(0.3)	(95.0)
Curtailments (relates to transfer of employees to a third party)	(1.4)	-	-	-	(1.4)
Settlements (relates to transfer of employees to a third party)	(10.7)	-	-	-	(10.7)
Actuarial gains on scheme liabilities	(136.1)	(39.6)	(1.3)	-	(177.0)
Defined benefit obligation at 31 March 2008	1,251.9	327.6	8.0	3.1	1,590.6

## Notes to the Group financial statements

For the year ended 31 March 2009

### 24. Retirement benefit obligations (continued)

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

	2009				Total £m
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Fair value of scheme assets at 1 April 2008	1,180.1	312.6	7.6	-	1,500.3
Expected return on assets	88.4	21.8	0.6	-	110.8
Contributions - employer	52.7	10.5	0.3	-	63.5
Contributions - employees	3.7	-	-	-	3.7
Net benefits paid out	(77.0)	(18.2)	(0.5)	-	(95.7)
Settlements	(15.0)	-	-	-	(15.0)
Actuarial losses on scheme assets	(336.5)	(71.1)	(2.2)	-	(409.8)
Fair value of scheme assets at 31 March 2009	896.4	255.6	5.8	-	1,157.8

	2008				Total £m
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Fair value of scheme assets at 1 April 2007	1,264.1	332.4	7.7	-	1,604.2
Expected return on assets	98.0	25.3	0.6	-	123.9
Contributions - employer	39.9	2.9	0.3	-	43.1
Contributions - employees	3.6	-	-	-	3.6
Net benefits paid out	(77.1)	(17.3)	(0.3)	-	(94.7)
Settlements	(10.7)	-	-	-	(10.7)
Actuarial losses on scheme assets	(137.7)	(30.7)	(0.7)	-	(169.1)
Fair value of scheme assets at 31 March 2008	1,180.1	312.6	7.6	-	1,500.3

Actual returns on scheme assets are:

	2009				Total £m
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Expected return on scheme assets	88.4	21.8	0.6	-	110.8
Actuarial losses on scheme assets	(336.5)	(71.1)	(2.2)	-	(409.8)
Actual return on scheme assets	(248.1)	(49.3)	(1.6)	-	(299.0)
	2008				Total £m
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Expected return on scheme assets	98.0	25.3	0.6	-	123.9
Actuarial losses on scheme assets	(137.7)	(30.7)	(0.7)	-	(169.1)
Actual return on scheme assets	(39.7)	(5.4)	(0.1)	-	(45.2)

## Notes to the Group financial statements

For the year ended 31 March 2009

### 24. Retirement benefit obligations (continued)

#### Cumulative actuarial gains and losses recognised in equity

	2009				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Cumulative actuarial gains at 1 April 2008	144.4	13.4	1.0	-	158.8
Net actuarial losses recognised in the year	(248.6)	(48.7)	(1.7)	-	(299.0)
Cumulative actuarial losses at 31 March 2009	(104.2)	(35.3)	(0.7)	-	(140.2)

	2008				
	ESPS £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Cumulative actuarial gains at 1 April 2007	146.0	4.5	0.4	-	150.9
Net actuarial (losses)/gains recognised in the year	(1.6)	8.9	0.6	-	7.9
Cumulative actuarial gains at 31 March 2008	144.4	13.4	1.0	-	158.8

#### History of experience gains and losses

ESPS	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	1,167.7	1,251.9	1,387.3	1,334.1
Fair value of scheme assets	(896.4)	(1,180.1)	(1,264.1)	(1,202.5)
Deficit in the scheme	271.3	71.8	123.2	131.6
Experience adjustments arising on plan liabilities *	(6.4)	(14.4)	(26.5)	0.2
Experience adjustments arising on plan assets	(336.5)	(137.7)	(0.1)	160.8
<b>WPUPS</b>	<b>2009</b>	2008	2007	2006
	<b>£m</b>	£m	£m	£m
Present value of defined benefit obligations	309.0	327.6	365.2	361.5
Fair value of scheme assets	(255.6)	(312.6)	(332.4)	(326.5)
Deficit in the scheme	53.4	15.0	32.8	35.0
Experience adjustments arising on plan liabilities *	(1.5)	(5.8)	4.1	-
Experience adjustments arising on plan assets	(71.1)	(30.7)	(9.0)	47.2

## Notes to the Group financial statements

For the year ended 31 March 2009

### 24. Retirement benefit obligations (continued)

Infralec 92	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	7.5	8.0	9.1	8.8
Fair value of scheme assets	(5.8)	(7.6)	(7.7)	(7.4)
Deficit in the scheme	1.7	0.4	1.4	1.4
Experience adjustments arising on plan liabilities *	-	0.1	(0.3)	-
Experience adjustments arising on plan assets	(2.2)	(0.7)	(0.2)	1.0

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

The directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken to equity in the Group is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the consolidated statement of income and expense before 1 April 2004.

The contributions expected to be paid to the schemes during the financial year ending 31 March 2010 amount to £53.1m, £1.6m, and £0.6m for the ESPS, WPUPS and Infralec 92 respectively.

### 25. Provisions

	Insurance (i) £m	Share appreciation rights ("SARs") (ii) £m	Pensions (iii) £m	Other (iv) £m	Total £m
At 1 April 2008	8.3	2.8	1.2	2.2	14.5
Charged to income statement:					
Additional provisions	1.4	-	-	-	1.4
Unused amounts reversed	-	(0.8)	(0.2)	(0.1)	(1.1)
Utilised during year	(2.8)	(1.2)	(0.2)	(0.3)	(4.5)
At 31 March 2009	6.9	0.8	0.8	1.8	10.3

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

#### At 31 March 2009

Current	0.6	-	0.2	0.2	1.0
Non-current	6.3	0.8	0.6	1.6	9.3
	6.9	0.8	0.8	1.8	10.3

#### At 31 March 2008

Current	0.8	0.2	0.2	0.3	1.5
Non-current	7.5	2.6	1.0	1.9	13.0
	8.3	2.8	1.2	2.2	14.5

## Notes to the Group financial statements

For the year ended 31 March 2009

### 25. Provisions (continued)

(i) Insurance provisions relate to claims covered by the Group's wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey. This includes third party motor claims, employers' liability, public and product liability, and professional indemnity and includes claims that are reported but not yet paid and anticipated cost of claims incurred but not yet reported.

(ii) The share appreciation right provision relates to an estimate of the Group's liability in respect of cash settled phantom stock options issued to directors and senior employees. The option price is set at the quoted share price of the WPD Group's parent in the US, PPL Corporation, at the date the phantom options are granted. The options may be exercised during fixed periods and require the Group to pay the intrinsic value to the director or employee at the date of exercise. The liability is determined by using the Black-Scholes option-pricing model using the assumptions in Note 7. The directors expect the provision to be settled in the next 13 years.

(iii) Pension provisions relate to expected settlements of liabilities to the Electricity Association Limited ("EA") and Electricity Association Technology Limited ("EATL"). Liabilities in respect of the EA and EATL are being settled over a period of approximately 1 and 8 years, respectively.

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

### 26. Share capital

<b>Authorised</b>	<b>2009</b>		<b>2008</b>	
	<b>Shares</b>		<b>Shares</b>	
A ordinary shares of £1 each	<b>87,317,848</b>		87,317,848	
B ordinary shares of £0.00001 each	<b>10,000,000</b>		10,000,000	
C ordinary shares of £1 each	<b>12,682,052</b>		12,682,052	
<b>Issued and fully paid</b>	<b>2009</b>	<b>£m</b>	<b>2008</b>	<b>£m</b>
	<b>Shares</b>	<b>£m</b>	<b>Shares</b>	<b>£m</b>
A ordinary shares of £1 each	<b>16,347,387</b>	<b>16.3</b>	16,347,387	16.3
B ordinary shares of £0.00001 each	<b>10,000,000</b>	-	10,000,000	-
C ordinary shares of £1 each	<b>12,682,052</b>	<b>12.7</b>	12,682,052	12.7
		<b>29.0</b>		29.0

The A shares and the C shares entitle the holders thereof to one vote per A or C share held (as appropriate). The B shares entitle the holders thereof to receive notice of, and to attend and speak, but not to vote at, general meetings of the Company. The A and C shares entitle the holders thereof to share in the profits of the Company available for distribution other than on a winding-up or liquidation of the Company. Other than on a winding-up or liquidation of the Company, the B shares do not entitle the holders thereof to share in the profits of the Company available for distribution. A resolution of the shareholders of the Company shall require the consent of the holders of the majority of the A shares and the holders of the majority of the C shares, in addition to any other requirements for the passing of that resolution which may be specified by law.

## Notes to the Group financial statements

For the year ended 31 March 2009

### 27. Capital and reserves

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Retained (deficit)/ earnings £m	Total equity £m
At 31 March 2007	29.0	45.9	328.3	(2.2)	(161.6)	239.4
Retirement benefit schemes:						
- Actuarial gain (note 24)	-	-	-	-	7.9	7.9
- Tax on actuarial gain	-	-	-	-	(2.4)	(2.4)
- Effect of change of UK corporation tax rate	-	-	-	-	2.1	2.1
					<u>7.6</u>	
Cash flow hedges:						
- Fair value gains in year	-	-	-	7.6	-	7.6
- Tax on fair value gains	-	-	-	(2.3)	-	(2.3)
- Transfers to finance costs	-	-	-	11.6	-	11.6
- Tax on transfers to finance costs	-	-	-	(3.5)	-	(3.5)
- Effect of change of UK corporation tax rate	-	-	-	0.3	-	0.3
				<u>13.7</u>		
Profit for the year	-	-	-	-	185.8	185.8
Dividends	-	-	-	-	(30.0)	(30.0)
At 31 March 2008	29.0	45.9	328.3	11.5	1.8	416.5
Retirement benefit schemes:						
- Actuarial loss (note 24)	-	-	-	-	(299.0)	(299.0)
- Tax on actuarial loss	-	-	-	-	83.8	83.8
					<u>(215.2)</u>	
Cash flow hedges:						
- Fair value gains in year	-	-	-	123.5	-	123.5
- Tax on fair value gains	-	-	-	(34.6)	-	(34.6)
- Transfers to finance costs	-	-	-	(92.7)	-	(92.7)
- Tax on transfers to finance costs	-	-	-	26.0	-	26.0
				<u>22.2</u>		
Profit for the year	-	-	-	-	148.6	148.6
Dividends	-	-	-	-	(18.8)	(18.8)
<b>At 31 March 2009</b>	<b>29.0</b>	<b>45.9</b>	<b>328.3</b>	<b>33.7</b>	<b>(83.6)</b>	<b>353.3</b>

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

The **share premium** account represents the difference between the issue price and the nominal value of shares issued.

The **merger reserve** arose on a Group restructuring that occurred in September 2001 and represents the difference between the nominal value of shares in the new parent company, Western Power Distribution Holdings Limited, and the share capital and share premium of the prior parent company, WPD Holdings UK.

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

## Notes to the Group financial statements

For the year ended 31 March 2009

<b>28. Cash flow from operating activities</b>	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
<b>Continuing operations</b>		
Profit for the year after tax	<b>148.6</b>	185.8
Adjustments for:		
Income tax expense	<b>38.5</b>	37.2
Finance costs	<b>173.5</b>	175.4
Finance income	<b>(118.6)</b>	(134.4)
Depreciation	<b>71.8</b>	70.0
Amortisation	<b>0.4</b>	0.4
Profit on disposal of property, plant and equipment	<b>(0.3)</b>	(2.0)
Profit on disposal of investment properties	-	(0.2)
Profit on disposal of intangibles	-	(0.1)
Fair value losses/(gains) on investment properties	<b>10.6</b>	(0.3)
Changes in working capital:		
Increase in inventories	-	(1.1)
Decrease/(increase) in trade and other receivables	<b>11.3</b>	(3.6)
Increase in trade and other payables	<b>35.9</b>	50.8
Decrease in provisions	<b>(4.2)</b>	(0.3)
Pension service charges less contributions paid	<b>(55.0)</b>	(31.2)
Cash generated from operations	<b>312.5</b>	346.4

## 29. Contingent liabilities

### *Legal proceedings*

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

## 30. Commitments

### *Capital commitments*

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

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Property, plant and equipment	<b>4.3</b>	6.4

### *Operating lease commitments - Group as lessee*

The Group leases various properties under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewable rights. The Group also leases plant and machinery under non-cancellable operating leases.

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

	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Within one year	<b>2.1</b>	2.2
In the second to fifth years inclusive	<b>5.5</b>	6.6
After five years	<b>2.7</b>	3.0
	<b>10.3</b>	11.8

## Notes to the Group financial statements

For the year ended 31 March 2009

### 30. Commitments (continued)

#### *Operating lease commitments - Group as lessor*

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

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

	<b>2009</b>	2008
	<b>£m</b>	£m
Within one year	<b>9.4</b>	11.0
In the second to fifth years inclusive	<b>18.0</b>	23.0
After five years	<b>22.8</b>	26.3
	<b>50.2</b>	60.3

#### *Guarantees and indemnities*

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

### 31. Related party transactions

The immediate parent undertaking of the Group is PPL UK Resources Limited, which is registered in England and Wales. The ultimate controlling party is PPL Corporation, registered in the US.

The Group did not provide or receive any significant related party services during 2009 and 2008. In 2009, WPD South West had borrowings of £4.3m (2008: £3.9m) on commercial terms from an affiliate owned indirectly by PPL Corporation.

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Group. Details of directors' compensation are set out in Note 8.

#### *Loan to related party*

In August 2008, Western Power Distribution Holdings Limited ("WPDHL") granted a credit facility to a US based fellow subsidiary of PPL Corporation; this expires on 31 March 2010 and any drawdown can be for a maximum of six months. The drawdown may be made in sterling or US dollars or Euros but is for a maximum of £125m at the date of drawdown. An initial drawdown matured in February 2009 and was replaced with a further drawdown of \$181m, which at the time equated to £125m. At 31 March 2009, the value outstanding was £126.2m as a result of exchange movements. This loan is funded by use of WPDHL's committed facilities; the funding is in whichever currency is drawn by the PPL subsidiary and thus there is no currency exposure to WPDHL.

The loan has the following terms and conditions:

<b><u>Name of parent undertaking</u></b>	<b><u>Amount of loan</u></b>	<b><u>Term</u></b>	<b><u>Interest rate</u></b>
PMDC International Holdings, Inc ("PMDC")	\$181m	Repayable on 5 August 2009	2.43%

WPDHL can call-in the loan should there be a material need. In addition, the ultimate group holding company, PPL Corporation, an investment rated entity, has guaranteed the obligations under the loan agreement.

## **Statement of directors' responsibilities**

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

Company law requires the directors to prepare Company financial statements for each financial year. Under that law the directors have elected to prepare Company financial statements in accordance with UK Accounting Standards.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

# Financial Statements of Western Power Distribution Holdings Limited

## Parent Company audit opinion

### Independent auditors' report

#### to the members of Western Power Distribution Holdings Limited

We have audited the parent company financial statements of Western Power Distribution Holdings Limited for the year ended 31 March 2009 which comprise the balance sheet and the related notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Western Power Distribution Holdings Limited for the year ended 31 March 2009. This report is set out on page 15.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

#### Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

#### Ernst & Young LLP

Registered Auditor, Bristol

September 2009

## Company balance sheet

31 March 2009

	Note	2009 £m	2008 £m
<b>Fixed assets</b>			
Investment in subsidiary undertakings	2	753.8	778.7
<b>Current assets</b>			
Derivative financial instruments:			
Due within one year	5	4.6	6.2
Due in greater than one year	5	69.6	-
Debtors	3	235.2	134.9
		<b>309.4</b>	141.1
Creditors - amounts falling due within one year	4	(512.8)	(466.9)
Derivative financial instruments	5	-	(21.0)
		<b>(203.4)</b>	(346.8)
<b>Total assets less current liabilities</b>			
		<b>550.4</b>	431.9
Creditors - Amounts falling due after more than one year	4	(243.3)	(174.2)
Derivative financial instruments	5	-	(44.1)
Provisions for liabilities and charges	6	(69.5)	(20.6)
<b>Net assets</b>		<b>237.6</b>	193.0
<b>Capital and reserves</b>			
Called up share capital	8	29.0	29.0
Share premium	9	45.9	45.9
Hedging reserve	10	28.7	0.4
Profit and loss account	11	134.0	117.7
<b>Equity shareholders' funds</b>		<b>237.6</b>	193.0

The financial statements of the Company on pages 64 to 74 were approved by the Board of Directors on 22 September 2009 and signed on its behalf by:

R A Symons  
Chief Executive

D C S Oosthuizen  
Finance Director

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

## Notes to the Company financial statements

For the year ended 31 March 2009

### 1. Accounting policies

#### Accounting basis

The financial statements are prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, and in accordance with applicable United Kingdom accounting standards ("UK GAAP").

As permitted by Section 230(3) of the Companies Act 1985, the Company's profit and loss account has not been presented.

The Western Power Distribution Holdings Limited consolidated financial statements for the year ended 31 March 2009 contain a consolidated statement of cash flows.

The Company has taken advantage of the exemptions in FRS 8, 'Related Party Disclosures' not to disclose transactions with other members of the Western Power Distribution Holdings Group.

#### New regulation applicable this year

There were no new accounting standards which had an impact on the Company.

#### Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

#### Investments

Fixed asset investments, which comprise investments in subsidiary undertakings, are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

#### Taxation

Full provision is made for deferred tax on all timing differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded more likely than not that there will be sufficient taxable profits from which the underlying timing differences can be deducted.

#### Pension reimbursement costs

The Company has taken full financial responsibility for the Western Power Utilities Pension Scheme ("WPUPS"), a UK self administered defined benefit scheme. WPD South Wales is the principal employer for WPUPS and the Company reimburses WPD South Wales for contributions it pays to WPUPS. The value of the reimbursement agreement is stated in the balance sheet under provisions and matches the deficit in the scheme recorded in WPD South Wales under FRS17. In accordance with FRS17, the cost of any benefits relating to past service is charged to the profit and loss account; there are no active members and thus no current service costs. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the WPD South Wales' long-term expected return on assets (based on the market value of the scheme assets at the start of the period) are included in the profit and loss account.

The difference between the market value of the assets in the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet. Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which arise from experience or assumption changes. Further information on pension arrangements is set out in note 13 on page 71.

## Notes to the Company financial statements

For the year ended 31 March 2009

### 1. Accounting policies (continued)

#### **Dividends**

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the Company's directors.

#### **Financial instruments**

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

##### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

##### *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

##### *Trade and other payables*

Trade and other payables are not interest bearing and are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

##### *Share capital*

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

#### **Accounting for derivative financial instruments**

The Company uses derivative financial instruments, such as interest rate swaps and cross currency swaps, to hedge risks associated with interest rate and foreign currency fluctuations. Such derivatives instruments are recognised on the balance sheet at fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the risk being hedged.

Hedges are classified as cash flow hedges, where they hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset, liability or forecasted transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the same period that the hedged item is recognised in the profit and loss account.

## Notes to the Company financial statements

For the year ended 31 March 2009

### 2. Fixed asset investments

	2009 £m	2008 £m
<b>Cost/nominal value of shares issued</b>		
At 1 April	778.7	778.7
Allocation of profit *	4.9	31.6
Drawings *	(4.9)	(31.6)
Disposals **	(24.9)	-
At 31 March	753.8	778.7
<b>Amounts written off</b>		
At 1 April 2008 and 31 March 2009	-	-
<b>Net book value</b>	<b>753.8</b>	<b>778.7</b>

\* Partnership interest in Western Power Distribution LLP.

\*\* In March 2009 the Company transferred its holding in a dormant subsidiary, WPD Holdings UK, to an indirect subsidiary, WPD South West, for consideration of £110.8m realising a profit of £85.9m. WPD Holdings UK was subsequently liquidated.

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

Subsidiary undertakings	Principal activity	Proportion %
Western Power Distribution LLP	Investment partnership	100
WPD 1957 Limited	Investment company	100
WPD 1975 Limited	Investment company	100
WPDH Limited	Investment company	100
SIUK Limited	Investment company	100
SIUK Finance	Investment company	100
SIUK Investments	Investment company	100
WPD Finance Limited	Investment company	100
Western Power Distribution Investments Limited	Investment company	100
Western Power Distribution (South West) plc	Electricity distribution	100
Western Power Distribution (South Wales) plc	Electricity distribution	100
Surf Telecoms Limited	Telecommunications	100
Western Power Generation Limited	Power generation	100
WPD Property Investments Limited	Property management	100
WPD Property Limited	Property management	100
Kelston Properties Limited	Property management	100
Kelston Properties 2 Limited	Property management	100
WPD Property Developments Limited	Property development	100
Aztec Insurance Limited ^	Insurance	100
South Western Helicopters Limited	Helicopter operator	100

^ Incorporated in Guernsey.

All undertakings are registered in England and Wales unless stated.

With the exception of Western Power Distribution LLP, all holdings are in ordinary shares. Ownership of Western Power Distribution LLP is subject to a partnership agreement.

Except for Western Power Distribution LLP, WPD 1957 Limited, WPD 1975 Limited and WPD Finance Limited, all shares are held by subsidiary undertakings.

## Notes to the Company financial statements

For the year ended 31 March 2009

### 3. Debtors

	2009 £m	2008 £m
<b>Amounts falling due within one year:</b>		
Loan to related party (note 14)	126.2	-
Amounts owed by Group undertakings	16.4	34.4
Group relief receivable	61.4	65.3
Other debtors	0.6	-
Prepayments and accrued income	0.3	0.6
Dividends due from Group undertakings	30.3	34.6
	<b>235.2</b>	<b>134.9</b>

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

### 4. Creditors

	2009 £m	2008 £m
<b>Amounts falling due within one year:</b>		
Bank loans	146.2	-
\$225m 6.500% unsecured bonds 2008	-	114.1
Amounts owed to Group undertakings	358.7	344.2
Accruals and deferred income	7.9	8.6
	<b>512.8</b>	<b>466.9</b>
<b>Amounts falling due after more than one year:</b>		
\$100m 7.250% unsecured bonds 2017	72.0	52.8
\$255m 7.375% unsecured bonds 2028	171.3	121.4
	<b>243.3</b>	<b>174.2</b>

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

At 31 March 2009, the Company had available £5.0m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

## Notes to the Company financial statements

For the year ended 31 March 2009

### 5. Derivative financial instruments

The Company's derivative financial instruments are consolidated with those of the Group and are incorporated in the disclosure in Note 22 of the Group financial statements.

### 6. Provisions for liabilities and charges

	Deferred tax (Note 7) £m	Reimbursement agreement re Western Power Utilities Pension Scheme ("WPUPS") (Note 13) £m	Total £m
At 1 April 2008	5.6	15.0	20.6
Arising during the year	10.5	48.9	59.4
Utilised	-	(10.5)	(10.5)
<b>At 31 March 2009</b>	<b>16.1</b>	<b>53.4</b>	<b>69.5</b>

The directors expect £1.6m of the WPUPS reimbursement provision to be settled within one year.

### 7. Deferred tax

	2009 £m	2008 £m
Other timing differences	16.1	5.6
<b>Total deferred tax liability</b>	<b>16.1</b>	<b>5.6</b>
At 1 April	5.6	0.2
Deferred tax credit in profit and loss account	(0.5)	(1.5)
Deferred tax charged to the statement of total recognised gains and losses (all in relation to hedging activities)	11.0	6.9
<b>At 31 March</b>	<b>16.1</b>	<b>5.6</b>

### 8. Called-up share capital

	2009 £m	2008 £m
<b>Authorised:</b>		
87,317,848 A ordinary shares of £1 each	87.3	87.3
10,000,000 B ordinary shares of £0.00001 each	-	-
12,682,052 C ordinary shares of £1 each	12.7	12.7
	<b>100.0</b>	<b>100.0</b>

## Notes to the Company financial statements

For the year ended 31 March 2009

### 8. Called-up share capital (continued)

	2009 £m	2008 £m
<b>Allotted, called-up, and fully paid:</b>		
16,347,387 A ordinary shares of £1 each	16.3	16.3
10,000,000 B ordinary shares of £0.00001 each	-	-
12,682,052 C ordinary shares of £1 each	12.7	12.7
	<b>29.0</b>	<b>29.0</b>

A description of the shares is given in Note 26 of the Group financial statements.

### 9. Share premium account

	£m
At 1 April 2008 and 31 March 2009	<b>45.9</b>

### 10. Hedging reserve

	£m
At 1 April 2008	0.4
Increase in fair value of hedging derivatives	102.0
Transfer to income	(73.7)
At 31 March 2009	<b>28.7</b>

### 11. Profit and loss account

	£m
At 1 April 2008	117.7
Retained profit for the year	65.0
Actuarial loss on WPUPS reimbursement agreement	(48.7)
At 31 March 2009	<b>134.0</b>

The profit and loss reserve includes £(53.4)m (2008: £(15.0)m), stated after deferred tax of £nil (2008: £nil), for reimbursement obligations in respect of net pension scheme liabilities of the WPUPS fund (see note 13).

## Notes to the Company financial statements

For the year ended 31 March 2009

### 12. Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit for the financial year	83.8	34.7
Dividends	(18.8)	(30.0)
Other recognised gains and losses relating to the year	(20.4)	25.1
Net change in shareholders' funds	44.6	29.8
Shareholders' funds at 1 April	193.0	163.2
Shareholders' funds at 31 March	237.6	193.0

### 13. Reimbursement agreement re Western Power Utilities Pension Scheme

The Company has taken full financial responsibility for the Western Power Utilities Pension Scheme ("WPUPS"), which is a defined benefit scheme providing benefits to previous employees of various Hyder group companies and was transferred from Hyder in April 2002. WPD South Wales is the principal employer for the WPUPS. The assets of the scheme are held separately from those of that company in trustee administered funds. The Company reimburses WPD South Wales for contributions it pays to WPUPS. The value of the reimbursement agreement is recorded in the balance sheet under provisions (note 6) and matches the deficit in the scheme recorded in WPD South Wales under FRS 17 as detailed below.

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

	2009	2008
Inflation	2.75%	3.3%
Rate of increase to pensions in payment	2.8%	3.3%
Discount rate for scheme liabilities	7.0%	6.9%

The mortality assumptions are based on the recent actual mortality experience of members within the scheme and also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 24.7 years if they are male and for a further 27.2 years if they are female. For a member who retires in 2029 at age 60 the assumptions are that they will live on average for a further 26.0 years after retirement if they are male and for a further 28.3 years after retirement if they are female.

In order to eliminate the funding deficit, WPD South Wales is paying contributions of £6.0m per annum from 1 April 2008 for 7 years, payable quarterly in arrears and increasing in line with the Retail Prices Index on an annual basis. This will be subject to review at the next formal actuarial review.

The amounts recognised in the balance sheet of WPD South Wales are as follows:

	2009 £m	2008 £m
Present value of obligations	309.0	327.6
Fair value of plan assets	(255.6)	(312.6)
Deficit in the scheme	53.4	15.0
Related deferred tax asset *	(15.0)	(4.2)
Net pension liability	38.4	10.8

## Notes to the Company financial statements

For the year ended 31 March 2009

### 13. Reimbursement agreement re Western Power Utilities Pension Scheme (continued)

\* WPD South Wales is principal employer to WPUPS and is entitled to claim tax relief on contributions to WPUPS. Consequently, no deferred tax asset is recorded in these Company financial statements.

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

	2009 %	2008 %
Equities	9.0	9.0
Government bonds	4.25	4.5
Corporate bonds	8.0	Not applicable
Other	2.0	6.0
Average expected long-term rate of return	6.8	7.3

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

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

	2009 %	2008 %
Equities	48	62
Government bonds	43	35
Corporate bonds	8	-
Other	1	3

#### Analysis of profit and loss (charge)/credit:

	2009 £m	2008 £m
Expected return on scheme assets	21.8	25.3
Interest on scheme liabilities	(22.0)	(19.3)
(Charge)/credit recognised in profit and loss	(0.2)	6.0

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

	2009 £m	2008 £m
Defined benefit obligation at 1 April	327.6	365.2
Interest cost	22.0	19.3
Net benefits paid out	(18.2)	(17.3)
Actuarial gains on scheme liabilities	(22.4)	(39.6)
Defined benefit obligation at 31 March	309.0	327.6

## Notes to the Company financial statements

For the year ended 31 March 2009

### 13. Reimbursement agreement re Western Power Utilities Pension Scheme (continued)

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

	2009 £m	2008 £m
Fair value of scheme assets at 1 April	312.6	332.4
Expected return on assets	21.8	25.3
Contributions - employer	10.5	2.9
Net benefits paid out	(18.2)	(17.3)
Actuarial losses on scheme assets	(71.1)	(30.7)
Fair value of scheme assets at 31 March	255.6	312.6

Actual return on scheme assets are:

	2009 £m	2008 £m
Expected return on scheme assets	21.8	25.3
Actuarial losses on scheme assets	(71.1)	(30.7)
Actual losses on scheme assets	(49.3)	(5.4)

Cumulative actuarial gains and losses recognised in equity:

	2009 £m	2008 £m
Cumulative actuarial gains at 1 April	13.4	4.5
Net actuarial (losses)/gains recognised in the year	(48.7)	8.9
Cumulative actuarial (losses)/gains at 31 March	(35.3)	13.4

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	309.0	327.6	365.2	361.5	351.9
Fair value of scheme assets	(255.6)	(312.6)	(332.4)	(326.5)	(270.9)
Deficit in the scheme	53.4	15.0	32.8	35.0	81.0
Experience (losses)/gains on scheme liabilities *:	(1.5)	(5.8)	4.1	-	(14.3)
Experience (losses)/gains on scheme assets:	(71.1)	(30.7)	(9.0)	47.2	11.6

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

The contributions expected to be paid to the scheme during the financial year ending 31 March 2010 amount to £1.6m. This is lower than scheduled as £4.5m due was prepaid in December 2008.

## Notes to the Company financial statements

For the year ended 31 March 2009

### 14. Related party transactions

The immediate parent undertaking of the Company is PPL UK Resources Limited, which is registered in England and Wales. The ultimate controlling party is PPL Corporation, registered in the US.

The Company did not provide or receive any significant related party services during 2009 and 2008.

#### *Loan to related party*

In August 2008, the Company granted a credit facility to a US based fellow subsidiary of PPL Corporation; this expires on 31 March 2010 and any drawdown can be for a maximum of six months. The drawdown may be made in sterling or US dollars or Euros but is for a maximum of £125m at the date of drawdown. An initial drawdown matured in February 2009 and was replaced with a further drawdown of \$181m, which at the time equated to £125m. At 31 March 2009, the value outstanding was £126.2m as a result of exchange movements. This loan is funded by use of the Company's committed facilities; the funding is in whichever currency is drawn by the PPL subsidiary and thus there is no currency exposure to WPDHL.

The loan has the following terms and conditions:

<u>Name of parent undertaking</u>	<u>Amount of loan</u>	<u>Term</u>	<u>Interest rate</u>
PMDC International Holdings, Inc ("PMDC")	\$181m	Repayable on 5 August 2009	2.43%

WPDHL can call-in the loan should there be a material need. In addition, the ultimate group holding company, PPL Corporation, an investment rated entity, has guaranteed the obligations of PMDC under the loan agreement.

#### ***Registered office:***

#### **Western Power Distribution Holdings Limited**

Avonbank  
Feeder Road  
Bristol BS2 0TB

Telephone : 0117 933 2000

Fax : 0117 933 2001

eMail: [info@westernpower.co.uk](mailto:info@westernpower.co.uk)

Registered number 4267536