

Registered Number: 2366894

WESTERN POWER DISTRIBUTION (SOUTH WEST) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

Western Power Distribution (South West) plc is an integral part of a larger UK group. The structure of the group is such that the financial statements of Western Power Distribution (South West) plc must be read in conjunction with the group financial statements of PPL WW Holdings Limited (previously known as Western Power Distribution Holdings Limited) to gain a full understanding of the group results for the year and the related cash flows, together with the financial position of the group as at 31 March.



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Directors' report

For the year ended 31 March 2011

The directors present their report and the audited financial statements of Western Power Distribution (South West) plc (the "Company" or "WPD South West"), company number 2366894, for the year ended 31 March 2011.

WPD South West, trading as Western Power Distribution, is an integral part of a larger UK group. The structure of the group is such that the financial statements of the Company must be read in conjunction with the group financial statements of PPL WW Holdings Limited (previously known as Western Power Distribution Holdings Limited) to gain a full understanding of the group results for the year and the related cash flows, together with the financial position of the group as at 31 March 2011.

Principal activity

The principal activity of the PPL WW Holdings Limited group ("WPD" or "Group") is the distribution of electricity across its networks in South West England and South Wales. The WPD Group is structured so as to minimise the costs of debt. Interest payments on the debt held by WPD Group companies other than WPD South West and Western Power Distribution (South Wales) plc ("WPD South Wales"), together with certain other items, are funded primarily through dividend payments from WPD South West and WPD South Wales. Dividends within the WPD Group are eliminated for reporting purposes with the exception of those declared in favour of the WPD Group's owners.

WPD South West's principal activity is the distribution of electricity within its authorised area covering South West England. The management of the WPD Group is involved in the management of the network in both South West England and South Wales, and where appropriate the South West and South Wales networks share engineering control and other systems.

On 1 April 2011 PPL WEM Holdings plc, an affiliate of PPL WW Holdings Limited, acquired Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) and Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), the parent of Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc). Like WPD South Wales and WPD South West, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc are regulated monopolies whose principal activity is to distribute electricity. They operate in the midlands region of England and have approximately 5.1m end users in total connected to their networks. Since acquisition, the management of the WPD Group has been involved in the management of the acquired networks and, where appropriate, these networks will share engineering and other systems with the WPD Group in future years. Other than the recharge of management time, the acquisition has no impact on the financial statements of the Company.

Ownership

WPD South West is an indirect, wholly-owned subsidiary of PPL WW Holdings Limited which is owned by PPL Corporation, an electricity utility of Allentown, Pennsylvania, United States of America ("US").

Business review

WPD South West is a monopoly regulated by licence and operates under a price control regime. WPD South West's distribution licence authorises it to distribute electricity in an area covering approximately 14,400 square kilometres, extending from Bristol and Bath in the northeast, southwest along the peninsula to Land's End and beyond to the Isles of Scilly. WPD South West's network comprises approximately 28,257 km of overhead lines and 21,926 km of underground cable providing an electricity supply to 1,541,188 end users.

The operations of WPD South West are regulated under its distribution licence under which income is generated subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The charges made for the use of the distribution network are regulated on the basis of the RPI plus/minus X formula where RPI is a measure of inflation and X is an efficiency factor established by the regulator following review. The regulator currently sets the distribution price control formula for five year periods.

Directors' report (continued)

For the year ended 31 March 2011

Business review (continued)

The electricity distribution price control review for the five year period which commenced on 1 April 2010 ("DPC5") was agreed with Ofgem in December 2009. Ofgem's proposal for DPC5 broadly focuses on environment, customers and networks and this fits closely with our own business strategy. WPD South West will be allowed to increase its prices by an average of 7.5% plus inflation in each of the five years of this period. In return for the revenue WPD South West will be allowed to earn in this period, Ofgem introduced from 1 April 2010 new obligations in areas such as connection performance together with incentives to innovate and reduce both the number of interruptions that our customers suffer and the average length of interruptions.

In March 2008, Ofgem launched a comprehensive review of the 20 year old framework of monopoly network regulation. They have proposed a new approach for sustainable network regulation, which will be delivered by the "RIIO" model where Revenue=Incentives+Innovation+Outputs. Under the RIIO model there will be a much greater emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers today and in the future. A key feature of the RIIO model is that the setting of outputs that network companies are expected to deliver will be much more extensive with the outputs embedded within the overall business plan and act as a "contract" between the network companies and their customers. WPD South West's next price review, starting in 2015, will embody these principles and we aim to continue to play a leading role in developing our output-based plans and the RIIO framework within which these plans will be assessed.

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. 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 DPC5 review process where WPD's strong performance within the sector was rewarded for both capital efficiency and service delivery. Following acceptance of the DPC5 final proposals, the focus has been on understanding the requirements of the package, communicating them to the relevant business owners, developing the business plan and ensuring implementation. There has also been a strong focus on communicating the outcome to customers via the press, media and a series of stakeholder workshops.

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 met all of Ofgem's national Customer Guarantee Service Standards including 37 new standards relating to connections performance which were introduced on 1 October 2010. We also exceeded all of our network performance 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.

Directors' report (continued)

For the year ended 31 March 2011

Business review (continued)

Safety

The safety of our staff, customers and members of the public continues to be a core value at the heart of all our business operations. We are committed to maintaining a practical and pragmatic safety culture from the "top down". WPD staff continue 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.

The number of lost time accidents to staff working in WPD South West was three in the financial year 2010/11. This compares with one reported last year and zero reported in 2008/9. The number of lost time accidents reported within the WPD Group unfortunately rose from three in 2009/10 to four in 2010/11 but non lost time accidents for the Group fell significantly from 51 in 2009/10 to 24 in 2010/11. This means that, in 2010/11, the WPD Group recorded a total of 28 accidents, which is a new record for the lowest number of accidents ever reported in a financial year.

In the autumn of 2010, the WPD Safety Team visited every depot and office location in WPD with a roadshow entitled "Safety Matters". Exhibits included the full range of WPD Personal Protective Equipment (PPE) available, display screen equipment aids, first aid kits, working at height equipment and display boards showing where to find safety information on WPD's computer system. A video was also produced which shows the causes of, and measures to prevent, accidents which most regularly injure WPD staff and contractors.

WPD runs an annual safety competition for staff in teams who achieve zero personal and zero vehicle/road traffic accidents. The cash prizes are split between the winning teams and a charity of their choice. 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 2010/11. WPD continues to work in a constructive, collaborative manner with the HSE and DECC. An example of this constructive relationship has been the continued involvement of WPD's Safety and Training Manager with the HSE in developing a new updated version of the HSE document GS6 - Avoidance of Danger from Overhead Lines.

During the year, the Safety Team have been working with WPD Team Managers to ensure that the same high standards of Safety Management are applied across the company. Half of the Team Managers have been seen, with the remainder of visits due in 2011/12.

During 2010/11, WPD's Safety Management System was audited for conformance with OHSAS 18001:2007 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.

Directors' report (continued)

For the year ended 31 March 2011

Business review (continued)

Network performance

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

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

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

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

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

	<u>Total</u>	<u>Target</u>
IIS Minutes lost per customer 2010/11	42.6	
Excluded events	-	
IIS Performance 2010/11	42.6	51.0
IIS Performance 2009/10	37.8	62.2
IIS Interruptions per 100 customers 2010/11	64.8	
Excluded events	(3.3)	
IIS Performance 2010/11	61.5	73.6
IIS Performance 2009/10	49.4	84.5

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD South West network including those caused by bad weather and other faults together with 50% of CI and CML due to pre-arranged shutdowns for maintenance and construction. The 11kV network is the principal driver of customer minutes lost, with faults on overhead lines being the major contributor. In addition to the performance reported under IIS above, 86% of customers off supply in the South West 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 Distribution Network Operator ("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. WPD South West reported one exceptional event to Ofgem during the year associated with damage incurred at a major substation site in Bristol. The exclusion of the CI and CML associated with these events is subject to Ofgem confirmation.

Directors' report (continued)

For the year ended 31 March 2011

Business review (continued)

Network performance (continued)

Subject to Ofgem confirmation, our IIS CML and CI of 42.6 customer minutes lost and 61.5 interruptions per 100 customers for the year are within our targets of 51.0 and 73.6 respectively. The outperformance relative to the new DPC5 targets set by Ofgem is particularly gratifying as the new targets broadly reflect DPC4 (2005-2010) performance and are therefore particularly tough for a DNO whose operational performance during this period is acknowledged by Ofgem as being a frontier performer.

Work by Ofgem prior to the start of DPC5 identified WPD as a frontier performer for network performance and we are pleased to be able to continue to demonstrate good restoration performance. 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 this five year price control 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 2011/12 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 139 new automation schemes were commissioned in WPD South West bringing the total number of schemes commissioned to date to 787. 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, the Gas and Electricity Consumer Council (known as "energywatch"), to review the matter. Until 30 September 2008, when energywatch was disbanded, energywatch had received no complaints in respect of WPD South West since January 2005. energywatch was replaced by The Energy Ombudsman ("Ombudsman") with effect from 1 October 2008. WPD South West has received no complaints from the Ombudsman in the period to 31 March 2011.

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 two years of operation of the statutory scheme.

During the year Ofgem made further awards under its Discretionary Reward Scheme which was introduced as part of the 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 fifth year, Ofgem made awards in two categories. WPD were joint winners in the Wider Communications category which singled out our stakeholder engagement strategy and contact centre performance and will receive £175,000 as a result. WPD was also recognised for an initiative supporting vulnerable fuel poor customers. WPD will receive a flagship award of £50,000 in recognition of this particular initiative.

Directors' report (continued)

For the year ended 31 March 2011

Business review (continued)

Customer service (continued)

As part of DPC5, Ofgem announced the creation of the Low Carbon Network Fund ("LCNF") which has been set up to enable DNOs to test new technology and commercial arrangements to find out which of these will enable them to provide the distribution services that can support a low carbon economy in the future. WPD South Wales was one of the first four successful second tier submissions under the LCNF and was awarded £8.0m for its project entitled "Low-voltage network templates for a low-carbon future". The project is to install monitoring equipment in customer premises in order to monitor and model the impact on WPD's network of increases in electricity demand from electric vehicles and heat pumps, increased distributed generation and energy demand patterns from new energy efficiency measures including insulation and solar heating. The areas targeted for monitoring are those where project partners Welsh Assembly Government, National Power and Bath University are running projects to promote and install these new technologies.

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 was the top performer. For DPC5 the DNOs are measured not only on the results of the survey but also on the ease of contact determined by the level of abandoned calls. WPD South West was ranked second in the league table of all DNOs for the new incentive metric.

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 20 seconds.

WPD's excellent customer service was further recognised when it was awarded the government's "Customer Service Excellence Standard" for the first time in 2010. This replaces the Charter Mark which WPD has held continually since its launch in 1992 and is a much tougher standard to meet. The standard is re-assessed annually to ensure ongoing compliance with over 100 different elements of customer service. In 2011 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 award for a further year.

Directors' report (continued)

For the year ended 31 March 2011

Business review (continued)

Social and community issues

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 of education, safety and the environment form the bedrock of our support activity and continued to guide our community support policy throughout 2010/11. During the year over 200 separate charitable and non-charitable organisations were supported. Highlights included:

- the WPD tree scheme has been running for over 19 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 thousands of trees and shrubs each year across the WPD region. We planted over 5,000 trees during the year while our 'keen to be green' brand was used to develop links with a range of organisations like Avon Wildlife Trust and its Big Bristol Habitat Hunt. This project surveys the biodiversity of school grounds, the results of which will play an integral part in their future planning and maintenance.
- a new partnership with the Centre for Sustainable Energy, a UK-wide independent charity specialising in fuel poverty and carbon reduction issues. Together we are providing energy saving grants to community buildings and village halls which are run by trusts or non profit making groups and/or communities. The grants support initiatives like heating and lighting upgrades and insulation, energy monitors and door and window draught excluding.
- 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 40,000 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. We also launched a new initiative for our region's schools by providing memory sticks filled with educational content, including WPD safety resource material.

Capital investment

Gross capital investment (before customers' contributions) during the year was £152.2m across the South West region and included the replacement of overhead lines and switchgear together with the introduction of new technology.

A number of significant projects were tackled during the year:

- work has been completed on the diversion of the two Plymouth - Milehouse 132kV oil filled cables in Plymouth which was required because Plymouth City Council were carrying out major road improvements to improve traffic flows in and out of the city. As part of this work, the widening of the road and the replacement of a bridge necessitated the relocation of the electricity infrastructure. The circuits involved form a vital role in maintaining system security not only within Plymouth but, because they provide interconnection between Abham and Landulph Super Grid Points, within Devon and Cornwall as a whole.

Directors' report (continued)

For the year ended 31 March 2011

Business review (continued)

Capital investment (continued)

- Lockleaze Bulk Supply Point (BSP) has four 132/33kV transformers and supplies a large area of Bristol. Increasing load made it necessary to enlarge the substation to provide extra 33kV circuits (completed in 2009) and to change the two 60MVA transformers for 90MVA units. The first of these changes has now been completed with the new transformer commissioned in May 2010. It was also necessary to replace the connecting busbars and cables with higher rated equipment and to renew protection relays and tap change equipment.
- work has been completed at Exeter City BSP to replace the 33kV switchboard. The BSP supplies about 50,000 customers in the city and surrounding areas. The original switchboard dated back to 1950 and has been replaced with a modern indoor 24 panel switchboard. The site is also in a high flood risk area and, following a number of serious flooding events in the UK, flood resilience of essential infrastructure sites has become a priority for the government and regulators. Replacing this switchboard gave us the opportunity to make the site less vulnerable to flooding by raising the switch room and the scheme has been quoted as a case study of good practice by the Environment Agency's partners in the South West.

Regulatory issues

2010/11 was the first year of the five year DPC5 price control period. In their final proposals for DPC5, Ofgem confirmed that the RPI-X mechanism will continue to apply and that WPD South West will be allowed to increase its prices by an average of 7.5% plus inflation in each of the next five years. The cost of capital set at 4.8% post-tax for DPC4 has been re-set at 4.0% post-tax from 1 April 2010. The final proposals, along with the detailed modifications to our distribution licence, were incorporated into our licence effective from 1 April 2010.

In December 2010 an audit was conducted to gain assurance that WPD have adequate controls in place to ensure compliance with the new distribution licence. No significant risks were identified and all actions arising from the audit have been completed.

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 legal requirements. As part of the programme, all staff have received an updated code of conduct on fair competition.

During the ninth 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 depending on performance. Subject to confirmation of the declared year-end results by Ofgem's auditors, we have exceeded our targets for network performance and earned an income uplift for the year.

We have been set annual targets by Ofgem for customer minutes lost and customer interruptions for the current price control period which runs until March 2015.

Directors' report (continued)

For the year ended 31 March 2011

Principal risks and uncertainties

Regulatory risk

The substantial part of the Company's revenue is regulated and is subject to a review every five years. The latest review concluded in December 2009 and became effective on 1 April 2010.

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

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

The Company'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 Company 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 Company has met Ofgem's targets for customer service.

Reliance on suppliers

WPD relies on a limited number of suppliers for cable laying and tree cutting services, and for the supply of cables, plant and machinery. However WPD 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 the risk of 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 Company with no guarantee that Ofgem would allow them to be recovered through regulated income.

Directors' report (continued)

For the year ended 31 March 2011

Principal risks and uncertainties (continued)

Creditworthiness of customers

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

Pensions

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

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

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 Company and the results that it has achieved. These include:

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

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

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

As the WPD 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.

Directors' report (continued)

For the year ended 31 March 2011

Principal risks and uncertainties (continued)

Internal control environment (continued)

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, Company level controls which are pervasive across the Company 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 are communicated back to management and the process owners to enable improvement to the controls. Annually, WPD's compliance with the Act is also reviewed in detail by 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.

Treasury

Risk management

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

All debt in WPD South West is denominated in sterling and therefore there is no currency risk exposure relating to debt.

Credit rate risk

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

Any cash deposits are only made to third parties with a high credit rating and within strict limits imposed by the Board.

Exchange rate risk

WPD South West terminated swaps during the year which now leaves the Company exposed to exchange risks on an investment of \$53m.

Interest rate risk

The Company has had both short-term and long-term external debt during the year, at floating and fixed rates of interest, respectively. An element of the long-term debt is index linked which creates a natural hedge against the Company's regulated income, which is also index linked.

Directors' report (continued)

For the year ended 31 March 2011

Principal risks and uncertainties (continued)

Treasury (continued)

Liquidity 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 2011, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £210m maturing July 2012; at 31 March 2011, it had no drawings against these facilities and thus had £210.0m undrawn. In addition, it had uncommitted facilities of £60.0m all of which was undrawn at 31 March 2011.

In addition, at 31 March 2011 the WPD Group's parent PPL WW Holdings Limited ('PPL WW') 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 2011, it had drawn £112.6m against these facilities and thus had £37.4m undrawn. The drawdown was utilised to part fund the purchase of \$200m Eurobonds (issued by the Company's ultimate UK parent) at a premium of \$21m from a US based fellow subsidiary of PPL.

At 31 March 2011, WPD South West had £710.5m (2010: £749.8m) of external debt outstanding of which £9.3m (2010: £61.4m) was short term.

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

Results and dividends

The profit for the financial year 2011 is £100.4m (2010: £83.7m). Profit on ordinary activities before tax is £86.6m (2010: £111.3m).

In 2010/11, dividends paid by the Company totalled £140.0m (2010: £497.1m). The 2010 value included a dividend in January 2010 of £460.9m which comprised a dividend in specie of £340.9m (representing receivables and accrued interest on loans due from other Group members) together with £120.0m cash; the cash was subsequently repaid to WPD South West as loans from other Group companies. Dividends paid by the parent of the WPD Group, PPL WW Holdings Limited, to its owners was £43.5m (2010: £66.3m). The WPD Group is structured such that debt is held by UK holding companies; dividends from WPD South West and other operating companies fund the interest on this debt.

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 21 days (2010: 18 days).

Directors' report (continued)

For the year ended 31 March 2011

Charitable donations

During the year ended 31 March 2011, donations of £53,000 were made by the Company to community organisations of which £7,000 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 £78,000 to organisations in the South West in 2010/11.

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.

Directors and their interests

The directors who served during the year were as follows :

	<u>Appointed</u>
RA Symons, Chief Executive	23 October 1997
DG Harris, Resources and External Affairs Director	1 April 2004
DCS Oosthuizen, Finance Director	1 June 1999
RL Klingensmith, non-executive director and President PPL Global	14 February 2007

During and at the end of the financial year, no director was materially interested in any contract of significance in relation to the Company's business 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 Acts and remains in force at the date of signing the Directors' report.

Directors' report (continued)

For the year ended 31 March 2011

Regulatory financial statements

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

Statement of disclosure to auditors

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

Responsibility statements under the Disclosure and Transparency Rules

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

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

Auditors

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

By Order of the Board

RA Symons
Chief Executive

28 June 2011

Western Power Distribution (South West) plc

Avonbank
Feeder Road
Bristol BS2 0TB

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

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

Independent auditors' report to the members of Western Power Distribution (South West) plc

We have audited the financial statements of Western Power Distribution (South West) plc for the year ended 31 March 2011 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Cash flow statement and Notes to the statement of cash flows A to C, and the related Notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities (set out on page 15), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Trevor Denny, Senior Statutory Auditor
for and on behalf of Ernst & Young LLP, Statutory Auditors, Bristol
29 June 2011

Profit and loss account

For the year ended 31 March 2011

	Note	2011 £m	2010 £m
Turnover	2	272.6	269.2
Operating expenses	3	(142.5)	(137.9)
Operating profit	4	130.1	131.3
Income from fixed asset investments		0.2	-
Profit on sale of operations		2.8	-
Profit on sale of fixed assets		0.2	-
Profit on ordinary activities before interest and tax		133.3	131.3
Interest receivable and similar income	5	3.2	13.3
Interest payable and similar charges	5	(49.9)	(33.3)
Profit on ordinary activities before tax	2	86.6	111.3
Tax on profit on ordinary activities	6	13.8	(27.6)
Profit for the financial year		100.4	83.7

All activities relate to continuing operations except for certain metering activities which were transferred to an affiliate on 1 April 2010. Included in 2010 is turnover of £4.3m and operating profit of £1.1m for these activities.

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

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

Statement of total recognised gains and losses

For the year ended 31 March 2011

	Note	2011 £m	2010 £m
Profit for the financial year		100.4	83.7
Movement on hedging reserve (net of tax)	20	-	5.1
Total recognised gains for the year		100.4	88.8

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

Balance sheet

31 March 2011

	Note	2011 £m	2010 £m
Fixed assets			
Tangible assets	11	1,196.8	1,121.4
Investments	12	33.0	34.9
		1,229.8	1,156.3
Current assets			
Stocks	13	3.7	4.2
Debtors	14	100.9	91.3
Short-term deposits		63.5	80.0
Cash at bank		6.9	27.5
		175.0	203.0
Creditors			
Amounts falling due within one year	15	(167.5)	(203.4)
Derivative financial instruments	16	-	(0.2)
Net current assets/(liabilities)		7.5	(0.6)
Total assets less current liabilities		1,237.3	1,155.7
Creditors			
Amounts falling due after more than one year	15	(701.2)	(688.4)
Derivative financial instruments	16	-	(3.8)
Provisions for liabilities and charges	17	(99.0)	(126.8)
Net assets		437.1	336.7
Capital and reserves			
Called-up share capital	19	363.2	223.2
Share premium account	20	4.1	4.1
Capital redemption reserve	20	6.2	6.2
Hedging reserve	20	1.2	1.2
Profit and loss account	20	62.4	102.0
Equity shareholders' funds	21	437.1	336.7

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

The financial statements on pages 17 to 41 were approved by the Board of Directors on 28 June 2011 and were signed on its behalf by:

RA Symons
Chief Executive

DCS Oosthuizen
Finance Director

Statement of cash flows

For the year ended 31 March 2011

	Note	£m	2011 £m	£m	2010 £m
Net cash inflow from operating activities	A		161.1		134.7
Returns on investments and servicing of finance					
Interest received		3.1		15.6	
Interest paid		(34.2)		(25.5)	
Issue costs on new long-term loans		-		(1.3)	
Payment on termination of cross currency swaps		(1.8)		-	
Net cash outflow from returns on investments and servicing of finance			(32.9)		(11.2)
Tax paid			(9.0)		(29.7)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(146.6)		(135.8)	
Customers' contributions received		30.3		30.7	
Sale of tangible fixed assets		0.3		0.3	
Net cash outflow from capital expenditure and financial investment			(116.0)		(104.8)
Disposals - proceeds on sale of operations			7.5		-
Equity dividends paid			(140.0)		(156.2)
Cash outflow before use of liquid resources and financing			(129.3)		(167.2)
Management of liquid resources					
Decrease/(increase) in short-term deposits		16.5		(80.0)	
Net cash inflow/(outflow) from management of liquid resources			16.5		(80.0)
Financing					
Issue of ordinary share capital		140.0		-	
New long-term loans		-		198.2	
Decrease in balances due from Group undertakings		15.0		101.0	
Repayment of deep discounted bonds to fellow subsidiary		(10.7)		-	
Decrease in short term debt		(52.1)		(26.2)	
Net cash inflow from financing			92.2		273.0
(Decrease)/increase in cash in the year	B, C		(20.6)		25.8

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

Notes to the statement of cash flows

For the year ended 31 March 2011

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

	2011 £m	2010 £m
Operating profit	130.1	131.3
Depreciation	38.4	38.1
Increase in stocks	(0.5)	(0.5)
Increase in debtors	(11.6)	(38.3)
Increase in creditors	6.3	2.7
(Decrease)/increase in provisions	(1.6)	1.4
Net cash inflow from operating activities	161.1	134.7

B. Reconciliation of movement in net debt

	At 1 April 2010 £m	Cash Flow £m	Other non-cash changes £m	At 31 March 2011 £m
Cash at bank	27.5	(20.6)	-	6.9
Short-term deposits	80.0	(16.5)	-	63.5
Debt due within one year:				
Bank loans and overdrafts	(61.4)	52.1	-	(9.3)
Debt due after one year:				
£250m 5.875% sterling bonds 2027	(247.3)	-	(0.1)	(247.4)
£200m 5.75% bonds 2040	(196.4)	-	(0.2)	(196.6)
£105m 1.541% index linked bonds 2053	(114.2)	-	(5.8)	(120.0)
£120m 1.541% index linked bonds 2056	(130.5)	-	(6.7)	(137.2)
		52.1		
Balances with Group undertakings and affiliate	(81.6)	(4.3)	(1.8)	(87.7)
	(723.9)	10.7	(14.6)	(727.8)

Other non-cash changes (other than balances with Group undertakings and affiliate) relate to the increase in the nominal value of the index linked bonds as a result of the impact of inflation during the year together with the amortisation of bond issue costs.

The non-cash movement in balances with Group undertakings and affiliate relates to inter-company recharges and accrued interest.

Notes to the statement of cash flows

For the year ended 31 March 2011

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

	2011 £m	2010 £m
(Decrease)/increase in cash in the year	(20.6)	25.8
(Decrease)/increase in short-term deposits	(16.5)	80.0
Decrease/(increase) in external borrowings	52.1	(170.5)
Change in balances with Group undertakings	(4.3)	(101.0)
Decrease/(increase) in net debt resulting from cash flows	10.7	(165.7)
Non-cash changes		
Change in balances with Group undertakings	(1.8)	(344.7)
Other	(12.8)	(8.7)
Increase in net debt in year	(3.9)	(519.1)
Net debt at start of year	(723.9)	(204.8)
Net debt at end of year	(727.8)	(723.9)

Notes to the financial statements

For the year ended 31 March 2011

1. Accounting policies

The principal accounting policies are summarised below.

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments, and in accordance with the Companies Act 2006 and applicable accounting standards. Accounting policies are prepared under United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). They have been applied consistently throughout the year and the preceding year except where changes have been made to previous policies on adoption of new accounting standards.

Changes in accounting policy

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

Going concern

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This is discussed further under 'Principal risks and uncertainties - treasury' within the Directors' report.

Turnover

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

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

Leases

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

Research

Expenditure on research is written off to the profit and loss account in the year in which it is incurred.

Pension costs

The Company participates in one defined benefit pension scheme, the Electricity Supply Pension Scheme ("ESPS"), to which most employees in the Group belong. Under the guidance of Financial Reporting Standard ("FRS") 17 "Retirement Benefits", where an entity cannot separate out its share of the scheme's assets and liabilities on a reasonable and consistent basis, the relevant entity should account for pensions as if the scheme were a defined contribution scheme, and charge contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme. This applies in these financial statements.

Any capital cost of ex gratia and supplementary pensions, including early retirement deficiency contributions, are charged to the profit and loss account when the contribution is paid to the pension scheme.

Notes to the financial statements

For the year ended 31 March 2011

1. Accounting policies (continued)

Share based payments

The Company operates a cash-settled phantom share option scheme for executive directors and senior managers. The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established at each balance sheet date from grant date until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the year.

Interest costs

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

Tangible fixed assets

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

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

Freehold land is not depreciated.

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

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

Assets are depreciated on a straight line basis. Customers' contributions towards distribution network assets, which include capital grants, are credited to the profit and loss account over the estimated useful lives of the related assets. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 2006 requirements which require fixed assets to be included at their purchase price or production cost and hence the unamortised amount of contributions would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view. The value of unamortised contributions is shown in Note 11.

Notes to the financial statements

For the year ended 31 March 2011

1. Accounting policies (continued)

Tangible fixed assets (continued)

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

Property

Properties surplus to operational requirements are stated at the lower of cost and net realisable value. Profits are recognised when properties are sold. Sales are accounted for when there is an unconditional exchange of contracts.

Financial assets

Financial assets are classified as held-to-maturity loans and receivables 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 Company 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:

Short-term deposits

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

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.

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.

Investments

Investment income is included in the financial statements of the year in respect of which it is receivable. Fixed asset investments are held to maturity and are stated at amortised cost less any provisions for impairment.

Impairment of financial assets - 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 Profit and loss account.

Derecognition of financial assets

Financial assets are derecognised on sale or settlement.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the Profit and loss account.

Notes to the financial statements

For the year ended 31 March 2011

1. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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 Company 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.

This category of financial liabilities includes trade and other payables and finance debt.

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. It also uses derivative financial instrument 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. Such derivative 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:

- Fair value hedges, where they hedge the exposure to changes in the fair value of a recognised asset or liability;
or
- Cash flow hedges, where they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset, liability or forecasted transaction.

WPD South West currently does not have fair value hedges.

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 financial statements

For the year ended 31 March 2011

1. Accounting policies (continued)

Derivative financial instruments (continued)

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.

Gains in relation to forward interest rate swaps terminated prior to a previous debt issuance, that are deferred in the hedging reserve, are being recycled to the profit and loss account over the term of the bond.

On 17 February 2011 all of the Company's cross currency swaps were terminated resulting in a cash payment of £1.8m to the swap counterparty. The exchange loss has been deferred in the hedging reserve and is being recycled to the profit and loss account over the term of the bond investment.

Stocks

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

Provisions

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

Taxation

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

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

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued asset and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

Notes to the financial statements

For the year ended 31 March 2011

2. Segmental reporting

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

3. Operating expenses

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

	2011	2010
	£m	£m
Cost of sales	15.6	15.0
Distribution network expenses	92.7	90.8
Other operating expenses	34.2	32.1
Operating expenses	142.5	137.9

Other operating expenses include certain pension costs, customer service, billing, and administration.

4. Operating profit

	2011	2010
	£m	£m
Operating profit is stated after charging:		
Depreciation	38.4	38.1
Operating lease rentals:		
Plant, machinery and equipment	0.2	0.3
Land and buildings	1.8	1.7
Research and development	0.2	0.2
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.2	0.2
Fees payable for non audit services	-	-

Notes to the financial statements

For the year ended 31 March 2011

5. Interest

	2011 £m	2010 £m
Interest payable and similar charges:		
On bank loans and overdrafts	2.7	3.0
On loans from fellow WPD Group companies	3.0	1.0
Other loans	44.2	29.3
	49.9	33.3
Interest receivable and similar income:		
On loans to fellow WPD Group companies	(2.4)	(13.2)
Other	(0.8)	(0.1)
	(3.2)	(13.3)
Interest expense (net)	46.7	20.0

6. Tax on profit on ordinary activities

(a) Analysis of charge in the year	2011 £m	2010 £m
Current tax:		
UK corporation tax on profits for the year	17.5	25.3
Adjustment in respect of prior years	(5.1)	(0.1)
Total current tax (Note 6(b))	12.4	25.2
Deferred tax:		
Origination and reversal of timing differences	5.6	5.5
Decrease/(increase) in discount	4.6	(3.4)
Impact of change in corporation tax rate	(12.9)	-
Adjustment in respect of prior years	(23.5)	0.3
Total deferred tax (Note 18)	(26.2)	2.4
Tax (credit)/charge on profit on ordinary activities	(13.8)	27.6

The adjustment in respect of prior years in deferred tax for 2011 primarily relates to the recognition of an asset for capital losses that are available to offset chargeable gains.

Notes to the financial statements

For the year ended 31 March 2011

6. Tax on profit on ordinary activities (continued)

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

The current tax assessed for the year is different to the standard rate of corporation tax in the UK of 28%. The differences are explained below:

	2011	2010
	£m	£m
Profit on ordinary activities before tax	86.6	111.3
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	24.2	31.2
Effects of:		
Expenses not deductible and income not taxable for tax purposes	(1.1)	-
Timing difference between capital allowances and depreciation	(1.7)	(2.3)
Other timing differences	(12.5)	(8.4)
Chargeable gain on sale of supply business	8.6	5.2
Adjustments to tax charge in respect of prior years	(5.1)	(0.1)
Group relief surrendered at non-standard rates	-	(0.4)
Current tax charge for the year (Note 6(a))	12.4	25.2

(c) Factors that may affect future tax charges

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

Further reductions to 25% from 1 April 2012 and 1% annually thereafter to 23% from 1 April 2014 have been announced but not substantively enacted at the balance sheet and therefore are not included in these financial statements. The impact of the expected reduction in tax rates to 23% is expected to reduce the deferred tax liability provided at 31 March 2011 by approximately £5.9m in 2012, £5.8m in 2013 and £5.6m in 2014 with corresponding credits to the profit and loss account.

Notes to the financial statements

For the year ended 31 March 2011

7. Dividends

	2011 £m	2010 £m
Dividends on equity shares:		
Interim dividends - 31.4 pence per share (2010: 35.0 pence)	140.0	156.2
Dividend in specie	-	340.9
	140.0	497.1

The WPD Group is structured such that debt is held by UK holding companies. Dividends from WPD South West and other operating companies fund the interest on this debt. All of the £140m dividend paid in the year was immediately reinvested in the share capital of the Company. In 2010, the Company paid dividends in specie comprising principal and accrued interest on loans due from Group companies totalling £340.9m and cash of £120.0m; none of this was paid to the US parent company.

8. Employee costs and numbers (including executive directors)

(a) Employee costs	2011 £m	2010 £m
Total employee costs during the year amounted to:		
Wages and salaries	54.9	50.0
Social security costs	4.7	4.2
Pension costs	36.8	32.2
Total employee costs	96.4	86.4
Less allocated to capital expenditure	(49.1)	(43.0)
Charged to the profit and loss account	47.3	43.4

(b) Number of employees

The average number of employees during the year was 1,447 (2010: 1,382). The number of staff and costs shown exclude a proportion of WPD South West staff who work in part for WPD South Wales, and include a proportion of WPD South Wales staff who work in part for WPD South West.

(c) Share based payments

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 £0.4m (2010: £0.8m). Fair value of the SARs is determined by using the Black-Scholes option-pricing model using the assumptions noted below. In 2011, the Group recorded total credits of £0.4m (2010: £nil) of which £0.2m was allocated to WPD South Wales. The total intrinsic value at 31 March 2011 was £0.1m (2010: £0.2m).

Notes to the financial statements

For the year ended 31 March 2011

8. Employee costs and numbers (including executive directors) (continued)

(c) Share based payments (continued)

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

	2011	2010
Expected volatility	22.00%	28.57%
Expected life (years)	6	6
Risk-free rate	2.125%	2.50%
Expected dividend yield	5.93%	5.61%

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.

9. Pension commitments

Electricity Supply Pension Scheme ("ESPS")

The Company participates in the Western Power Distribution Group segment of the ESPS. The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity industry. One segment of the ESPS relates to the WPD Group as a whole and most employees of the Group are members of the ESPS. The assets are held in a trustee administered fund.

Effective 1 April 2010, the WPD Group of the ESPS was closed to new members except in very limited circumstances. Existing members will be unaffected. A defined contribution scheme is being offered to new employees.

Under the guidance of FRS 17, where an entity cannot separate out its share of the scheme's assets and liabilities on a reasonable and consistent basis, the relevant entity should account for pensions as if the scheme were a defined contribution scheme, and charge contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme; this has been applied to WPD South West. Full FRS 17 disclosure for the ESPS is made in the consolidated financial statements of PPL WW Holdings Limited. A summary however follows.

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

	2011	2010
RPI inflation	3.10%	3.25%
CPI inflation	2.35%	N/A
Rate of increase in salaries	4.35%	4.50%
Rate of increase to pensions in payment	3.00%	3.30%
Discount rate for scheme liabilities	5.53%	5.50%

Notes to the financial statements

For the year ended 31 March 2011

9. Pension commitments (continued)

Electricity Supply Pension Scheme ("ESPS") (continued)

The mortality assumptions are based on the recent actual mortality experience of members within the scheme and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 26.1 years if they are male and for a further 28.3 years if they are female. For a member who retires in 2031 at age 60 the assumptions are that they will live on average for a further 26.8 years after retirement if they are male and for a further 29.1 years after retirement if they are female.

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

	2011 £m	2010 £m
Present value of obligations	1,477.8	1,543.6
Fair value of plan assets	(1,357.1)	(1,248.8)
Deficit in the scheme	120.7	294.8
Related deferred tax asset	(31.4)	(82.5)
Net pension liability	89.3	212.3

Employer contributions paid to the ESPS in respect of the WPD Group were £75.1m (2010: £103.7m); this included £75.0m (2010: £50m) as a prepayment of future contributions.

ESPS pension costs borne by WPD South West are the full amounts as shown in Note 8.

Other scheme

The Company also operates a defined contribution scheme. The assets of the scheme are held separately from those of the Company in an independent fund administered by the scheme trustee. The scheme has two sections:

(a) a closed section with no active members. All of the active members in this scheme have transferred to the ESPS. At 31 March 2011 there were 273 members with deferred benefits in the scheme (2010: 275) and 1 pensioner (2010: 1). Market value of the assets was £1.5m (2010: £1.5m).

(b) a new pension arrangement available to all new employees in the WPD Group with effect from 1 April 2010. At 31 March 2011 there were 74 members. The market value of the assets of the open section of the scheme was £71,000.

Notes to the financial statements

For the year ended 31 March 2011

10. Directors' emoluments

The service contracts for the executive directors are with WPD South West. However, their emoluments include those for services to the WPD 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 WPD Group companies. The costs are borne by WPD South Wales and WPD South West in the ratio 43:57.

	Highest paid director		Total	
	2011 £000	2010 £000	2011 £000	2010 £000
The emoluments of the executive directors comprised:				
Base salary (note i)	416	399	914	878
Performance dependent bonus (note ii)	364	449	718	895
Long term incentive plan (note iii)	150	116	150	116
Pension compensation allowance (note iv)	274	263	712	686
Fees to the independent non executive director (note vi)	-	-	20	16
	1,204	1,227	2,514	2,591

(i) Base salary also includes benefits in kind.

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

(iii) Under a long term incentive plan, the 3 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 2011, 3 directors were granted options (2010: 3) and no executive directors exercised options (2010: 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; a number of these shares is dependent on the achievement of certain criteria at PPL. 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 9) 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 2011, the highest paid director had accrued annual pension benefits of £384,396 (2010: £369,021). 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 Group's independent UK non executive director is entitled to fees as determined by the PPL WW Holdings Limited 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 WPD Group.

Notes to the financial statements

For the year ended 31 March 2011

11. Tangible fixed assets

	Non network land & buildings £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Deduct: customers' contributions £m	Total £m
Cost						
At 1 April 2010	4.9	2,047.7	25.3	40.1	(428.0)	1,690.0
Additions	-	145.8	5.1	1.3	(28.3)	123.9
Transfer to Other Group Undertakings	-	(6.0)	(0.1)	-	-	(6.1)
Disposals and retirements	-	(6.6)	(2.4)	(2.8)	0.1	(11.7)
At 31 March 2011	4.9	2,180.9	27.9	38.6	(456.2)	1,796.1
Depreciation						
At 1 April 2010	0.5	666.8	11.0	17.1	(126.8)	568.6
Charge for the year	0.1	41.9	5.2	3.8	(6.8)	44.2
Transfer to Other Group Undertakings	-	(1.9)	-	-	-	(1.9)
Disposals and retirements	-	(6.6)	(2.4)	(2.7)	0.1	(11.6)
At 31 March 2011	0.6	700.2	13.8	18.2	(133.5)	599.3
Net book value						
At 31 March 2011	4.3	1,480.7	14.1	20.4	(322.7)	1,196.8
At 1 April 2010	4.4	1,380.9	14.3	23.0	(301.2)	1,121.4

All non network land and buildings are freehold. The net book value of land and buildings within the distribution network above is £105.6m (2010: £93.1m); these are all freehold.

Customers' contributions relate entirely to the construction of the distribution network.

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2011 to £11.5m (2010 £19.4m) and land at a cost of £28.9m (2010: £27.4m).

Transfer to Other Group Undertakings relates to the transfer of the Company's remote metering activity to a fellow subsidiary, WPD Smart Metering Limited, on 1 April 2010.

Notes to the financial statements

For the year ended 31 March 2011

	Group debt ⁽¹⁾ £m
12. Investments	
Cost	
At 1 April 2010	34.9
Exchange adjustments	(1.9)
At 31 March 2011	33.0
Provision for impairment	
At 1 April 2010 and 31 March 2011	-
Net book value	
At 31 March 2011	33.0
At 1 April 2010	34.9

(1) Investment in Group parent debt

Investments in Group debt relate to the Company's held-to-maturity interest in unsecured US dollar denominated bonds of PPL WW Holdings Limited, maturing in 2028. Until February 2011, the bonds were swapped into fixed value in sterling at a fixed interest rate (7.19%) to mirror the PPL WW Holdings Limited liability under swaps. On 17 February 2011 the cross currency swaps were terminated resulting in a cash payment of £1.8m to the swap counterparty. The exchange loss of £2.1m to 17 February has been hedged and therefore has no net effect on the profit and loss account. The exchange gain of £0.2m subsequent to that date is recognised in the profit and loss account and recorded within 'income from fixed asset investments'.

13. Stocks

	2011 £m	2010 £m
Raw materials and consumables	3.3	4.1
Work in progress	0.4	0.1
	3.7	4.2

Notes to the financial statements

For the year ended 31 March 2011

14. Debtors	2011	2010
	£m	£m
<hr/>		
Amounts falling due within one year:		
Trade debtors	44.5	46.5
Amounts owed by Group undertakings	5.0	5.0
Other debtors	1.6	1.9
Prepayments and accrued income	47.5	33.2
Amounts falling due after more than one year:		
Other debtors	1.7	-
Prepayments and accrued income	0.6	4.7
	100.9	91.3
	<hr/>	

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

15. Creditors	2011	2010
	£m	£m
<hr/>		
Amounts falling due within one year:		
Bank loans and overdrafts	9.3	61.4
Payments received on account	11.5	9.8
Trade creditors	9.5	6.3
Amounts owed to Group undertakings	92.7	82.3
Amounts due to affiliate	-	4.3
UK corporation tax	9.8	6.4
Other taxation and social security	4.7	4.3
Other creditors	11.1	9.1
Accruals and deferred income	18.9	19.5
	167.5	203.4
	<hr/>	

Amounts falling due after more than one year:

Unsecured borrowings repayable after more than five years:

£250m 5.875% bonds 2027	247.4	247.3
£200m 5.75% bonds 2040	196.6	196.4
£105m 1.541% index linked bonds 2053	120.0	114.2
£120m 1.541% index linked bonds 2056	137.2	130.5
	701.2	688.4

The bank loans and overdrafts are unsecured. The overdraft is repayable on demand and includes cheques issued but not yet presented. Bank loans are short term. Amounts owed to Group undertakings are unsecured and are repayable on demand.

Unsecured borrowings are stated net of unamortised issue costs of £3.2m (2010: £3.3m). These costs together with the interest expense are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount.

Notes to the financial statements

For the year ended 31 March 2011

16. Derivatives and other financial instruments

As permitted by FRS 29 "Financial Instruments: Disclosure", full disclosure relating to derivative financial instruments is consolidated with those of the PPL WW Holdings Limited Group and is incorporated in the disclosure in the Group financial statements.

An outline of the Company's financial risks and the policies and objectives pursued in relation to those risks is set out in the Principal risks and uncertainties - Treasury section in the Directors' report.

The fair values of derivative financial instruments are set out below.

	2011 Assets £m	2011 Liabilities £m	2011 Total £m	2010 Assets £m	2010 Liabilities £m	2010 Total £m
Cross-currency swaps						
Current	-	-	-	-	(0.2)	(0.2)
Non-current	-	-	-	-	(3.8)	(3.8)
	-	-	-	-	(4.0)	(4.0)

On 17 February 2011 all of the cross currency swaps were terminated resulting in a cash payment of £1.8m to the swap counterparty.

17. Provisions for liabilities and charges

	Deferred taxation (Note 18) £m	Other £m	Total £m
At 1 April 2010	121.9	4.9	126.8
Arising during the year	(26.2)	-	(26.2)
Utilised during the year	-	(1.6)	(1.6)
At 31 March 2011	95.7	3.3	99.0

Other provisions at 31 March 2011 substantially relate to uninsured losses and an expected settlement of liabilities to the Electricity Association Limited ("EA") and Electricity Association Technology Limited ("EATL") relating primarily to a pension deficit in those companies. Liabilities in respect of the EA and EATL are being settled over periods of approximately 1 and 7 years, respectively; the directors expect other provisions to be settled within the next two years.

Notes to the financial statements

For the year ended 31 March 2011

18. Deferred tax

	2011 £m	2010 £m
Accelerated capital allowances	157.3	167.6
Chargeable gain on sale of electricity supply business	14.3	24.0
Other timing differences	(3.9)	7.4
Undiscounted provision for deferred tax	167.7	199.0
Discount	(72.0)	(77.1)
Discounted provision for deferred tax (Note 17)	95.7	121.9

	2011 £m	2010 £m
Provision for deferred tax at 1 April	121.9	117.5
Deferred tax (credit)/charge in profit and loss account (Note 6(a))	(26.2)	2.4
Amount charged to statement of total recognised gains and losses	-	2.0
Provision for deferred tax at 31 March	95.7	121.9

19. Called-up share capital

	2011 £	2010 £
Allotted, called-up and fully paid:		
726,306,245 (2010: 446,306,245) ordinary shares of 50p each	363,153,123	223,153,123

During the year the Company issued at par 280,000,000 ordinary shares to its direct parent Western Power Distribution LLP for cash consideration of £140.0m. The cash was used to repay a short-term loan used to fund a £140.0m dividend payment to Western Power Distribution LLP.

Notes to the financial statements

For the year ended 31 March 2011

20. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2010	4.1	6.2	1.2	102.0
Profit for the financial year	-	-	-	100.4
Dividends paid	-	-	-	(140.0)
Cash flow hedges fair value gains in year (net of tax)	-	-	1.5	-
Cash flow hedges transfers from net profit (net of tax)	-	-	(1.5)	-
At 31 March 2011	4.1	6.2	1.2	62.4

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

The hedging reserve includes value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt; the gain is being amortised through the profit and loss account over the term of the debt. The balance relates to cross currency swaps taken out in respect of the fixed asset investments (Notes 12 and 16). The cross currency swaps were terminated during the year; the loss is being amortised through the profit and loss account over the life of the investment.

21. Reconciliation of movements in equity shareholders' funds

	2011 £m	2010 £m
Profit for the financial year	100.4	83.7
Dividends	(140.0)	(497.1)
Net movement in hedging reserve	-	5.1
New shares issued	140.0	-
Net increase/(decrease) in equity shareholders' funds	100.4	(408.3)
Opening equity shareholders' funds	336.7	745.0
Closing equity shareholders' funds	437.1	336.7

Notes to the financial statements

For the year ended 31 March 2011

22. Capital and other commitments

a) There are annual commitments under operating leases which expire :

	2011	2010
	£m	£m
In the second to fifth year	0.3	0.3

b) Fixed asset expenditure contracted but not provided for in the financial statements at 31 March 2011 was £3.7m (2010: £5.3m).

23. Related party transactions

The Company, a wholly-owned subsidiary undertaking, has taken the exemption available from related party disclosure requirements of FRS 8 as the financial statements of a parent company are available to the public (Note 24).

24. Ultimate parent undertaking

The immediate parent undertaking of the Company is Western Power Distribution LLP, which is registered in England and Wales.

The smallest group in which the results of the Company are consolidated is headed by PPL WW Holdings Limited (previously known as Western Power Distribution Holdings Limited). Copies of these financial statements may be obtained from the Company's registered office as stated below.

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

Registered office:

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

Telephone : 0117 933 2000
Fax : 0117 933 2001
eMail: info@westernpower.co.uk

Registered number 2366894