

Registered Number: 2366985

WESTERN POWER DISTRIBUTION (SOUTH WALES) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2010

Western Power Distribution (South Wales) 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 Wales) plc must be read in conjunction with the group financial statements of 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 2010

The directors present their annual report and the audited financial statements of Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales"), company number 2366985, for the year ended 31 March 2010.

WPD South Wales, 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 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 2010.

Principal activity

The principal activity of the Western Power Distribution Holdings Limited group ("WPD" or the "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 Wales and Western Power Distribution (South West) plc ("WPD South West"), together with certain other items, are funded primarily through dividend payments from WPD South Wales and WPD South West. Dividends within the WPD Group are eliminated for WPD Group reporting purposes with the exception of those declared in favour of the WPD Group's owners.

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

Ownership

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

Business review

WPD South Wales is a monopoly regulated by licence and operates under a price control regime. WPD South Wales' distribution licence authorises it to distribute electricity in an area covering approximately 11,800 square kilometres in southern Wales, including such areas as the Brecon Beacons National Park to the north and the city of Cardiff in the south. WPD South Wales' network comprises approximately 18,145 km of overhead lines and 16,914 km of underground cable providing an electricity supply to 1,094,220 end users.

The operations of WPD South Wales 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.

The electricity distribution price control ("DPC4") agreed with the regulatory body the Gas and Electricity Markets Authority (known as "Ofgem") commenced on 1 April 2005 and covered the five year period until 31 March 2010. WPD South Wales was allowed to increase its prices by inflation plus 6.2% from 1 April 2005. In each of the subsequent four years prices were allowed to increase by no more than the rate of inflation (i.e. X = 0). The DPR4 price control maintained the emphasis on achieving further efficiencies in day to day running costs with a 1.5% per annum overall reduction in underlying costs required. It also placed a greater emphasis on performance than previous reviews and incorporated incentive mechanisms to encourage the reduction of electrical losses and improve the quality of service for customers particularly in relation to the number and duration of interruptions and the quality of telephone response.

Directors' report (continued)

For the year ended 31 March 2010

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. WPD South Wales will be allowed to increase its prices by an average of 6.2% plus inflation in each of the five years of this period. In return for the revenue WPD South Wales will be allowed to earn in this period, Ofgem introduced from 1 April 2010 new obligations with incentives to innovate and find more efficient ways to provide an appropriate level of security, reliability and quality of service.

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 exceeded all of Ofgem's National Customer Guarantee Service Standards and met all of our targets under the Quality of Service incentive scheme by a significant margin.

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

In December 2009, WPD's proposals for additional workforce resources for DPC5 was formally agreed with Ofgem. During 2009/10 WPD's training team geared up to deliver the necessary training to the new staff, this included the appointment of three new members of training staff and the acquisition and commissioning of a new training satellite site in Devon. By the end of the year, approximately 200 new trainees and apprentices had joined WPD and are now progressing well through their training.

Safety

Safety continues to be at the forefront of all of our business activities and a clear commitment to a practical and pragmatic safety culture from the "top down" remains an imperative. WPD continues to play an active role in many national committees and steering groups which concentrate on the future of safety and training policies across the industry.

The number of lost time accidents to staff working in WPD South Wales was two in the financial year 2009/10. This compared with four reported last year and zero reported in 2007/8. The number of lost time accidents reported within the WPD Group fell from four in 2008/9 to three in 2009/10 but non lost time accidents for the group rose from 36 in 2008/9 (when WPD recorded its lowest ever figure for accident numbers) to 51 in 2009/10.

In the autumn of 2009, WPD launched a new initiative to promote the wearing of protective eyewear to protect all staff from the risk of incidental eye injury during low risk tasks. This included the issue of both prescription and non prescription safety glasses to all staff for use at home as well as at work. As part of the roll-out of this initiative, presentations were given to all staff about the importance and value of their eyesight. This was entitled "Think Cheese" and provided a memorable vision of why risk assessment is important and how multiple layers of safety help protect everyone.

Directors' report (continued)

For the year ended 31 March 2010

Business review (continued)

Safety (continued)

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

No formal notices were received from Local Authorities, Department of Energy and Climate Change ("DECC") or the Health & Safety Executive ("HSE") during 2009/10. WPD continues to work in a constructive, collaborative manner with the HSE and DECC. An example of this constructive relationship has been the 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.

WPD hosted the Electricity Networks Association national Safety, Health and Environment Conference in Bath in April 2009. This prestigious event was attended by more than 200 managers and union safety representatives from the UK power industry as well as many senior people from government and the HSE. The keynote speech was delivered by Robert Symons, WPD's Chief Executive Officer, who emphasised the importance of clear, firm and focussed leadership.

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

Network performance

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

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

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

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

Directors' report (continued)

For the year ended 31 March 2010

Business review (continued)

Network performance (continued)

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

	<u>Total</u>	<u>Target</u>
Minutes lost per customer 2009/10	32.8	
Excluded events	-	
IIS Performance 2009/10	32.8	72.2
IIS Performance 2008/09	36.7	72.2
Interruptions per 100 customers 2009/10	55.1	
Excluded events	-	
IIS Performance 2009/10	55.1	95.3
IIS Performance 2008/09	66.1	96.8

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD South Wales 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, 87.5% of customers off supply in South Wales as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring. We believe that the WPD Group has the best one hour restoration performance of any 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 Wales reported no exceptional events to Ofgem during the year.

Subject to Ofgem confirmation, our IIS CML and CI of 32.8 customer minutes lost and 55.1 interruptions per 100 customers for the year are within our targets of 72.2 and 95.3 respectively. The low level of CML relative to the target set by Ofgem is particularly gratifying as it shows the results of our focus on operational excellence and has been achieved in a year when we faced a number of operational challenges related to restoring customers in difficult working conditions.

The UK experienced a prolonged spell of cold and snowy weather during January 2010. The event was widely reported in the national press and media and described by the Met Office as the worst spell of prolonged freezing conditions and snow faced by the UK in 29 years. Network contingency plans were put in place to ensure that WPD was able to maximise any emergency response with network service teams operating on "red alert" for most of the month. In the event, despite heavy snowfall and arctic conditions, the network remained on normal operating conditions for the duration of the poor weather.

Directors' report (continued)

For the year ended 31 March 2010

Business review (continued)

Network performance (continued)

Work by Ofgem at the last price control review identified WPD as the best overall performer for network performance and we are pleased to be able to continue to demonstrate good restoration performance during harsh weather conditions. Ofgem has also recognised the wide gaps in performance between DNOs and acknowledged the severity of the targets set for WPD compared with the rest of the sector. We have agreed targets for the next 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 2010/11 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 103 new automation schemes were commissioned in WPD South Wales. This will ensure that, when an HV fault occurs, the maximum number of customers have their supplies restored within three minutes through automated sequence switching logic.

Customer service

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

If customers are not happy with our efforts to resolve their complaint, they have historically been able to ask the statutory body, 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 Wales since April 2003. energywatch was replaced by The Energy Ombudsman ("Ombudsman") with effect from 1 October 2008. WPD South Wales has received no complaints from the Ombudsman in the period to 31 March 2010.

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 DNO to have zero complaints referred to the Ombudsman during the first twelve months 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 fourth year, Ofgem made awards in two categories. WPD was assessed to be the top performer in the UK for its work with vulnerable customers and will receive £300,000 for exceeding its obligations. WPD was also recognised specifically for an initiative within its contact centre which encourages improvements in the way staff engage with vulnerable customers. WPD will receive a flagship award of £50,000 in recognition of this particular initiative.

Ofgem also conducted a survey on the views of customers of the telephone response that they receive when they contact a DNO. Results published by Ofgem for the year show that the WPD Group performed above the national average. WPD South Wales was ranked first in the league table of all DNOs for the quality of its call centre performance. Ofgem also compared the speed of response that a DNO call centre provides and WPD was identified as a top performer with an average speed of response below 2 seconds compared to a national average of 35 seconds.

Directors' report (continued)

For the year ended 31 March 2010

Business review (continued)

Customer service (continued)

WPD's excellent customer service was further recognised when it was awarded the government's "Customer Service Excellence Standard" for the first time. This replaces the Charter Mark which WPD has held continually since its launch in 1992 and is a much tougher standard to meet. The government's assessor spent 2 days with staff at various locations assessing over 100 different elements of WPD's customer service. There were a number of areas where the assessor says WPD is performing above the standard:

- our customer focussed culture
- the contact centre's texting initiative
- leading the industry on substation flood protection
- our stakeholder engagement strategy
- the performance of the contact centre.

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 are Education, Safety and Environment:

- WPD tree scheme has been running for over 18 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.
- WPD's Charitable Trust supports charities and community groups, often identified by staff, that help a range of good causes. This year many of the events supported care for those affected by life threatening illness, for example:
 - Breast cancer care Headstrong campaign
 - Ty Hafan children's hospice
 - British Heart Foundation Cardiff
 - Help for Heroes
 - FORCE Devon cancer charity Great West Run
 - Dorset and Somerset air ambulance.
- 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.

Directors' report (continued)

For the year ended 31 March 2010

Business review (continued)

Capital investment

Gross capital investment (before customers' contributions) during the year was £83.3m across the WPD South Wales region and included the replacement of both overhead lines and switchgear together with the introduction of new technology.

A number of significant projects were tackled during the year:

- A scheme to replace two transformers at Ystradgynlais in the upper Swansea Valley was completed during the year. The scheme driver was asset replacement due to condition and, combined with a contribution from a wind farm developer, to allow the new units to be compatible with any future proposals for wind generation into the WPD network. The site has benefited from installation of new 132/33kV 60MVA transformers along with upgrades to protection, voltage control and site security. It was also a good example of how WPD, in undertaking these large schemes, tries to minimise the impact of the scheme on customers living adjacent to the main substation. WPD facilitated a sound-proofing screen to minimise the noise impact of the new transformers and this was well received by the local population. The scheme value was approximately £1.1m and will help in ensuring this site serves WPD customers well in to the future.
- A major asset replacement project has been completed at Abergavenny grid substation to replace aging assets. The nine 66kV oil insulated air circuit breakers were manufactured by English Electric in 1965 and were therefore 45 years old. Abergavenny grid substation is the main in-feed to the 66kV ring that supplies east Wales, supplying Abergavenny, Blaenavon, Monmouthshire and all of mid Wales including Brecon, Builth Wells and Llandrindod Wells. This equates to 49,000 customers with a maximum demand of almost 117MVA. This asset replacement project cost £565,000 which included £445,000 for the purchase of nine 66kV Siemens 3AP1 DT circuit breakers and associated protection equipment.
- At Golden Hill primary substation in Pembrokeshire, South Wales, a major upgrade of all infrastructure has taken place driven by asset replacement, environmental concerns, reliability improvements and need for reinforcement. The last remaining 132kV bulk oil circuit breaker containing over 2,500 gallons of oil has been replaced and all associated oil system pipe work dismantled and removed. In addition, the pressurised air system comprising compressors/receivers and pipe work has also been removed; this will help improve site reliability and reduce ongoing running costs. Further, as part of our reinforcement of the site, two new 33/11kV primary transformers were installed to increase the capacity of the site.
- Caldey Island, approximately 4km off the coast of west Wales, is home to an order of monks who have a monastery on the island and a small farming community. The electricity for the island is supplied via 4 x 11kV single core submarine cables from Tenby on the mainland. Over the past few years, these cables have failed a number of times to the extent that only 2 cores remain in service with no alternative if a core fails. In order to provide an alternative supply, a major project has recently been completed to lay a new 3 phase submarine cable from Tenby's South Beach out to Caldey Island. The total length of cable is approximately 4km laid in one piece. The £1.4m project was delayed due to severe weather around the UK in the autumn, which affected availability of the specialist boat and equipment but the project, which presented a number of unique challenges in addition to the variable weather conditions, was recently completed.

Directors' report (continued)

For the year ended 31 March 2010

Regulatory issues

2009/10 was the final year of a five year price control period. In their final proposals for the next price review, which covers the period from 1 April 2010 until 31 March 2015, Ofgem confirmed that the RPI-X mechanism will continue to apply and that WPD South Wales will be allowed to increase its prices by an average of 6.2% 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 for DPC5. The final proposals, along with the detailed modifications to our distribution licence, were incorporated into our licence effective from 1 April 2010.

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

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

As discussed previously, the incentive scheme can lead to an increase or a reduction in revenue of up to 3% depending on performance. Subject to confirmation of the declared year-end results by Ofgem'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.

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 will also be available from the Company's registered office as shown below.

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.

Directors' report (continued)

For the year ended 31 March 2010

Principal risks and uncertainties (continued)

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 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.

Creditworthiness of customers

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

Pensions

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

In March 2010 WPD announced that, with very limited exception, its defined benefit pension plan would be closed to new members. A defined contribution scheme will be 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.

Directors' report (continued)

For the year ended 31 March 2010

Principal risks and uncertainties (continued)

Internal control environment (continued)

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.

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.

Directors' report (continued)

For the year ended 31 March 2010

Principal risks and uncertainties (continued)

Treasury

Risk management

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

All debt at WPD South Wales is denominated in sterling and therefore there is no currency risk exposure.

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 Wales has the following long-term corporate credit ratings: Fitch BBB+ and Standard & Poor's BBB+.

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

Interest rate risk

Substantially all of the Company's external debt is long-term and at fixed rates of interest.

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 2010, 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 2010, 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 2010.

In addition, at 31 March 2010 the WPD Group's parent Western Power Distribution Holdings Limited ("WPDHL") has a £150m committed borrowing facility that expires in January 2013 of which all conditions precedent had been met at that date; at 31 March 2010, it had drawn £142.9m against these facilities and thus had £7.1m undrawn. Of the £142.9m drawdown, £122.9m was utilised to fund a credit facility granted to a US based fellow subsidiary of PPL; this expires on 24 January 2013 and can be terminated earlier by WPDHL in certain circumstances. Any drawdown can be for a maximum of six months.

In March 2010, WPD South Wales successfully issued £200m nominal debt due 2040.

At 31 March 2010, WPD South Wales had £564.0m (2009: £367.2m) of external debt outstanding as shown on its balance sheet with £150.0m nominal maturing in 2020, £225.0m nominal maturing in 2037 and £200.0m nominal maturing 2040. It also had £176.7m of cash and short term deposits (2009: £nil).

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 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.

Directors' report (continued)

For the year ended 31 March 2010

Results and dividends

The profit for the financial year 2010 was £64.2m (2009: £57.7m). Profit on ordinary activities before tax was £79.3m (2009: £82.6m).

There were no dividends paid by the Company on equity shares during the year (2009: £34.9m). The WPD Group is structured such that certain of the debt outstanding is owed by a holding company. Dividend payments from the Company include those used to enable the holding company to make interest payments.

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 18 days (2009: 17 days).

Charitable donations

During the year ended 31 March 2010, donations of £74,000 were made by the Company to community organisations of which £20,000 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 £39,000 to organisations in South Wales in 2009/10.

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' report (continued)

For the year ended 31 March 2010

Directors and their interests

The directors who served during the year were as follows:

	<u>Appointed</u>
RA Symons, Chief Executive	15 September 2000
DCS Oosthuizen, Finance Director	4 January 2001
DG Harris, Resources and External Affairs Director	1 April 2004
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.

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.

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

13 July 2010

Western Power Distribution (South Wales) 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 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 Wales) plc

We have audited the financial statements of Western Power Distribution (South Wales) plc for the year ended 31 March 2010 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 statements of cash flows A to C, and the related Notes 1 to 22. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities (set out on page 14), 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 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.

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 2010 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 Auditor, Bristol

July 2010

Profit and loss account

For the year ended 31 March 2010

	Note	2010 £m	2009 £m
Turnover	2	200.6	186.6
Operating expenses	3	(95.8)	(89.7)
Operating profit being profit on ordinary activities before interest and tax	3	104.8	96.9
Interest receivable and similar income	4	5.6	16.7
Interest payable and similar charges	4	(31.0)	(31.1)
Other finance (expense)/income	5	(0.1)	0.1
Profit on ordinary activities before tax	2	79.3	82.6
Tax on profit on ordinary activities	6	(15.1)	(24.9)
Profit for the financial year		64.2	57.7

All activities relate to continuing operations.

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 2010

	Note	2010 £m	2009 £m
Profit for the financial year		64.2	57.7
Actuarial loss recognised in the Infralec 92 pension scheme	9(d)	(0.7)	(1.7)
Movement on deferred tax relating to the Infralec 92 pension scheme		0.2	0.5
Actuarial loss recognised in the WPUPS pension scheme	9(e)	(23.4)	(48.7)
Movement recognised on WPUPS reimbursement agreement	9(e)	23.4	48.7
Movement on deferred tax relating to the WPUPS pension scheme		6.5	13.7
Movement on hedging reserve (net of tax)	19	(0.5)	(0.4)
Total recognised gains and losses for the year		69.7	69.8

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

Balance sheet

31 March 2010

	Note	2010 £m	2009 £m
Fixed assets			
Tangible assets	11	840.0	798.0
		840.0	798.0
Current assets			
Stocks	12	0.7	0.7
Debtors	13		
Amounts falling due within one year		396.6	379.6
Amounts falling due after more than one year		73.7	51.8
Short term deposits		170.0	-
Cash at bank		6.7	-
		647.7	432.1
Creditors			
Amounts falling due within one year	14	(99.3)	(133.8)
Net current assets		548.4	298.3
Total assets less current liabilities		1,388.4	1,096.3
Creditors			
Amounts falling due after more than one year	14	(614.0)	(417.2)
Provisions for liabilities and charges	15	(73.0)	(66.8)
Net assets excluding pension liability		701.4	612.3
Pension liability (net of tax)	9	(59.0)	(39.6)
Net assets including pension liability		642.4	572.7
Capital and reserves			
Called-up share capital	17	201.7	201.7
Share premium account	19	23.2	23.2
Capital redemption reserve	19	5.1	5.1
Hedging reserve	19	8.4	8.9
Profit and loss account	19	404.0	333.8
Total shareholders' funds	18	642.4	572.7

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

The financial statements on pages 16 to 46 were approved by the Board of Directors on 13 July 2010 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 2010

	Cash flow note	2010 £m	2009 £m
Net cash inflow from operating activities	A	102.0	121.0
Returns on investments and servicing of finance			
Interest received		6.1	28.9
Interest paid		(28.1)	(24.7)
Issue costs on new long-term loans		(1.3)	-
Preference share dividends paid to shareholders		(1.1)	(3.5)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(24.4)	0.7
Tax paid		(7.2)	(16.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(79.3)	(84.4)
Customers' contributions received		14.4	17.4
Net cash outflow from capital expenditure and financial investment		(64.9)	(67.0)
Equity dividends paid		-	(34.9)
Cash inflow before use of liquid resources and financing		5.5	3.1
Management of liquid resources			
Increase in short-term deposits		(170.0)	-
Net cash outflow from management of liquid resources		(170.0)	-
Financing			
New long-term loans		198.2	-
Movement in balances with Group undertakings		(27.0)	(3.1)
Net cash inflow/(outflow) from financing		171.2	(3.1)
Movement in cash in the year	B, C	6.7	-

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

Notes to the statement of cash flows

For the year ended 31 March 2010

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

	2010 £m	2009 £m
Operating profit	104.8	96.9
Depreciation	23.4	21.5
Decrease in stocks	-	0.2
(Increase)/decrease in debtors	(27.6)	4.4
Increase/(decrease) in creditors	1.9	(1.3)
Decrease in provisions	-	(0.4)
Difference between pension charge and cash contributions	(0.5)	(0.3)
Net cash inflow from operating activities	102.0	121.0

B. Analysis of changes in net debt

	At 1 April 2009 £m	Cash flow £m	Other non-cash movements £m	At 31 March 2010 £m
Cash at bank	-	6.7	-	6.7
Short term deposits	-	170.0	-	170.0
Debt due after one year :				
£150m 9.25% Eurobonds 2020	(148.8)	-	(0.1)	(148.9)
£225m 4.804% bonds 2037	(218.4)	-	(0.2)	(218.6)
£200m 5.75% bonds 2040	-	(196.8)	0.3	(196.5)
7% preference shares issued to a Group undertaking	(50.0)	-	-	(50.0)
Other balances with Group undertakings	287.5	27.0	(2.4)	312.1
	(129.7)	6.9	(2.4)	(125.2)

Notes to the financial statements

For the year ended 31 March 2010

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

	2010 £m	2009 £m
Increase in cash in the year	6.7	-
Increase in short-term deposits	170.0	-
Increase in external borrowings	(196.8)	-
Change in balances with Group undertakings	27.0	3.1
Decrease in net debt resulting from cash flows	6.9	3.1
Non-cash changes		
Change in balances with Group undertakings	(2.4)	(15.4)
Other	-	(0.3)
Decrease/(increase) in net debt in year	4.5	(12.6)
Net debt at 1 April	(129.7)	(117.1)
Net debt at 31 March	(125.2)	(129.7)

Notes to the financial statements

For the year ended 31 March 2010

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 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.

Pension costs

The Company participates in three defined benefit pension schemes:

- 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.
- the Infralec 1992 Pensions Scheme ("Infralec 92"). The Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales.
- the Western Power Utilities Pension Scheme ("WPUPS"). However, another WPD Group company, Western Power Distribution Holdings Limited, has accepted responsibility for liabilities for WPUPS and reimburses all contributions made by the Company. The liability under FRS 17 in respect of WPUPS recorded in these financial statements is offset by the reimbursement agreement.

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 2010

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.

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.

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

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.

Notes to the financial statements

For the year ended 31 March 2010

1. Accounting policies (continued)

Tangible fixed assets (continued)

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.

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.

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.

Notes to the financial statements

For the year ended 31 March 2010

1. Accounting policies (continued)

Taxation (continued)

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.

Financial assets

Financial assets comprise loans and receivables and include trade receivables, other receivables, loans, and other investments. Financial assets are recognised initially at fair value, normally being transaction price. Financial assets are derecognised on sale or settlement.

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.

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.

Financial liabilities

Financial liabilities include trade and other payables, accruals, and finance debt. These are initially recognised at fair value. For interest-bearing loans and borrowings, this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other revenues and finance costs.

The preference shares issued by the Company have the characteristics of a liability as opposed to equity and have thus been classified within creditors.

Derivative financial instruments

WPD South Wales currently do not have derivative financial instruments. However, 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. These swaps were designated as 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.

Notes to the financial statements

For the year ended 31 March 2010

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.

	2010	2009
	£m	£m
Cost of sales	7.7	8.8
Distribution network expenses	68.2	61.5
Other operating expenses	19.9	19.4
Operating expenses	95.8	89.7

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

	2010	2009
	£m	£m
Operating profit is stated after charging:		
Depreciation	23.4	21.5
Operating lease rentals:		
Plant, machinery and equipment	0.1	0.1
Land and buildings	0.7	0.7
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 2010

4. Interest

	2010 £m	2009 £m
Interest payable and similar charges:		
On loans from Group undertakings	1.1	3.2
Dividends payable on 7% preference shares	3.5	3.5
Write off of ineffective interest rate swaps	1.7	-
Other loans	24.7	24.4
	31.0	31.1
Interest receivable and similar income:		
On loans to Group undertakings	(5.5)	(16.7)
Other	(0.1)	-
Interest expense (net)	25.4	14.4

5. Other finance (expense)/income

	2010 £m	2009 £m
Expected return on pension scheme assets (Notes 9(d) and 9(e))	16.6	22.4
Interest on pension scheme liabilities (Notes 9(d) and 9(e))	(21.4)	(22.5)
Movement in reimbursement agreement (Note 9(e))	4.7	0.2
Other finance (expense)/income	(0.1)	0.1

Notes to the financial statements

For the year ended 31 March 2010

6. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2010	2009
	£m	£m
Current tax:		
UK corporation tax on profits for the year	9.2	17.8
Adjustment in respect of prior years	0.3	(0.7)
Total current tax (Note 6(b))	9.5	17.1
Deferred tax:		
Origination and reversal of timing differences	9.1	1.8
(Increase)/decrease in discount	(2.9)	3.8
Adjustment in respect of prior years	0.1	(0.8)
Pension scheme timing differences	(0.7)	3.0
Total deferred tax (Note 16)	5.6	7.8
Tax charge on profit on ordinary activities	15.1	24.9

(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:

	2010	2009
	£m	£m
Profit on ordinary activities before tax	79.3	82.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	22.2	23.1
Effects of:		
Expenses not deductible and income not taxable for tax purposes	(0.5)	0.9
Timing difference between capital allowances and depreciation	(2.7)	(3.3)
Other timing differences	(6.4)	1.5
Adjustment to tax charge in respect of prior years	0.3	(0.7)
Pension scheme timing differences	0.7	(3.0)
Group relief surrendered at non-standard rates	(4.1)	(1.4)
Current tax charge for the year (Note 6(a))	9.5	17.1

Notes to the financial statements

For the year ended 31 March 2010

6. Tax on profit on ordinary activities (continued)

(c) Factor which will affect future tax charges

In his emergency budget statement on 22 June 2010, the Chancellor announced that the rate of corporation tax would reduce by 1% with effect from 1 April 2011, with further 1% reductions in each of the next 3 years bringing the rate down to 24% by 1 April 2014; these reductions are expected to be enacted separately each year. He also announced a reduction in capital allowance rates effective from 1 April 2012.

The changes have not been substantively enacted at the balance sheet date and therefore are not included in these financial statements. The impact of a 1% reduction in the year to 31 March 2011 is expected to reduce the deferred tax liability provided at 31 March 2010 by approximately £5m with a corresponding credit to the Profit and loss account.

7. Dividends

	2010 £m	2009 £m
Dividends paid on equity shares:		
Interim dividends (Nil pence per share (2009: 8.7 pence))	-	34.9

The WPD Group is structured such that debt is held by UK holding companies. Dividends from WPD South Wales and other operating companies fund the interest on this debt.

8. Employee costs and numbers (including executive directors)

(a) Employee costs

	2010 £m	2009 £m
Total employee costs during the year amounted to:		
Wages and salaries	33.2	31.4
Social security costs	2.8	2.6
Pension costs - severance related	-	0.3
Pension costs - other	22.9	20.3
Total employee costs	58.9	54.6
Less allocated to capital expenditure	(29.6)	(25.5)
Charged to the profit and loss account	29.3	29.1

(b) The average number of employees during the year was 920 (2009: 869). The number of staff and costs shown include a proportion of WPD South West staff who work in part for WPD South Wales, and exclude a proportion of WPD South Wales staff who work in part for WPD South West.

Notes to the financial statements

For the year ended 31 March 2010

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

(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 £0.8m (2009: £0.8m). Fair value of the SARs is determined by using the Black-Scholes option-pricing model using the assumptions noted below. In 2010, the Group recorded total credits of £nil (2009: £0.8m) allocated evenly between WPD South West and WPD South Wales. The total intrinsic value at 31 March 2010 was £0.2m (2009: £0.2m).

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

	2010	2009
Expected volatility	28.57%	26.06%
Expected life (years)	6	6
Risk-free rate	2.50%	2.07%
Expected dividend yield	5.61%	3.48%

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

(a) Introduction

The Company participates in three defined benefit schemes, the Western Power Distribution Group segment of the Electricity Supply Pension Scheme ("ESPS"), the Infraclec 1992 Pension Scheme ("Infraclec 92"), and the Western Power Utilities Pension Scheme ("WPUPS").

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. 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 Wales. Full FRS 17 disclosure for the ESPS is made in the consolidated financial statements of Western Power Distribution Holdings Limited. A summary is however given below.

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.

The Infraclec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales. The assets are held in a trustee administered fund. As Infraclec 92 only relates to past employees of this Company, the pension costs shown in these financial statements reflect Infraclec 92 as a defined benefit scheme and full FRS 17 disclosures are given in this note.

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(a) Introduction (continued)

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the deficit. However, as another WPD Group company (Western Power Distribution Holdings Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. Contributions of £1.5m were paid by the Company and reimbursed during the year ended 31 March 2010 (2009: £10.5m). The value of the reimbursement agreement is stated in the balance sheet (Note 13) and matches the gross liability recorded under FRS 17 (Note 9(e)).

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

(b) Net liability recognised in the balance sheet

	2010 £m	2009 £m
Infracore 92 (Note 9(d))	(1.4)	(1.2)
WPUPS (Note 9(e))	(57.6)	(38.4)
Net liability recognised	(59.0)	(39.6)

As stated above, WPD South Wales is reimbursed for its liability in respect of WPUPS and the value of this reimbursement agreement is shown in Note 13.

(c) ESPS

As stated above, the ESPS applies across the WPD Group and cannot be reasonably separated between the various Group entities. Under FRS 17, WPD South Wales thus records pension costs for the ESPS on a contributions basis. Full FRS 17 disclosure is given in the accounts of Western Power Distribution Holdings Limited. However, for completeness, a summary is given below.

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

	2010	2009
Rate of increase in salaries	4.5%	4.0%
Rate of increase to pensions in payment	3.3%	2.8%
Discount rate	5.5%	7.0%
Inflation	3.25%	2.75%

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(c) 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 25.8 years if they are male and for a further 28.3 years if they are female. For a member who retires in 2030 at age 60 the assumptions are that they will live on average for a further 27.0 years after retirement if they are male and for a further 29.3 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:

	2010 £m	2009 £m
Present value of obligations	1,543.6	1,167.7
Fair value of plan assets	(1,248.8)	(896.4)
Deficit in the scheme	294.8	271.3
Related deferred tax asset	(82.5)	(76.0)
Net pension liability	212.3	195.3

Employer contributions paid to the ESPS in respect of the WPD Group were £103.7m (2009: £52.7m); this included £50.0m as a prepayment of future contributions. In April 2010, a further £75.0m prepayment of employer contributions was made; this is expected to be the total employer contribution to be paid to the ESPS during the year ending 31 March 2011 in respect of the WPD Group.

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

(d) Infraclec 92

The financial assumptions used in calculating the figures for Infraclec 92 under FRS 17 were:

	2010	2009
Rate of increase to pensions in payment	3.3%	2.8%
Discount rate	5.5%	7.0%
Inflation	3.25%	2.75%

The mortality assumptions are based on the recent actual mortality experience of members of the ESPS scheme as set out above. The Infraclec 92 scheme is not large enough for a credible mortality analysis to be carried out.

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(d) Infraclec 92 (continued)

The amounts recognised in the balance sheet are as follows:

	2010 £m	2009 £m
Present value of obligations	10.1	7.5
Fair value of plan assets	(8.2)	(5.8)
Deficit in the scheme	1.9	1.7
Related deferred tax asset	(0.5)	(0.5)
Net pension liability	1.4	1.2

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

	2010 %	2009 %
Equities	9.0	9.0
Corporate bonds	5.8	8.0
Government bonds	4.75	4.25
Cash and other	0.6	2.0
Average expected long-term rate of return	8.0	7.8

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

	2010 %	2009 %
Equities	74	66
Corporate bonds	11	13
Government bonds	14	17
Cash and other	1	4

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(d) Infralec 92 (continued)

Analysis of profit and loss (charge)/credit:

	2010 £m	2009 £m
Expected return on scheme assets	0.4	0.6
Interest on scheme liabilities	(0.5)	(0.5)
Net (charge)/credit recognised in profit and loss account	(0.1)	0.1

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

	2010 £m	2009 £m
Defined benefit obligation at 1 April	7.5	8.0
Interest cost	0.5	0.5
Actuarial losses/(gains) on scheme liabilities	2.4	(0.5)
Net benefits paid out	(0.3)	(0.5)
Defined benefit obligation at 31 March	10.1	7.5

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

	2010 £m	2009 £m
Fair value of scheme assets at 1 April	5.8	7.6
Expected return on scheme assets	0.4	0.6
Actuarial gains/(losses) on scheme assets	1.7	(2.2)
Employer contributions	0.6	0.3
Net benefits paid out	(0.3)	(0.5)
Fair value of scheme assets at 31 March	8.2	5.8

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(d) Infraclec 92 (continued)

Actual return on scheme assets:

	2010 £m	2009 £m
Expected return on scheme assets	0.4	0.6
Actuarial gains/(losses) on scheme assets	1.7	(2.2)
Actual gains/(losses) on scheme assets	2.1	(1.6)

Cumulative actuarial gains and losses recognised in equity:

	2010 £m	2009 £m
Cumulative actuarial (losses)/gains at 1 April	(0.6)	1.1
Net actuarial losses recognised in the year	(0.7)	(1.7)
Cumulative actuarial losses at 31 March	(1.3)	(0.6)

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	10.1	7.5	8.0	9.1	8.8
Fair value of scheme assets	(8.2)	(5.8)	(7.6)	(7.7)	(7.4)
Deficit in the scheme	1.9	1.7	0.4	1.4	1.4
Experience (losses)/gains on scheme liabilities * :					
Amount (£m)	(0.1)	0.1	0.1	(0.3)	-
Experience gains/(losses) on scheme assets:					
Amount (£m)	1.7	(2.2)	(0.7)	(0.2)	1.0

* Does not include the effect of changes to actuarial assumptions.

The contributions expected to be paid to the scheme during the financial year ended 31 March 2011 amount to £0.3m.

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(e) WPUPS

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits to previous employees of an affiliate group and was transferred to WPD South Wales in April 2002. The assets of the scheme are held separately from those of the Company in trustee administered funds. However, another WPD Group company (Western Power Distribution Holdings Limited) has taken full financial responsibility for this scheme and reimburses WPD South Wales for contributions it pays to WPUPS. The value of the reimbursement agreement is stated in the balance sheet (Note 13) and matches the deficit in the scheme recorded under FRS 17 as shown below.

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

	2010	2009
Inflation	3.25%	2.75%
Rate of increase to pensions in payment	3.3%	2.8%
Discount rate for scheme liabilities	5.5%	7.0%

The mortality assumptions are based on the recent 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 24.8 years if they are male and for a further 27.3 years if they are female. For a member who retires in 2030 at age 60 the assumptions are that they will live on average for a further 26.1 years after retirement if they are male and for a further 28.3 years after retirement if they are female.

In order to eliminate the funding deficit, the Company is paying contributions of £6.0m per annum from 1 April 2008 for 8 years, payable quarterly in arrears and increasing in line with the Retail Prices Index on an annual basis. This will be subject to change at the next formal actuarial review.

The amounts recognised in the balance sheet are as follows:

	2010 £m	2009 £m
Present value of obligations	391.5	309.0
Fair value of plan assets	(311.5)	(255.6)
Deficit in the scheme	80.0	53.4
Related deferred tax asset	(22.4)	(15.0)
Net pension liability	57.6	38.4

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(e) WPUPS (continued)

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

	2010 %	2009 %
Equities	9.0	9.0
Government bonds	4.75	4.25
Corporate bonds	5.8	8.0
Other	0.6	2.0
Average expected long-term rate of return	7.1	6.8

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

	2010 %	2009 %
Equities	52	48
Government bonds	39	43
Corporate bonds	8	8
Other	1	1

Analysis of profit and loss charge:

	2010 £m	2009 £m
Expected return on scheme assets	16.2	21.8
Interest on scheme liabilities	(20.9)	(22.0)
Movement in reimbursement agreement recognised	4.7	0.2
Total recognised in profit and loss account	-	-

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

	2010 £m	2009 £m
Defined benefit obligation at 1 April	309.0	327.6
Interest cost	20.9	22.0
Net benefits paid out	(20.5)	(18.2)
Actuarial losses/(gains) on scheme liabilities	82.1	(22.4)
Defined benefit obligation at 31 March	391.5	309.0

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(e) WPUPS (continued)

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

	2010 £m	2009 £m
Fair value of scheme assets at 1 April	255.6	312.6
Expected return on assets	16.2	21.8
Contributions - employer	1.5	10.5
Net benefits paid out	(20.5)	(18.2)
Actuarial gains/(losses) on scheme assets	58.7	(71.1)
Fair value of scheme assets at 31 March	311.5	255.6

Actual returns on scheme assets are:

	2010 £m	2009 £m
Expected return on scheme assets	16.2	21.8
Actuarial gain/(losses) on scheme assets	58.7	(71.1)
Actual gain/(losses) on scheme assets	74.9	(49.3)

Cumulative actuarial gains and losses recognised in equity:

	2010 £m	2009 £m
Cumulative actuarial (losses)/gains at 1 April	(35.3)	13.4
Net actuarial losses recognised in the year	(23.4)	(48.7)
Cumulative actuarial losses at 31 March	(58.7)	(35.3)

Notes to the financial statements

For the year ended 31 March 2010

9. Pension commitments (continued)

(e) WPUPS (continued)

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	391.5	309.0	327.6	365.2	361.5
Fair value of scheme assets	(311.5)	(255.6)	(312.6)	(332.4)	(326.5)
Deficit in the scheme	80.0	53.4	15.0	32.8	35.0
Experience (losses)/gains on scheme liabilities * :					
Amount (£m)	4.1	(1.5)	(5.8)	4.1	-
Experience gains/(losses) on scheme assets:					
Amount (£m)	58.7	(71.1)	(30.7)	(9.0)	47.2

* Does not include the effect of changes in assumptions.

The contributions expected to be paid to the scheme during the financial year ended 31 March 2011 amount to £6.3m.

Notes to the financial statements

For the year ended 31 March 2010

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 evenly by WPD South Wales and WPD South West.

	Highest paid director		Total	
	2010	2009	2010	2009
	£000	£000	£000	£000
The emoluments of the executive directors comprised:				
Base salary (note i)	399	372	878	818
Performance dependent bonus (note ii)	449	331	895	656
Long term incentive plan (note iii)	116	740	116	1,334
Pension compensation allowance (note iv)	263	248	686	651
Fees to the independent non executive director (note vi)	-	-	16	30
	1,227	1,691	2,591	3,489

(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 three executive directors receive phantom stock options. The option price is set at the quoted share price of the WPD Group's parent in the US, PPL Corporation, at the date the phantom options are granted. The options may be exercised during fixed periods and the gain is payable through the payroll. The values above include any payments made to the executive directors in respect of gains in value of phantom options exercised in the year. In 2010, 3 executive directors were granted options (2009: 3) and no executive directors exercised options (2009: 3). In addition, WPD's Chief Executive Officer is also Vice President of PPL Global. As a result, he also receives annually a grant of PPL Corporation shares which he cannot generally access for 3 years. The value of these shares is shown within this line.

(iv) In anticipation of the change in tax applicable to UK pensions effective 6 April 2006, the executive directors resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 9) on 5 April 2006 and elected for enhanced protection. WPD thus no longer contributes for ongoing service to the ESPP 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 ESPP (see (iv) above). At 31 March 2010, the highest paid director had accrued annual pension benefits of £369,021 (2009: £347,878). 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 Western Power Distribution 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 2010

11. Tangible fixed assets

	Leasehold improvements	Distribution network	Fixtures & equipment	Deduct: customers' contributions	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2009	0.2	1,461.2	20.6	(312.5)	1,169.5
Additions	-	80.7	2.6	(15.2)	68.1
Disposals and retirements	-	(1.2)	(4.5)	0.1	(5.6)
At 31 March 2010	0.2	1,540.7	18.7	(327.6)	1,232.0
Depreciation					
At 1 April 2009	-	466.7	10.4	(105.6)	371.5
Charge for the year	-	26.6	4.2	(4.7)	26.1
Disposals and retirements	-	(1.2)	(4.5)	0.1	(5.6)
At 31 March 2010	-	492.1	10.1	(110.2)	392.0
Net book value					
At 31 March 2010	0.2	1,048.6	8.6	(217.4)	840.0
At 1 April 2009	0.2	994.5	10.2	(206.9)	798.0

The net book value of land and buildings reported within distribution network assets comprises:

	2010 £m	2009 £m
Freehold	49.4	44.8
Short leasehold	0.1	0.2

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2010 to £6.7m (2009: £5.0m) and land at a cost of £19.0m (2009: £16.8m).

Leasehold improvements above relate to a non-network property held on a long term lease. Customers' contributions relate entirely to the construction of the network.

Notes to the financial statements

For the year ended 31 March 2010

12. Stocks

	2010 £m	2009 £m
Raw materials and consumables	0.7	0.6
Work in progress	-	0.1
	0.7	0.7

13. Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Trade debtors	32.3	26.8
Amounts owed by Group undertakings	334.7	350.0
Other debtors	0.1	0.2
Prepayments	23.2	1.0
Reimbursement agreement re WPUPS (Note 9(e))	6.3	1.6
	396.6	379.6
Amounts falling due after more than one year:		
Reimbursement agreement re WPUPS (Note 9(e))	73.7	51.8

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

Notes to the financial statements

For the year ended 31 March 2010

14. Creditors

	2010 £m	2009 £m
Amounts falling due within one year:		
Trade creditors	3.3	3.0
Amounts owed to Group undertakings	22.6	62.5
UK corporation tax	41.4	39.1
Other creditors	14.4	13.7
Accruals and deferred income	17.6	15.5
	99.3	133.8
Amounts falling due after more than one year:		
Unsecured borrowings repayable after more than five years:		
£150m 9.25% Eurobonds 2020	148.9	148.8
£225m 4.804% bonds 2037	218.6	218.4
£200m 5.75% bonds 2040	196.5	-
50,000,000 preference shares (7% net) of £1 each	50.0	50.0
	614.0	417.2

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

Unsecured borrowings are stated net of unamortised issue costs of £9.1m (2009: £7.8m). 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.

Preference shares

The number of shares authorised and allotted at both 31 March 2010 and 2009 was 50,000,000 at £1 each. They are held by another WPD Group company and carry a fixed dividend. Dividends are payable every six months, in arrears, on 31 March and 30 September. Payment can be delayed but any dividends outstanding must be settled before dividends on ordinary shares can be paid. The shares have no redemption entitlement. On a winding up, the holders have priority before all other classes of shares to receive repayment of capital plus any arrears of dividend. The holders have no voting rights unless the dividend is in arrears.

15. Provisions for liabilities and charges

	Deferred taxation (Note 16) £m	Other £m	Total £m
At 1 April 2009	66.0	0.8	66.8
Arising during the year	6.2	0.1	6.3
Utilised during the year	-	(0.1)	(0.1)
At 31 March 2010	72.2	0.8	73.0

Notes to the financial statements

For the year ended 31 March 2010

15. Provisions for liabilities and charges (continued)

Other provisions at 31 March 2010 relate to an expected settlement of a liability to the Electricity Association Limited and Electricity Association Technology Limited relating primarily to a pension deficit in those companies. These liabilities are being settled over periods of approximately 1 and 8 years, respectively.

16. Deferred tax

	2010 £m	2009 £m
Accelerated capital allowances	127.7	124.9
Other timing differences	7.3	1.0
Undiscounted provision for deferred tax	135.0	125.9
Discount	(62.8)	(59.9)
Discounted provision for deferred tax (Note 15)	72.2	66.0
Deferred tax asset on pension liability (Note 9)	(22.9)	(15.5)
Provision at end of year including deferred tax on pension liability	49.3	50.5
	2010 £m	2009 £m
Provision for deferred tax at 1 April	50.5	57.1
Deferred tax charge in profit and loss account (Note 6(a))	5.6	7.8
Credited to statement of total recognised gains and losses	(6.8)	(14.4)
Provision for deferred tax at 31 March	49.3	50.5

17. Called-up share capital

	2010 £	2009 £
Allotted, called-up and fully paid:		
403,442,224 ordinary shares of 50p each	201,721,112	201,721,112

Notes to the financial statements

For the year ended 31 March 2010

18. Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Profit for the financial year	64.2	57.7
Dividends on equity shares	-	(34.9)
Net movement in hedging reserve	(0.5)	(0.4)
Other recognised gains and losses relating to the year	6.0	12.5
Net increase in shareholders' funds	69.7	34.9
Opening equity shareholders' funds	572.7	537.8
Closing equity shareholders' funds	642.4	572.7

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2009	23.2	5.1	8.9	333.8
Actuarial loss on pension schemes (Note 9)	-	-	-	(24.1)
Movement on deferred tax relating to actuarial loss recognised above	-	-	-	6.7
Reimbursement agreement relating to WPUPS pension scheme (Note 9(e))	-	-	-	23.4
Cash flow hedges transfer to net profit (net of tax)	-	-	(0.5)	-
Profit for the financial year	-	-	-	64.2
At 31 March 2010	23.2	5.1	8.4	404.0

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 relates to 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.

Notes to the financial statements

For the year ended 31 March 2010

20. Capital and other commitments

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

	2010 £m	2009 £m
Over five years - land and buildings	0.1	0.1

b) Fixed asset expenditure contracted but not provided for in the financial statements at 31 March 2010 was £4.0m (2009: £1.3m).

21. 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 22).

22. 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 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 Wales) plc
Avonbank
Feeder Road
Bristol BS2 0TB

Telephone : 0117 933 2000
Fax : 0117 933 2001
eMail: info@westernpower.co.uk
Registered number 2366985