

Registered Number: 2366894

WESTERN POWER DISTRIBUTION (SOUTH WEST) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2012

Western Power Distribution (South West) plc is an integral part of a larger UK group. The structure of the group is such that the financial statements of Western Power Distribution (South West) plc must be read in conjunction with the group financial statements of PPL WW Holdings Limited 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 2012

The directors present their annual report and the audited financial statements of Western Power Distribution (South West) plc (the "Company" or "WPD South West"), company number 2366894, for the year ended 31 March 2012

WPD South West is an integral part of a larger UK group. The structure of the group is such that the financial statements of the Company must be read in conjunction with the group financial statements of PPL WW Holdings Limited 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 2012.

Principal activity

WPD South West's principal activity is the distribution of electricity within its authorised area covering South West England

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

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

The two groups, headed by PPL WW Holdings Limited and PPL WEM Holdings plc, collectively trade as Western Power Distribution ("WPD"). The management of the WW Group is involved in the management of the network in the South West, and the South Wales and the Midlands areas of England and, where appropriate, they share engineering control and other systems.

Ownership

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

Business review

WPD South West is a monopoly regulated by licence and operates under a price control regime. WPD South West's distribution licence authorises it to distribute electricity in an area covering approximately 14,400 square kilometres, extending from Bristol and Bath in the northeast, southwest along the peninsula to Land's End and beyond to the Isles of Scilly. WPD South West's network comprises approximately 28,233 km of overhead lines and 22,049 km of underground cable providing an electricity supply to 1,551,046 end users.

During 2011/12, the maximum demand recorded was 2,733 megawatts (2010/11: 2,972 megawatts).

Directors' report (continued)

For the year ended 31 March 2012

Business review (continued)

The operations of WPD South West are regulated under its distribution licence under which income is generated subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The charges made for the use of the distribution network are regulated on the basis of the Retail Price Index ('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, known as Ofgem, currently sets the distribution price control formula for five year periods.

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

In March 2008, Ofgem launched a comprehensive review of the 20 year old framework of monopoly network regulation. They have proposed a new approach for sustainable network regulation, which will be delivered by the "RIIO" model where Revenue=Incentives+Innovation+Outputs. Under the RIIO model there will be a much greater emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers. A key feature of the RIIO model is that the setting of outputs that network companies are expected to deliver will be much more extensive with the outputs embedded within the overall business plan and act as a "contract" between the network companies and their customers. WPD South West's next price review, effective from 1 April 2015, will embody these principles and we aim to continue to play a leading role in developing output-based plans and the RIIO framework within which these plans will be assessed.

The focus for the business during the year has been to continue to concentrate on the five key goals of safety, network reliability, customer service, environment and business efficiency. Operationally, the WW Group has completed another successful year and continues to be a frontier performer in terms of network reliability despite some challenging weather conditions. Ofgem acknowledged the WW Group's exceptional operating performance during the DPC5 review process where the WW Group'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. As we now begin to focus on our plans for the next price control review and submitting a well-justified business plan, a vital aspect of this is to demonstrate an excellent track record of operational delivery throughout the DPC5 period, meeting and surpassing the targets.

A combination of targeted investment and close monitoring of performance has ensured that we have outperformed in all areas of the business. In WPD South West, during the year we met all of Ofgem's national Customer Guarantee Service Standards for network performance, and recorded only one failure for the year (resulting in a single £100 payment to a customer) against the 37 new standards relating to connections performance. We also exceeded all of our network performance targets under the Quality of Service incentive scheme by a significant margin.

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

Directors' report (continued)

For the year ended 31 March 2012

Business review (continued)

Safety

The safety of our staff, customers and members of the public continues to be a core value at the heart of all our business operations. Maintaining a practical and pragmatic safety culture from the "top down" remains an imperative. WPD staff continue to play an active role in many national committees and steering groups which concentrate on the future of safety and training policies across the industry.

The number of lost time accidents to staff working in WPD South West was one in the financial year 2011/12. This compares with three reported last year and one reported in 2009/10.

The number of non-lost time accidents reported within the WW Group unfortunately increased from 24 in 2010/11 to 37 in 2011/12. The total number of accidents for WPD as a whole (including WPD Midlands for both years) however fell from 150 to 120.

In addition to their normal activities, following the acquisition of Central Networks on 1 April 2011, the Safety Team conducted a detailed gap analysis of the different safety management systems in WPD South West and WPD South Wales, and in WPD Midlands. These two different systems were integrated on 18 March 2012. At the same time, operations of WPD's electricity distribution network were migrated to a new set of Distribution Safety Rules based on the 2010 National model.

In the autumn of 2011, the WPD Safety Team visited every depot and office location in WPD with a road show entitled "Take Time Out for Safety". This presentation focussed on the need to maintain a focus on safety through the period of change brought about by the acquisition of Central Networks, introduced the newly expanded Safety Team and, among other subjects, dealt with winter driving issues.

WPD runs an annual safety competition for staff in teams who achieve zero personal and zero vehicle / road traffic accidents. The cash prizes are split between the winning teams and a charity of their choice.

The Company takes its role of educating the public about the dangers of electricity very seriously and this is an integral part of WPD's wider community support policy. Young people are very much the target and WPD regularly attends Crucial Crew and Junior Life Skills events where representatives join together with members of the emergency services to educate children about the risks associated with electricity. In addition, staff from the Company visit schools in areas where vandalism or incidents have occurred to reinforce the safety message.

No formal notices were received from Local Authorities, Department of Energy and Climate Change ("DECC") or the Health & Safety Executive ("HSE") during 2011/12. WPD continues to work in a constructive, collaborative manner with the HSE and DECC.

Directors' report (continued)

For the year ended 31 March 2012

Business review (continued)

Network performance

Performance of the distribution network is measured in two key ways

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

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

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

Network performance reported to Ofgem for the year was as follows

	<u>Total</u>	<u>Target</u>
Minutes lost per customer 2011/12	39.7	
Excluded events	-	
IIS Performance 2011/12	39.7	51.0
IIS Performance 2010/11	42.6	51.0
Interruptions per 100 customers 2011/12	53.9	
Excluded events	-	
IIS Performance 2011/12	53.9	73.6
IIS Performance 2010/11	61.5	73.6

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD South West network including those caused by bad weather and other faults together with 50% of CI and CML due to pre-arranged shutdowns for maintenance and construction. The 11kV network is the principal driver of customer minutes lost, with faults on overhead lines being the major contributor. In addition to the performance reported under IIS above, 85.92% of customers off supply in the South West as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring.

Under the IIS scheme, performance is targeted at an underlying level of improvement. Distribution Network Operators ("DNOs") are thus permitted to claim an adjustment for events during the year which they believe were exceptional and had a significant impact on the total reported performance. An exceptional event can either be caused by a large number of weather related faults or be due to a one-off event which is outside of the DNO's control. In either case, the event must meet prescribed thresholds in terms of the numbers of faults experienced or, for a one-off event, in terms of either the number of customers affected or the duration of the incident. If an event meets these prescribed thresholds, the DNO must notify Ofgem who will conduct an audit to determine the impact of the event. As part of the audit process the DNO must demonstrate that it mitigated against the impact of the event to the best of its ability before Ofgem will exclude the CI and CML incurred. WPD South West reported no exceptional events to Ofgem during the year.

Directors' report (continued)

For the year ended 31 March 2012

Business review (continued)

Network performance (continued)

Subject to Ofgem confirmation, our IIS CML and CI of 39.7 customer minutes lost and 53.9 interruptions per 100 customers for the year are within our targets of 51.0 and 73.6 respectively. The outperformance relative to the DPC5 targets set by Ofgem is particularly gratifying as the new targets broadly reflect DPC4 (2005-2010) performance and are therefore particularly tough for a DNO whose operational performance during this period is acknowledged by Ofgem as being a frontier performer.

WPD 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 2012/13 and beyond will be to further reduce interruptions by progressing an ongoing programme to increase the automation of the HV network.

Customer service

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

If customers are not happy with our efforts to resolve their complaint, they have historically been able to ask the statutory body, the Gas and Electricity Consumer Council (known as "energywatch"), to review the matter. Until 30 September 2008, when energywatch was disbanded, energywatch had received no complaints in respect of WPD South West since January 2005. energywatch was replaced by The Energy Ombudsman ("Ombudsman") with effect from 1 October 2008. WPD South West and WPD South Wales have completed a third year of the statutory Energy Ombudsman Scheme with zero customer complaints. The WW Group was the only DNO group to achieve a zero complaint year.

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 South Wales and WPD South West are the only network companies to have zero complaints referred to the Ombudsman during the first three years of operation of the statutory scheme.

During the year Ofgem made further awards under its Discretionary Reward Scheme which was introduced as part of the price control as a mechanism to recognise best practice in areas of customer service that cannot be easily measured or incentivised through more mechanistic incentives. Now in its sixth year, in June 2011 Ofgem made awards in two categories: Wider Communication Strategies and Corporate Social Responsibility. For Wider Communications, WPD South West and WPD South Wales were awarded the highest amount of £250,000 and WPD Midlands (formerly Central Networks) received £125,000. For Corporate Social Responsibility, WPD South West and WPD South Wales were the only companies to receive an overall reward in this category, and were awarded £150,000. They were also given a flagship award of £50,000 for the Community Chest Scheme (working with the Centre for Sustainable Energy to offer energy efficiency grants to community buildings and village halls), and WPD Midlands (formerly Central Networks) received £50,000 for initiatives to help potential customers wanting to connect Distributed Generation ("DG"). Overall, the independent judging panel praised WPD's stakeholder engagement programme, particularly in relation to DG work, use of partnerships, staff engagement and embedding what we do into the business. This is the final year of the Discretionary Reward Scheme, which has been superseded by a Stakeholder Engagement award (which is a key element of Ofgem's new Broad Measure of Customer Satisfaction). This new award scheme will be piloted in 2012, with the first incentive awarded in 2013.

Directors' report (continued)

For the year ended 31 March 2012

Business review (continued)

Customer service (continued)

Telephony Customer Service Surveys

Ofgem also conducted a survey on the views of customers of the telephone response that they receive when they contact a DNO. DNOs are measured on the politeness and willingness to help of their staff, the accuracy and usefulness of the information given, and the overall speed taken to answer the call. In addition to the results of the survey, DNOs are also measured on the ease of contact determined by the level of abandoned calls. The four WPD DNOs took the four top places in the league table of all DNOs for the new incentive metric, with WPD South West ranked second.

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 two seconds compared to a national average of 11.6 seconds.

National Customer Service Excellence Standard

WPD's excellent customer service was further recognised when WPD South West and WPD South Wales retained the government's "Customer Service Excellence Standard" for a further year from April 2011. This replaces the Charter Mark which WPD has held continually since its launch in 1992 and is a much tougher standard to meet. The standard is re-assessed annually to ensure on-going compliance with over 100 different elements of customer service. In 2011 the WW Group was found to have maintained its high standards across all of the criteria.

Customer Panel and Stakeholder Workshops

The WPD Customer Panel was introduced in 2011. The panel meets four times a year and members, who represent a wide range of customers and key stakeholder groups, help us keep up to speed with the issues affecting our customers. Through the Panel, we proactively seek honest and challenging customer views about the way we operate and our future plans. It will play an important role going forward in helping WPD develop its business plans and outputs for the next RIIO price control.

In May 2011 and February 2012, WPD held a series of stakeholder workshops in Exeter, Cardiff, Bristol, Nottingham, Birmingham and Gloucester to discuss our future priorities for the next price control review for 2015-2023. The workshops focussed on identifying the most important themes for our business plan, specifically in relation to the reliability of our network, customer service, innovation and the environment. The events were attended by over 200 people in total from stakeholders including large customers, suppliers, manufacturers, local authorities, emergency planners, environmental groups, vulnerable customer groups, parish councils, health trusts and universities.

Deaf Awareness Chartermark

A reassessment of Action on Hearing Loss (formerly RNID) 'Louder Than Words' chartermark was successfully completed for WPD South Wales and WPD South West, and WPD Midlands. This means that we are the only DNO groups to have held the accreditation for 2 and 4 years respectively.

Low Carbon Networks Fund

As part of DPC5, Ofgem announced the creation of the Low Carbon Network Fund ("LCNF") which has been set up to enable DNOs to test new technology and commercial arrangements to find out which of these will enable them to provide distribution services that can support a low carbon economy in the future. WPD overall received approval and partial funding from Ofgem for both its innovative low-carbon network projects entered in the 2011 round of the LCNF for partial funding in 2012/13.

Directors' report (continued)

For the year ended 31 March 2012

Business review (continued)

Low Carbon Networks Fund (continued)

The successful WPD projects are known as BRISTOL (based in WPD South West) and FALCON (based in WPD East Midlands) and include trialling electricity storage batteries, making better use of network capacity and altering engineering or commercial techniques. Ofgem received six bids in total and, of the £57m funding awarded, WPD secured £15m (26%).

In the two years that this initiative has been in operation WPD has four of the 10 Tier 2 (competitive) projects and seven of the 22 Tier 1 (self-certifying) projects, this is more than any other DNO group. WPD South Wales was one of the first four successful second tier submissions under the LCNF and was awarded £8m for its project entitled "Low-voltage network templates for a low-carbon future". The project is to install monitoring equipment in customer premises in order to monitor and model the impact on WPD's network of increases in electricity demand from electric vehicles and heat pumps, increased distributed generation and energy demand patterns from new energy efficiency measures including insulation and solar heating. WPD East Midlands was also one of the first four successful second tier submissions for its "Lincolnshire Low Carbon Hub" project. WPD are adapting a large portion of the 33kV network in Lincolnshire to enable the connection of much more distributed generation (such as biomass fuel power stations and wind turbines) without the need for additional overhead lines, cables and substations.

WPD also played a major role in Ofgem's inaugural Low Carbon Networks annual conference. The event, hosted by the Energy Networks Association in Newcastle, was attended by over 200 delegates representing UK energy businesses, academia and global manufacturers.

Social and community issues

WPD's Community Support Policy is reviewed annually by WPD's executive and endorsed by our Chief Executive Officer. We identify areas where business issues link to social issues, and determine criteria that all community support projects must meet. We work in partnership with local community groups to deliver a wide range of projects. Our key themes of education, safety and the environment form the bedrock of our support activity and continued to guide our community support policy throughout 2011/12. During the year WPD supported over 200 separate charitable and non-charitable organisations. Highlights included:

- continuation of the partnership with the Centre for Sustainable Energy, a UK-wide independent charity specialising in fuel poverty and carbon reduction issues. Together, we are providing energy-saving grants to community buildings and village halls which are run by trusts or non-profit making groups and/or communities. The grants support initiatives like heating and lighting upgrades and insulation, energy monitors and door and window draft excluding.
- continued promotion of WPD's free 0800 contact number for the elderly using information literature and fridge magnets displaying our Freephone number. New initiatives have also been formed with cancer charities Tenovus and Breast Cancer Care designed to educate people in terms of prevention, awareness and coping strategies.
- environmentally, we continued to develop our tree planting partnerships with the British Trust for Conservation Volunteers and the Silvanus Trust (over 7,000 trees planted), while our 'keep to be green' brand was used to develop links with a range of organisations. We extended our existing tree scheme to include the planting of orchards during 2011. Following a direct request from the daily newspaper in Exeter, which is familiar with our scheme, we donated £2,000 to enable schools to plant an orchard in Topsham. This involved 10 schools who have equal responsibility for managing the site which is owned by the City Council. Our aim is to help children understand how reducing food miles can contribute to sustainable living as well as giving a sense of responsibility to those involved.

Directors' report (continued)

For the year ended 31 March 2012

Business review (continued)

Capital investment

Gross capital investment (before customers' contributions) during the year was £183.1m across the WPD South West region and included the replacement of overhead lines and switchgear together with the introduction of new technology.

A number of significant projects were tackled during the year:

- an environmental scheme to overlay approximately 6.3km route length of 33kV oil filled cable between Torquay Bulk Supply Point and Torwood in Devon was completed in February 2012. The existing cables had a history of oil leaks despite multiple repairs. The original cables were replaced with new twin circuits comprising 240mm EPR cable plus associated pilot cables. There were 27 joint bays excavated along the cable route and WPD worked closely with Devon County Council and local residents to ensure that the work was completed through the residential areas of Torquay and traffic sensitive roads without major incident or traffic disruption.
- a programme to modernise Taunton Super Grid Point ("SGP") has been completed. The work involved the replacement of nine bulk oil dead tank 132kV circuit breakers with modern SF6 breakers. The oil breakers were high maintenance and also nationally there has been a history of disruptive bushing failures which meant that regular bushing oil sampling was necessary and some had risk management hazard zones established around them. Stage one commenced in 2009 with the installation of a complete new suite of protection panels. In 2010 four of the circuit breakers were replaced and this year the remaining five have been changed. Taunton SGP is a shared site with National Grid so the work involved a lot of co-ordination with National Grid to arrange physical access to the site and co-ordination of outages and work with their activities.
- other examples of work carried out as part of the WPD South West DPC5 primary asset replacement are three 132/33kV transformers being changed at St Germans in Cornwall, Exeter Main in Devon and Taunton in Somerset.

Regulatory issues

2011/12 was the second year of the five year DPC5 price control period. In their final proposals for DPC5, Ofgem confirmed that the RPI-X mechanism will continue to apply and that WPD South West will be allowed to increase its prices by an average of 7.5% plus inflation in each of the five years in DPC5. The cost of capital set at 4.8% post-tax for DPC4 has been re-set at 4.0% post-tax from 1 April 2010. The final proposals, along with the detailed modifications to our distribution licence, were incorporated into our licence effective from 1 April 2010.

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

During the tenth full year of Ofgem's IIS, WPD 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.

Directors' report (continued)

For the year ended 31 March 2012

Regulatory issues (continued)

As discussed previously, the incentive scheme can lead to an increase or a reduction in revenue depending on performance. Subject to confirmation of the declared year-end results by Ofgem's auditors, we have exceeded our targets for network performance and earned an income uplift for the year. We have been set annual targets by Ofgem for customer minutes lost and customer interruptions for the current price control period which runs until March 2015.

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 RPI. Reductions in the RPI would adversely impact revenues and the debt/RAV ratio.

Network disruption

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

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

Reliance on suppliers

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

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

Directors' report (continued)

For the year ended 31 March 2012

Principal risks and uncertainties (continued)

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

Internal control environment

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

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

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

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

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

Directors' report (continued)

For the year ended 31 March 2012

Principal risks and uncertainties (continued)

Internal control environment (continued)

As WPD 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 complies 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 monitors and tests 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 WPD's external auditors. Good controls together with appropriate documentation must be maintained, and this is subject to testing by management and both internal and external auditors on an annual basis. Since inception of the Act, no significant deficiencies nor material weaknesses have been identified in WPD's financial control environment.

Treasury

Risk management

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

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

Credit rate risk

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

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

Directors' report (continued)

For the year ended 31 March 2012

Principal risks and uncertainties (continued)

Treasury (continued)

Exchange rate risk

WPD South West terminated swaps during 2011 which leaves the Company exposed to exchange risks on an investment of \$53m

Interest rate risk

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

Liquidity and going concern

On a day-to-day basis, WPD South West provides liquidity to WPD. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2012, WPD South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £245m maturing January 2017 all of which was undrawn at 31 March 2012. In addition, it had uncommitted facilities of £60m all of which was undrawn at 31 March 2012.

In addition, at 31 March 2012 the WW Group's parent, PPL WW Holdings Limited ('PPL WW'), had a £150m committed borrowing facility that expires in January 2013 of which all conditions precedent had been met at that date, at 31 March 2012, it had drawn £109m against these facilities and thus had £41m undrawn. The drawdown was utilised to part fund the purchase of \$200m Eurobonds (issued by the Company's ultimate UK parent) at a premium of \$21m from a US based fellow subsidiary of PPL.

At 31 March 2012, WPD South West had £735.1m (2011: £710.5m) of external debt outstanding of which £23.5m (2011: £9.3m) was short term. It had cash and short term deposits of £108.0m (2011: £70.4m).

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

Results and dividends

The profit for the financial year 2012 is £91.8m (2011: £100.4m). Profit on ordinary activities before tax is £124.0m (2011: £86.6m).

In 2012, dividends paid by the Company totalled £28.9m (2011: £140.0m).

Payment of creditors

WPD'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 16 days (2011: 21 days for WW Group).

Directors' report (continued)

For the year ended 31 March 2012

Charitable donations

During the year ended 31 March 2012, donations of £56,000 were made by the Company to community organisations of which £15,000 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 £54,000 to organisations in the South West in 2011/12.

Political donations and expenditure

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

Equal opportunities

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

Employee consultation

WPD places considerable value on the involvement of its employees in its affairs. Staff are kept informed of WPD'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 WPD's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of road show presentations by the directors each year ensure that all staff are aware of, and can contribute to, WPD's corporate goals.

Directors and their interests

The directors who served during the year were as follows

	<u>Appointed</u>
RA Symons, Chief Executive	23 October 1997
DG Harris, Resources and External Affairs Director	1 April 2004
DCS Oosthuizen, Finance Director	1 June 1999
RL Klingensmith, non-executive director and President PPL Global	14 February 2007
ME Fletcher, non-executive independent director	31 October 2011

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

Insurance in respect of directors and officers is maintained by the WW Group's 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.

Regulatory financial statements

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

Directors' report (continued)

For the year ended 31 March 2012

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

2 July 2012

Western Power Distribution (South West) plc

Avonbank

Feeder Road

Bristol BS2 0TB

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

Independent auditors' report

to the members of Western Power Distribution (South West) plc

We have audited the financial statements of Western Power Distribution (South West) plc for the year ended 31 March 2012 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Cash flow statement and Notes to the statement of cash flows A to C, and the related Notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 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.

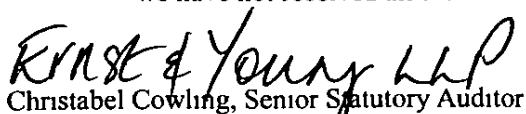
Opinion on other matter prescribed by the Companies Act 2006

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.


Christabel Cowling, Senior Statutory Auditor

for and on behalf of Ernst & Young LLP, Statutory Auditors, Bristol

5 July 2012

Profit and loss account

For the year ended 31 March 2012

	Note	2012 £m	2011 £m
Turnover	2	323.3	272.6
Operating expenses	3	(156.8)	(142.5)
Operating profit	4	166.5	130.1
Income from fixed asset investments		0.1	0.2
Profit on sale of operations		-	2.8
Profit on sale of fixed assets		0.8	0.2
Profit on ordinary activities before interest and tax		167.4	133.3
Interest receivable and similar income	5	3.3	3.2
Interest payable and similar charges	5	(46.7)	(49.9)
Profit on ordinary activities before tax	2	124.0	86.6
Tax on profit on ordinary activities	6	(32.2)	13.8
Profit for the financial year		91.8	100.4

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 2012

	Note	2012 £m	2011 £m
Profit for the financial year		91.8	100.4
Movement on hedging reserve (net of tax)	19	(0.1)	-
Total recognised gains for the year		91.7	100.4

The accompanying notes are an integral part of these financial statements

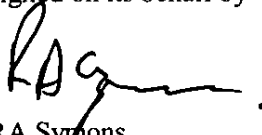
Balance sheet

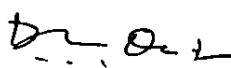
31 March 2012

	Note	2012 £m	2011 £m
Fixed assets			
Tangible assets	11	1,302.1	1,196.8
Investments	12	33.1	33.0
		1,335.2	1,229.8
Current assets			
Stocks	13	4.1	3.7
Debtors	14	93.5	100.9
Short-term deposits		104.5	63.5
Cash at bank		3.5	6.9
		205.6	175.0
Creditors			
Amounts falling due within one year	15	(235.9)	(167.5)
Net current (liabilities)/assets		(30.3)	7.5
Total assets less current liabilities		1,304.9	1,237.3
Creditors			
Amounts falling due after more than one year	15	(711.6)	(701.2)
Provisions for liabilities and charges	16		
Deferred tax		(89.4)	(95.7)
Other		(4.0)	(3.3)
Net assets		499.9	437.1
Capital and reserves			
Called-up share capital	18	363.2	363.2
Share premium account	19	4.1	4.1
Capital redemption reserve	19	6.2	6.2
Hedging reserve	19	1.1	1.2
Profit and loss account	19	125.3	62.4
Equity shareholders' funds	20	499.9	437.1

The accompanying notes are an integral part of these financial statements

The financial statements on pages 17 to 39 were approved by the Board of Directors on 2 July 2012 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 2012

	Note	£m	2012 £m	£m	2011 £m
Net cash inflow from operating activities	A		237.7		161.1
Returns on investments and servicing of finance					
Interest received		0.6		3.1	
Interest paid		(35.0)		(34.2)	
Payment on termination of cross currency swaps		-		(1.8)	
Net cash outflow from returns on investments and servicing of finance			(34.4)		(32.9)
Tax paid			(22.4)		(9.0)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(175.2)		(146.6)	
Customers' contributions received		29.1		30.3	
Sale of tangible fixed assets		1.0		0.3	
Net cash outflow from capital expenditure and financial investment			(145.1)		(116.0)
Disposals - proceeds on sale of operations			-		7.5
Equity dividends paid			(28.9)		(140.0)
Cash inflow/(outflow) before use of liquid resources and financing			6.9		(129.3)
Management of liquid resources					
(Increase)/decrease in short-term deposits		(41.0)		16.5	
Net cash (outflow)/inflow from management of liquid resources			(41.0)		16.5
Financing					
Issue of ordinary share capital		-		140.0	
Increase in balances due to other WPD undertakings		16.5		15.0	
Repayment of deep discounted bonds to fellow subsidiary		-		(10.7)	
Increase/(decrease) in short term debt		14.2		(52.1)	
Net cash inflow from financing			30.7		92.2
Decrease in cash in the year	B, C		(3.4)		(20.6)

The accompanying notes are an integral part of these financial statements

Notes to the statement of cash flows

For the year ended 31 March 2012

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

	2012 £m	2011 £m
Operating profit	166.5	130.1
Depreciation	39.8	38.4
Increase in stocks	(0.4)	(0.5)
Decrease/(increase) in debtors	15.9	(11.6)
Increase in creditors	15.2	6.3
Increase/(decrease) in provisions	0.7	(1.6)
Net cash inflow from operating activities	237.7	161.1

B. Reconciliation of movement in net debt

	At 1 April 2011 £m	Cash Flow £m	Other non-cash changes £m	At 31 March 2012 £m
Cash at bank	6.9	(3.4)	-	3.5
Short-term deposits	63.5	41.0	-	104.5
Debt due within one year				
Bank loans and overdrafts	(9.3)	(14.2)	-	(23.5)
Debt due after one year				
£250m 5.875% sterling bonds 2027	(247.4)	-	(0.2)	(247.6)
£200m 5.75% bonds 2040	(196.6)	-	(0.1)	(196.7)
£105m 1.541% index linked bonds 2053	(120.0)	-	(4.7)	(124.7)
£120m 1.541% index linked bonds 2056	(137.2)	-	(5.4)	(142.6)
		(14.2)		
Balances with other WPD undertakings	(87.7)	(16.5)	0.9	(103.3)
	(727.8)	6.9	(9.5)	(730.4)

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

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

Notes to the statement of cash flows

For the year ended 31 March 2012

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

	2012 £m	2011 £m
Decrease in cash in the year	(3.4)	(20.6)
Increase/(decrease) in short-term deposits	41.0	(16.5)
(Increase)/decrease in external borrowings	(14.2)	52.1
Change in balances with other WPD undertakings	(16.5)	(4.3)
Decrease in net debt resulting from cash flows	6.9	10.7
Non-cash changes		
Change in balances with other WPD undertakings	0.9	(1.8)
Other	(10.4)	(12.8)
Increase in net debt in year	(2.6)	(3.9)
Net debt at start of year	(727.8)	(723.9)
Net debt at end of year	(730.4)	(727.8)

Notes to the financial statements

For the year ended 31 March 2012

1 Accounting policies

The principal accounting policies are summarised below

Basis of preparation

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

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

Changes in accounting policy

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

Going concern

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

Turnover

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

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

Leases

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

Research

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

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.

Notes to the financial statements

For the year ended 31 March 2012

1. Accounting policies (continued)

Pension costs

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

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

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	70
Plant and machinery (transformers and switchgear)	45
Meters	Up to 10
Customer contributions	55
Other (towers and substation buildings)	Up to 55
Buildings - freehold	Up to 60
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

The assumed useful economic life of underground cables was changed from 1 April 2011 to that set out above. Prior to 1 April 2011, underground cables had a 60 year life.

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 2012

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.

Short-term deposits

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

Cash and cash equivalents

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

Financial 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.

Investments

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

Notes to the financial statements

For the year ended 31 March 2012

1. Accounting policies (continued)

Foreign currencies

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

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.

Derivative financial instruments

WPD South West currently does 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.

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 2012

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.

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.

	2012 £m	2011 £m
Employee costs (Note 8)	45.4	47.3
Depreciation	39.8	38.4
Other operating expenses	71.6	56.8
Operating expenses	156.8	142.5

4. Operating profit

	2012 £m	2011 £m
Operating profit is stated after charging		
Depreciation	39.8	38.4
Operating lease rentals		
Plant, machinery and equipment	0.3	0.2
Land and buildings	1.1	1.8
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	0.3	0.2
Fees payable for non audit services	-	-

Notes to the financial statements

For the year ended 31 March 2012

5. Interest

	2012 £m	2011 £m
Interest payable and similar charges		
On bank loans and overdrafts	2.7	2.7
On loans from other WPD companies	2.2	3.0
Other loans	41.8	44.2
	46.7	49.9
Interest receivable and similar income		
On loans to other WPD companies	(2.6)	(2.4)
Other	(0.7)	(0.8)
	(3.3)	(3.2)
Interest expense (net)	43.4	46.7

6. Tax on profit on ordinary activities

(a) Analysis of charge/(credit) in the year	2012 £m	2011 £m
Current tax		
UK corporation tax on profits for the year	39.3	17.5
Adjustment in respect of prior years	(0.8)	(5.1)
Total current tax (Note 6(b))	38.5	12.4
Deferred tax		
Origination and reversal of timing differences	(6.9)	5.6
Decrease in discount	12.7	4.6
Impact of change in corporation tax rate	(12.4)	(12.9)
Adjustment in respect of prior years	0.3	(23.5)
Total deferred tax (Note 17)	(6.3)	(26.2)
Tax charge/(credit) on profit on ordinary activities	32.2	(13.8)

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

Notes to the financial statements

For the year ended 31 March 2012

6. Tax on profit on ordinary activities (continued)

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

The current tax assessed for the year is different to the standard rate of corporation tax in the UK of 26% (2011 28%) The differences are explained below

	2012 £m	2011 £m
Profit on ordinary activities before tax	124.0	86.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (2011 28%)	32.2	24.2
Effects of		
Expenses not deductible and income not taxable for tax purposes	0.2	(1.1)
Timing difference between capital allowances and depreciation	(3.6)	(1.7)
Other timing differences	5.3	(12.5)
Chargeable gain on sale of supply business *	5.2	8.6
Adjustments to tax charge in respect of prior years	(0.8)	(5.1)
Current tax charge for the year (Note 6(a))	38.5	12.4

* relates to a sale in a prior period

(c) Factors that may affect future tax charges

During the year there were two changes to the corporation tax rate that have been included in the financial statements The change from 26% to 25% with effect from 1 April 2012 was enacted by Finance Act 2011 A further reduction to 24% with the same effective date was substantively enacted on 26 March 2012

Further reductions to 23% from 1 April 2013 and to 22% from 1 April 2014 have been announced but not substantively enacted at the balance sheet date and therefore are not included in these financial statements The impact of the expected reduction in tax rates to 22% is expected to reduce the deferred tax liability provided at 31 March 2012 by approximately £6.0m in 2013 and £5.8m in 2014 with corresponding credits to the profit and loss account in each year

Notes to the financial statements

For the year ended 31 March 2012

7. Dividends

	2012 £m	2011 £m
Dividends on equity shares		
Interim dividends - 4.0 pence per share (2011: 31.4 pence)	28.9	140.0

In 2011, the Company paid dividends of £140.0m which were immediately reinvested in the share capital of the Company

8 Employee costs and numbers (including executive directors)

(a) Employee costs	2012 £m	2011 £m
Total employee costs during the year amounted to		
Wages and salaries	63.4	54.9
Social security costs	5.8	4.7
Pension costs	39.0	36.8
Total employee costs	108.2	96.4
Less allocated to capital expenditure	(62.8)	(49.1)
Charged to the profit and loss account	45.4	47.3

(b) Number of employees

The average number of employees during the year was 1,517 (2011: 1,447). The number of staff and costs shown exclude a proportion of WPD South West staff who work in part for WPD South Wales, and include a proportion of WPD South Wales staff who work in part for WPD South West.

(c) Share based payments

WPD issues to directors and senior employees share appreciation rights ("SARs") relating to the shares of WPD's ultimate parent, PPL Corporation. The SARs require WPD to pay the intrinsic value of the SAR to the director or employee at the date of exercise. WPD has recorded liabilities of £1.1m (2011: £0.4m). Fair value of the SARs is determined by using the Black-Scholes option-pricing model using the assumptions noted below. In 2012, WPD recorded total charges of £0.7m (2011: £0.4m credits) allocated roughly equally between WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands. The total intrinsic value at 31 March 2012 was £0.5m (2011: £0.1m).

Notes to the financial statements

For the year ended 31 March 2012

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

(c) Share based payments (continued)

The weighted average fair value of options granted during the year was £0.26 (2011 £0.52). The range of exercise prices for options outstanding at the end of the year was £24.14 - £10.21 (2011 £24.14 - £10.21).

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year.

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding as at 1 April	696,463	18.68	529,175	19.62
Granted during the year	322,534	17.77	182,904	15.38
Exercised	(806)	11.49	(15,616)	11.60
Expired during the year	(1,712)	11.63	-	-
Outstanding at 31 March	1,016,479	18.41	696,463	18.68
Exercisable at 31 March	677,271	19.02	484,779	21.71

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

	2012	2011
Expected volatility	20.60%	22.00%
Expected life (years)	6	6
Risk-free rate	0.875%	2.125%
Expected dividend yield	5.00%	5.93%

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

9. Pension commitments

Electricity Supply Pension Scheme ("ESPS")

The 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 WW Group as a whole and the Company participates in this segment. Most employees of the Company are members of the ESPS. The assets are held in a trustee administered fund.

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

Notes to the financial statements

For the year ended 31 March 2012

9. Pension commitments (continued)

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

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

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

	2012	2011
RPI inflation	2.75%	3.10%
CPI inflation	2.00%	2.35%
Rate of increase in salaries	4.00%	4.35%
Rate of increase to pensions in payment	2.70%	3.00%
Discount rate for scheme liabilities	4.63%	5.53%

The mortality assumptions are based on the recent actual mortality experience of members within the scheme and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 26.1 years if they are male and for a further 28.2 years if they are female. For a member who retires in 2032 at age 60 the assumptions are that they will live on average for a further 26.8 years after retirement if they are male and for a further 29.1 years after retirement if they are female.

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

	2012 £m	2011 £m
Present value of obligations	1,650.4	1,477.8
Fair value of plan assets	(1,346.9)	(1,357.1)
Deficit in the scheme	303.5	120.7
Related deferred tax asset	(72.8)	(31.4)
Net pension liability	230.7	89.3

Employer contributions paid to the ESPS in respect of the WW Group were £5.0m (2011: £75.1m). In 2011 this included £75.0m as a prepayment of future contributions.

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

Notes to the financial statements

For the year ended 31 March 2012

9. Pension commitments (continued)

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

Other scheme

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

(a) a closed section with no active members. All of the active members in this scheme have transferred to the ESPS. At 31 March 2012 there were 271 members with deferred benefits in the scheme (2011: 273) and 1 pensioner (2011: 1). Market value of the assets was £1.6m (2011: £1.5m).

(b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2012 there were 929 members (2011: 74). The market value of the assets of the open section of the scheme was £1,034,000 (2011: £71,000).

10. Directors' emoluments

The service contracts for the executive directors are with WPD South West. However, their emoluments include those for services to both the PPL WW and PPL WEM Groups as a whole. The emoluments detail given in this note represents total emoluments of the directors for all services provided to other WPD companies. The costs are apportioned between WPD South Wales, WPD South West, WPD West Midlands and WPD East Midlands.

	Highest paid director		Total	
	2012	2011	2012	2011
	£000	£000	£000	£000
The emoluments of the executive directors comprised:				
Base salary (note i)	486	416	1,059	914
Performance dependent bonus (note ii)	440	364	861	718
Integration bonus (note iii)	352	-	753	-
Long term incentive plan (note iv)	440	150	440	150
Pension compensation allowance (note v)	839	274	1,805	712
Fees to the independent non executive directors (note vii)	-	-	32	20
	2,557	1,204	4,950	2,514

(i) Base salary also includes benefits in kind.

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

(iii) The integration bonus is in respect of the WEM Group's financial performance from the date of acquisition.

(iv) Under a long term incentive plan, the 3 executive directors receive phantom stock options. The option price is set at the quoted share price of WPD'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 2012, 3 directors were granted options (2011: 3) and no executive directors exercised options (2011: nil). In addition, WPD's Chief Executive Officer is also Vice President of PPL Global. As a result, he also receives annually a grant of PPL Corporation shares which he cannot generally access for 3 years, a number of these shares is dependent on the achievement of certain criteria at PPL. The value of these shares is shown within this line.

Notes to the financial statements

For the year ended 31 March 2012

10. Directors' emoluments (continued)

(v) 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 EPSPS 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). Also, in 2012 three executive directors received an ex gratia payment to partially offset a liability in respect of their pension entitlement, this is shown within this line.

(vi) The three executive directors are deferred members of the EPSPS (see (v) above). At 31 March 2012, the highest paid director had accrued annual pension benefits of £451,665 (2011 £384,396). 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.

(vii) The two independent UK non executive directors (2011 one) are entitled to fees as determined by the appropriate 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 groups.

11. Tangible fixed assets

	Non network land & buildings £m	Distribution network £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Deduct customers' contributions £m	Total £m
Cost						
At 1 April 2011	4.9	2,180.9	27.9	38.6	(456.2)	1,796.1
Additions	-	159.1	7.3	16.7	(31.4)	151.7
Disposals and retirements	-	(4.6)	(6.3)	(2.1)	-	(13.0)
At 31 March 2012	4.9	2,335.4	28.9	53.2	(487.6)	1,934.8
Depreciation						
At 1 April 2011	0.6	700.2	13.8	18.2	(133.5)	599.3
Charge for the year	0.1	43.8	5.8	3.8	(7.3)	46.2
Disposals and retirements	-	(4.6)	(6.3)	(1.9)	-	(12.8)
At 31 March 2012	0.7	739.4	13.3	20.1	(140.8)	632.7
Net book value						
At 31 March 2012	4.2	1,596.0	15.6	33.1	(346.8)	1,302.1
At 1 April 2011	4.3	1,480.7	14.1	20.4	(322.7)	1,196.8

All non network land and buildings are freehold. The net book value of land and buildings within the distribution network above is £110.4m (2011 £105.6m), these are all freehold.

Notes to the financial statements

For the year ended 31 March 2012

11. Tangible fixed assets (continued)

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

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2012 to £20.6m (2011 £11.5m) and land at a cost of £31.2m (2011 £28.9m)

During the year the Company reviewed the useful economic life of its underground cable assets. Effective 1 April 2011, after considering information from Ofgem and other internal surveys, the useful life of underground cable was extended from 60 to 70 years. The effect of this revision is a reduction in the charge to profit before tax for the year of £1.3m.

12. Investments

	Group debt (1) £m
Cost	
At 1 April 2011	33.0
Exchange adjustments	0.1
At 31 March 2012	33.1
Provision for impairment	
At 1 April 2011 and 31 March 2012	-
Net book value	
At 31 March 2012	33.1
At 1 April 2011	33.0

(1) Investment in Group parent debt

Investments in Group debt relate to the Company's held-to-maturity interest in unsecured US dollar denominated bonds of PPL WW Holdings Limited, maturing in 2028. The exchange gain of £0.1m is recognised in the profit and loss account and recorded within 'income from fixed asset investments'.

13. Stocks

	2012 £m	2011 £m
Raw materials and consumables	3.6	3.3
Work in progress	0.5	0.4
	4.1	3.7

Notes to the financial statements

For the year ended 31 March 2012

14. Debtors

	2012 £m	2011 £m
Amounts falling due within one year		
Trade debtors	51.1	44.5
Amounts owed by other WPD undertakings	12.1	5.0
Other debtors	16.3	1.6
Prepayments and accrued income		
Pensions	2.5	41.6
Other	8.0	5.9
Amounts falling due after more than one year		
Other debtors	2.9	1.7
Prepayments and accrued income	0.6	0.6
	93.5	100.9

Amounts owed by other WPD undertakings are unsecured and are repayable on demand

15. Creditors

	2012 £m	2011 £m
Amounts falling due within one year		
Bank loans and overdrafts	23.5	9.3
Payments received on account	12.8	11.5
Trade creditors	10.8	9.5
Amounts owed to other WPD undertakings	115.4	92.7
UK corporation tax	25.9	9.8
Other taxation and social security	11.6	4.7
Other creditors	11.2	11.1
Accruals and deferred income	24.7	18.9
	235.9	167.5
Amounts falling due after more than one year		
Unsecured borrowings repayable after more than five years		
£250m 5.875% bonds 2027	247.6	247.4
£200m 5.75% bonds 2040	196.7	196.6
£105m 1.541% index linked bonds 2053	124.7	120.0
£120m 1.541% index linked bonds 2056	142.6	137.2
	711.6	701.2

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

Notes to the financial statements

For the year ended 31 March 2012

15 Creditors (continued)

Unsecured borrowings are stated net of unamortised issue costs of £3.1m (2011 £3.2m). 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.

16. Provisions for liabilities and charges

	Deferred taxation (Note 17) £m	Other £m	Total £m
At 1 April 2011	95.7	3.3	99.0
(Released)/arising during the year	(6.3)	1.4	(4.9)
Utilised during the year	-	(0.7)	(0.7)
At 31 March 2012	89.4	4.0	93.4

Other provisions at 31 March 2012 substantially relate to uninsured losses and an expected settlement of liabilities to the Electricity Association Technology Limited ("EATL") relating primarily to a pension deficit in that company. The liability in respect of the EATL is being settled over a period of approximately 10 years, the directors expect other provisions to be settled within the next two years.

17. Deferred tax

	2012 £m	2011 £m
Accelerated capital allowances	148.8	157.3
Chargeable gain on sale of electricity supply business	-	14.3
Other timing differences	(0.1)	(3.9)
Undiscounted provision for deferred tax	148.7	167.7
Discount	(59.3)	(72.0)
Discounted provision for deferred tax (Note 16)	89.4	95.7
	2012 £m	2011 £m
Provision for deferred tax at 1 April	95.7	121.9
Deferred tax credit in profit and loss account (Note 6(a))	(6.3)	(26.2)
Provision for deferred tax at 31 March	89.4	95.7

Notes to the financial statements

For the year ended 31 March 2012

17. Deferred tax (continued)

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the deferred tax benefit through future taxable profits is probable. The Company did not recognise deferred tax assets of £100.3m (2011: £108.7m) in respect of capital losses amounting to £418.0m (2011: £418.0m) that can be carried forward against future taxable chargeable gains.

18. Called-up share capital

	2012 £	2011 £
Allotted, called-up and fully paid:		
726,306,245 ordinary shares of 50p each	363,153,123	363,153,123

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2011	4.1	6.2	1.2	62.4
Profit for the financial year	-	-	-	91.8
Dividends paid	-	-	-	(28.9)
Cash flow hedges transfers from net profit (net of tax)	-	-	(0.1)	-
At 31 March 2012	4.1	6.2	1.1	125.3

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

The hedging reserve includes value received in respect of interest rate derivatives entered into in anticipation of the issue of long-term debt, the gain is being amortised through the profit and loss account over the term of the debt.

20. Reconciliation of movements in equity shareholders' funds

	2012 £m	2011 £m
Profit for the financial year	91.8	100.4
Dividends	(28.9)	(140.0)
Net movement in hedging reserve	(0.1)	-
New shares issued	-	140.0
Net increase in equity shareholders' funds	62.8	100.4
Opening equity shareholders' funds	437.1	336.7
Closing equity shareholders' funds	499.9	437.1

Notes to the financial statements

For the year ended 31 March 2012

21 Capital and other commitments

a) There are annual commitments under operating leases which expire

	2012 £m	2011 £m
In the second to fifth year - land and buildings	0.3	0.3

b) Fixed asset expenditure contracted but not provided for in the financial statements at 31 March 2012 was £4.8m (2011 £3.7m)

22. 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 23)

23. Ultimate parent undertaking

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

The smallest group in which the results of the Company are consolidated is headed by PPL WW Holdings Limited. 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:

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