

Registered Number: 2366985

WESTERN POWER DISTRIBUTION (SOUTH WALES) plc

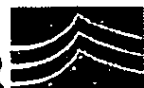
ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2013

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



WESTERN POWER
DISTRIBUTION



Serving the Midlands, South West and Wales

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Directors' report

For the year ended 31 March 2013

The directors present their annual report and the audited financial statements of Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales"), company number 2366985, for the year ended 31 March 2013

WPD South Wales 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 ("PPL WW") 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 2013.

Principal activity

WPD South Wales' principal activity is the distribution of electricity within its authorised area covering South Wales

The principal activity of the PPL WW Holdings Limited group ("WW 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 Wales and Western Power Distribution (South West) plc ("WPD South West"), together with certain other items, are funded primarily through dividend payments from WPD South Wales and WPD South West.

PPL WEM Holdings plc, an affiliate of PPL WW, is the owner of Western Power Distribution (East Midlands) plc ("WPD East Midlands") and Western Power Distribution (West Midlands) plc ("WPD West Midlands"), collectively "WPD Midlands" and which was acquired on 1 April 2011. The principal activity of the PPL WEM Holdings plc group ("WEM Group") is the distribution of electricity across the East and West Midlands regions of England. WPD Midlands was previously known as Central Networks.

The WW Group and WEM Group 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, South Wales and the Midlands areas of England and, where appropriate, they share engineering control and other systems.

Ownership

WPD South Wales 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 Wales is a monopoly regulated by licence and operates under a price control regime. WPD South Wales' distribution licence authorises it to distribute electricity in an area covering approximately 11,800 square kilometres in southern Wales, including such areas as the Brecon Beacons National Park to the north and the city of Cardiff in the south. WPD South Wales' network comprises approximately 18,053 km of overhead lines, 17,307 km of underground cable, and 39,731 transformers providing an electricity supply to 1.1 million end users.

During 2012/13, the maximum demand recorded was 2,068 megawatts (2011/12 2,036 megawatts).

Directors' report (continued)

For the year ended 31 March 2013

Business review (continued)

The operations of WPD South Wales are regulated under its distribution licence under which income is generated subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The charges made for the use of the distribution network are regulated on the basis of the 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 Wales will be allowed to increase its prices by an average of 6.2% plus inflation in each of the five years of this period. In return for the revenue WPD South Wales will be allowed to earn in this period, Ofgem introduced from 1 April 2010 new obligations 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 October 2010, Ofgem completed a comprehensive review of the 20 year old framework of monopoly network regulation. They introduced a new approach for sustainable network regulation, to be delivered by the "RIIO" model where $\text{Revenue} = \text{Incentives} + \text{Innovation} + \text{Outputs}$. 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 Wales' next price review (known as RIIO-ED1), effective from 1 April 2015 and which is expected to apply for eight years, will embody these principles.

In February 2012 Ofgem launched the start of RIIO ED1, the first electricity distribution price control review under RIIO. Following a strategy consultation published in September 2012, Ofgem published its Strategy Decision in March 2013. WPD has been actively engaged in developing an outputs based Business Plan and shaping the RIIO-ED1 framework within which the Plan 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. As we now 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 agreed.

A combination of targeted investment and close monitoring of performance has ensured that we have out-performed in all areas of the business. WPD South Wales, during the year recorded just one failure against Ofgem's national Customer Guarantee Service Standards for network performance, and zero failures for the year against the 37 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.

Directors' report (continued)

For the year ended 31 March 2013

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.

There were no lost time accidents to staff working in WPD South Wales in 2012/13 nor in 2011/12, and 2 in 2010/11.

The number of non-lost time accidents to staff working in WPD South Wales was 6 in 2012/13. This compares with 17 reported in 2011/12. The total number of accidents across WPD as a whole unfortunately rose to 133 in 2012/13 from 120 in 2011/12.

The integration of WPD Midlands into the WPD Safety Management System was completed during 2012/13.

Following the acquisition in April 2011, the Safety Team focused on the following areas of work:

- continue to support WPD South West and WPD South Wales staff to maintain a clear focus on safety
- support and assist WPD Midlands staff to develop and maintain a clear "WPD style" focus on safety through a period of significant organisational change and upheaval
- carry out a gap analysis of the differences between WPD and Central Networks Safety Management Systems, so that additions and changes could be identified and implemented
- reorganisation of the Central Networks Safety and Training Team into the WPD structure
- delivery of training to WPD Midlands staff on general and operational safety rules and procedures
- introduction of existing WPD procedures into WPD Midlands within 12 months of acquisition

The WPD Distribution Safety Rules ("DSRs") and authorisations, together with WPD operational and general health and safety policy, were introduced successfully into WPD Midlands in March 2012 after the Safety Team delivered more than 250 local briefing sessions. At the same time, new DSRs were introduced into WPD South West and WPD South Wales.

WPD Midlands Team Managers and Distribution Managers have been actively supported in the new safety responsibilities during one-to-one visits by members of the Safety Team.

In December, a formal audit concluded that the combined Safety Management Systems conforms to OHSAS 18801:2007.

A new arc and flame retardant clothing policy has been introduced into the Company.

During the autumn, members of the Safety Team visited all WPD depots for face-to-face sessions with staff entitled "Safety Fundamentals" focusing on the basics of PPE (personal protective equipment) and compliance with the principles of WPD Policy.

Directors' report (continued)

For the year ended 31 March 2013

Business review (continued)

Safety (continued)

There was one formal Improvement Notice invoked against WPD by the Health & Safety Executive ("HSE") during 2012/13. This notice was issued following an audit in which a number of low voltage ("LV") overhead lines were found to be below the statutory minimum ground clearance of 5.8m across roadways. Actions are currently being undertaken to comply with this notice. These actions include:

- revisions to WPD Overhead Inspection Policy to include the recording of line heights on CROWN (WPD's capital system), audit of inspection outputs and the introduction of a task-specific authorisation and computer based competence check
- a sample check of LV overhead line road crossings across all four of WPD's licence areas
- a training session for all WPD overhead line inspection staff and contractors

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.

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

	<u>Total</u>	<u>Target less than</u>
Minutes lost per customer 2012/13	35.3	
Excluded events	(5.5)	
IIS Performance 2012/13	29.8	44.6
IIS Performance 2011/12	31.4	44.6
Interruptions per 100 customers 2012/13	53.3	
Excluded events	(4.9)	
IIS Performance 2012/13	48.4	79.5
IIS Performance 2011/12	52.8	79.5

The figures above cover all reportable interruptions longer than three minutes in duration occurring on the WPD South Wales network including those caused by bad weather and other faults together with 50% of CI and CML due to pre-arranged shutdowns for maintenance and construction. The 11kV network is the principal driver of customer minutes lost, with faults on overhead lines being the major contributor. In addition to the performance reported under IIS above, 87.5% of customers off supply in South Wales as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring.

Directors' report (continued)

For the year ended 31 March 2013

Business review (continued)

Network performance (continued)

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 number of faults experienced or, for a one-off event, in terms of either the number of customers affected or the duration of the incident. If an event meets these prescribed thresholds, the DNO must notify Ofgem who will conduct an audit to determine the impact of the event. As part of the audit process the DNO must demonstrate that it mitigated against the impact of the event to the best of its ability before Ofgem will exclude the CI and CML incurred. WPD South Wales reported two exceptional events to Ofgem during the year.

Subject to Ofgem confirmation, our IIS CML and CI of 29.8 customer minutes lost and 48.4 interruptions per 100 customers for the year are within our targets of 44.6 and 79.5 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 2013/14 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 Wales since April 2003. energywatch was replaced by The Energy Ombudsman ("Ombudsman") with effect from 1 October 2008. WPD South West and WPD South Wales have completed a fourth year of the statutory Energy Ombudsman Scheme with zero customer complaints.

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 four years of operation of the statutory scheme.

Discretionary Reward Scheme

For 2012/13 Ofgem replaced the Discretionary Reward Scheme with a Stakeholder Award Scheme (which is a key element of Ofgem's new Broad Measure of Customer Satisfaction). This was piloted in 2012/13 which meant that no monetary incentive was awarded. Only three of the six DNO groups met the minimum requirements (based on written submissions). Of these WPD was awarded the highest score of 8.6 out of 10 for the overall submission which included a question and answer session with the judging panel.

Directors' report (continued)

For the year ended 31 March 2013

Business review (continued)

Customer service (continued)

Broad Measure of Customer Satisfaction

From April 2012, the Broad Measure of Customer Satisfaction Incentive replaced the telephone customer service survey incentive. A research agency undertakes a monthly satisfaction survey of DNO customers who contact the DNO to report loss of supply, have a general enquiry or request a new connection. As at March 2013, the four WPD DNOs were ranked joint 1st place (WPD South Wales and WPD South West), 3rd place (WPD East Midlands) and 5th place (WPD West Midlands) in the league table of all DNOs for the new incentive matrix.

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 13.3 seconds.

National Customer Service Excellence Standard

We have been fully reaccredited to the Customer Service Excellence Standard including WPD Midlands for the first time. The assessor visited a number of locations across WPD and was particularly complimentary of the achievements made in the Midlands since acquisition.

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 November 2012 and February 2013, WPD held a series of stakeholder workshops in Exeter, Cardiff, Bristol, Nottingham, Birmingham and Gloucester to discuss options for the draft business plan for 2015-2023. The workshops focussed on 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, students, vulnerable customer groups, parish councils, health trusts and universities. This included sessions specifically addressing social obligations and the views of future customers.

Deaf Awareness Chartermark

WPD holds the Action on Hearing Loss (formerly RNID) 'Louder Than Words' accreditation. We are the only DNO groups to have held the accreditation for 3 and 5 years respectively for WPD South Wales/WPD South West and WPD Midlands.

Future Networks - Research, Innovation and Low Carbon Networks

As part of DPC5, Ofgem introduced the Low Carbon Network ("LCN") Fund. It was set up to encourage DNOs to test new technology and commercial arrangements to support the UK's low carbon transition and climate change objectives.

The LCN fund, totalling £500m over the period 2010-2015, is made available through an annual Ofgem led competition for "flagship" demonstration projects (termed "Tier 2" projects). There is also an annual allowance allocated to each DNO (called "Tier 1" with £21m over the five years for WPD) to enable smaller demonstration projects to be developed with less regulatory oversight. WPD also has an active research and development programme focussed on emerging technologies. This is supported by Ofgem's Innovation Funding Incentive ("IFI") scheme (with an allowance of up to £28m over the five years for WPD).

Directors' report (continued)

For the year ended 31 March 2013

Business review (continued)

Future Networks - Research, Innovation and Low Carbon Networks (continued)

After three years of operation WPD has secured funding for five Tier 2 flagship projects, worth approximately £50m, more than any other DNO group, making WPD a clear leader in network innovation. The projects are making good progress with valuable learning emerging as we try new solutions.

- 2011 – LV Templates for a Low Carbon Future – Based on LV data collected from the most extensively monitored distributed network in Britain (nearly 1,000 substations in South Wales), the project is in the final stages of developing a new suite of customer consumption profiles that will enable us to improve our utilisation of network assets without impacting customer supply security.
- 2011 – The Lincolnshire Low Carbon Hub – The project is building a 33kV renewable generation ready “hub” across a large part of the East Midlands coastal region. After several technical network design challenges and a shift in government policy towards onshore wind the project has now moved into the construction stage. The project timeline will be recovered during the construction stage.
- 2012 – Flexible and Low Carbon Optimised Networks (“FALCON”) – The project is developing a fully interactive 11kV power flow nodal model for the city of Milton Keynes. The model (called a “SIM” – Scenario Investment Model) will be populated by data on the real time state of the local grid, together with feedback from a suite of smarter grid demonstration techniques across the city. It will allow DNOs to automatically develop optimised investment plans based on a range of future energy scenarios.
- 2012 – SoLa BRISTOL – The project is demonstrating the concept of coordinating disparate energy controllers located at customer premises to maintain substations within capacity. The project will provide valuable control logic for future despatch and control of virtual power plants and electric vehicle charging. In this project the remote energy is stored in battery systems, charged from PV (photovoltaic solar panel) systems on customer roofs. The project also includes the conversion of some customer internal system from alternating to direct current (AC to DC) to improve energy efficiency.
- 2013 – FlexDGrid – The transition of the UK energy system from one of centralised energy generation, to one where distributed generation plays a greater role, is leading to new network challenges. In particular the introduction of CHP (combined heat and power) in urban environments is leading to a significant increase in electrical short circuit potential currents (called the “Fault Level”). This new project will demonstrate innovative means of modelling, measuring and controlling fault levels in 10 primary substations serving the central business district of Birmingham, Britain’s second largest city.

WPD have also registered eleven Tier 1 projects with Ofgem covering a broad range of topics, including such themes as wireless charging of electric vehicles and supporting community based energy initiatives. The research and development programme consists of approximately 30 projects, in addition to several national programmes where WPD collaborates with other industry organisations.

In autumn 2012 WPD hosted the national Low Carbon Networks annual conference. The event, held in the Millennium Centre Cardiff, was a huge success, receiving praise from Ofgem and UK government attendees. It was attended by over 500 delegates, double the number in the previous year. Delegates represented energy businesses from across Europe, UK academia and global manufacturers.

Directors' report (continued)

For the year ended 31 March 2013

Business review (continued)

Social and community issues

WPD Community Support/Sponsorship programme 2012/13

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. The three themes of education, safety and the environment continued to form the bedrock of our support activity during a year that saw assistance to around 350 separate charitable and non-charitable organisations. Highlights included:

- continuing our tree planting partnerships with the British Trust for Conservation Volunteers and the Silvanus Trust (over 7,000 trees and shrubs planted), whilst our "Keen to be Green" brand has also been used to develop links with Wildlife Trusts in Derby, Leicestershire & Rutland, Gloucester, Avon, Somerset, Devon and parts of Wales, with Wildfowl and Wetland schemes, and as part of environmental awards involving a number of schools
- continuing to promote WPD's Priority Services Register with roadshows and events involving organisations like Wales Council for the Blind, Age UK and Age Cymru, who we also enlisted to provide specialist training for WPD Contact Centre staff dealing with older customers
- working with the police and other agencies as part of anti-metal theft and safety initiatives. Cable information booklets and wall charts were produced to enable scrap dealers and police to easily identify WPD property, while new "Substation Watch" leaflets and fridge magnets were targeted at encouraging customers to report anything suspicious around our infrastructure
- continuing to work with police and other agencies like Age UK and Care and Repair on initiatives designed to protect vulnerable and older customers from doorstep crime in South Wales, Avon and Somerset and the East Midlands
- our two community education safety advisers attended around 120 separate events during the year for schoolchildren, including school visits, crucial crew and lifeskills initiatives across all WPD regions
- launching WPD's new education website in September 2012, the Power Discovery Zone, an interactive, curriculum-linked resource for schools that relates to electricity and safety
- partnering three regional newspapers in a six month Cash for the Community initiative which began in October 2012 (covering West Wales, Devon and Gloucestershire). We provided funding of £25,000 per region to support community groups, charities and not-for-profit organisations
- initiating partnerships with two radio stations in South West Wales, Swansea Sound and The Wave, for a children's summer safety campaign involving our safety character Pylonman. Staff took part in radio roadshows promoting the messages around playing safe and keeping away from WPD infrastructure
- supporting two major Welsh language activities during the year, the Urdd's Action song, which was a televised event at the Wales Millennium Centre involving Welsh schools, and the Welsh National Eisteddfod's Science and Technology pavilion

While maintaining these three core themes, we have also continued to tailor our support to align, where appropriate, the feedback from our stakeholders and customer opinion research. In particular, we have sought to establish initiatives, like our Community Chest partnership with the Centre for Sustainable Energy, that help 'fuel poor' customers reduce their energy consumption. An investment of £65,000 during the year provided grants to 66 successful applicants from across our network area for such things as heating and lighting upgrades, insulation and door and window draft excluders at community buildings and village halls run by trusts or non-profit making groups.

Directors' report (continued)

For the year ended 31 March 2013

Business review (continued)

Capital investment

Gross capital investment (before customers' contributions) during the year was £122.0m across the WPD South Wales region and included the replacement of both overhead lines and switchgear together with the introduction of new technology.

A number of significant projects were undertaken during the year:

- **Morlanga Farm 33/11kV substation** A major asset replacement scheme was completed at Morlanga Farm Tumble 33/11kV substation to the west of Swansea during the latter part of 2012. The scheme involved the installation/replacement of the 33/11kV transformers, the 33kV outdoor circuit breakers plus a 7 panel 11kV switchboard together with replacement of associated isolators, structure protection and telecontrol equipment. In addition to electrical works, the substation security was improved using riveted earth tape, anti-vandal paint, and improved lighting. Morlanga is situated on a 33kV ring out of Upperboat grid substation along with Ironbridge and Creigau primaries, and as a consequence of the above changes it will help to improve the reliability of this network. The financial commitment was £850,000 for what was in effect a complete rebuild of a primary substation. The scheme is now finalised and will serve customers well in West Wales for many years into the future.
- **Briton Ferry Grid 132kV/33kV substation** A major asset replacement scheme was completed at Briton Ferry 132kV substation during 2012. The scheme involved the installation of new 90MVA 132/33kV transformers together with two new 33kV auxiliary earthing transformers plus a 7 panel 11kV switchboard was replaced at the Briton Ferry local 33/11kV substation located within the confines of the main 132kV substation. The transformer protection including voltage control systems were also upgraded. The site is located adjacent to Baglan Bay power station to the east of Swansea and is likely to be pivotal in future WPD plans to reinforce the entire 132kV system between Swansea North grid supply point and Pyle grid supply point to allow connection of major generation into the National Grid 275kV system. The financial commitment was £1.8m for what was in effect a complete rebuild of the grid substation with the exception of the 33kV switchgear, which will be done in the near future. The scheme will serve customers well in the Briton Ferry, Neath and Port Talbot areas for many years to come as well as being made ready for future network changes planned by National Grid Transmission.

Regulatory issues

2012/13 was the third year of the five year DPC5 price control period. WPD South Wales will be allowed to increase its prices by an average of 6.2% plus inflation in each of the five years of DPC5.

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 Wales staff have received an updated code of conduct on fair competition.

During the eleventh 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 2013

Regulatory issues (continued)

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 became effective on 1 April 2010 and continues to 31 March 2015.

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.

WPD'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 a major failure is considered very remote.

Directors' report (continued)

For the year ended 31 March 2013

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 regulated income.

In March 2010 the WW Group announced that, with very limited exception, 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 the WW Group'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
- a 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 2013

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 material 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. This includes the Information Technology environment which supports the financial processes. 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 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 items at WPD South Wales are denominated in sterling and therefore there is no currency risk exposure.

Credit rate risk

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

Any cash deposits are only made by WPD to third parties with a high credit rating (not below a long-term rating of A/A2/A and a short-term rating of A1/P1/F1 by Standard and Poor's, Moody's and Fitch, respectively) and within strict limits imposed by the appropriate Board.

Directors' report (continued)

For the year ended 31 March 2013

Principal risks and uncertainties (continued)

Treasury (continued)

Interest rate risk

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

Liquidity and going concern

WPD South Wales, as part of the WW Group, is supported by credit facilities at other companies within the WW Group as described below

On a day-to-day basis, WPD South West provides liquidity to the whole of WPD. It has borrowing arrangements in place with a range of third parties with high credit ratings. At 31 March 2013, 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 2013. In addition, it had uncommitted facilities of £65m all of which was undrawn at 31 March 2013.

In addition, at 31 March 2013 the WW Group's parent, PPL WW Holdings Limited ("PPL WW"), had a £210m committed borrowing facility that expires in December 2016 of which all conditions precedent had been met at that date, at 31 March 2013, it had drawn £113m against these facilities and thus had £97m 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 2013, WPD South Wales had £565.4m (2012: £564.9m) of external debt outstanding which was all long term. It had cash and short term deposits of £102.3m (2012: £82.4m).

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 2013 was £97.5m (2012: £77.8m). Profit on ordinary activities before tax was £107.9m (2012: £97.6m).

For the year to 31 March 2013 dividends paid by the Company totalled £19.8m (2012: £41.6m).

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 by WPD during the year was 21 days (2012: 16 days).

Directors' report (continued)

For the year ended 31 March 2013

Charitable donations

During the year ended 31 March 2013, donations of £99,419 were made by the Company to community organisations of which £6,033 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 £46,409 to organisations in South Wales in 2012/13.

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	15 September 2000
DCS Oosthuizen, Finance Director	4 January 2001
DG Harris, Resources and External Affairs Director	1 April 2004
RL Klingensmith, non-executive director and President PPL Global	14 February 2007
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.

Insurance in respect of directors and officers is maintained by the WPD'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.

Subsequent to the year end, on 18 June 2013 the Board approved the appointment of P Swift as a Director with effect from 1 July 2013. He will be Operations Director.

Regulatory financial statements

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

Directors' report (continued)

For the year ended 31 March 2013

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

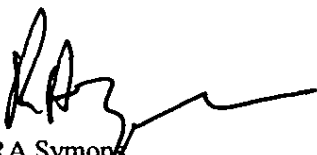
Each of the directors listed above confirm to the best of their knowledge

- (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

10 July 2013

Western Power Distribution (South Wales) plc

Avonbank

Feeder Road

Bristol BS2 0TB

Statement of directors' responsibilities

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

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

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

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

Independent auditors' report

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

We have audited the financial statements of Western Power Distribution (South Wales) plc for the year ended 31 March 2013 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Statement of cash flows and Notes to the statements 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities (set out on page 16), 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 Annual 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 2013 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.

Independent auditors' report

to the members of Western Power Distribution (South Wales) plc (continued)

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

Ernst & Young LLP

Christabel Cowling, Senior Statutory Auditor

For and on behalf of Ernst & Young LLP, Statutory Auditor, Bristol

15 July 2013

Profit and loss account

For the year ended 31 March 2013

	Note	2013 £m	2012 £m
Turnover	2	242.0	229.3
Operating expenses	3	(105.2)	(102.4)
Operating profit	4	136.8	126.9
Profit on sale of fixed assets		0.1	-
Profit on ordinary activities before interest and tax		136.9	126.9
Interest receivable and similar income	5	6.9	7.0
Interest payable and similar charges	5	(36.1)	(36.5)
Other finance income	6	0.2	0.2
Profit on ordinary activities before tax	2	107.9	97.6
Tax on profit on ordinary activities	7	(10.4)	(19.8)
Profit for the financial year		97.5	77.8

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 2013

	Note	2013 £m	2012 £m
Profit for the financial year		97.5	77.8
Actuarial loss recognised in the Infralec 92 pension scheme	10(d)	(0.8)	(1.5)
Movement on deferred tax relating to the Infralec 92 pension scheme		0.2	0.4
Actuarial loss recognised in the WPUPS pension scheme	10(e)	(33.0)	(38.0)
Movement recognised on WPUPS reimbursement agreement	10(e)	33.0	38.0
Movement on deferred tax relating to the WPUPS pension scheme		5.9	6.7
Movement on hedging reserve (net of tax)	19	(0.3)	(0.3)
Total recognised gains for the year		102.5	83.1

The accompanying notes are an integral part of these financial statements

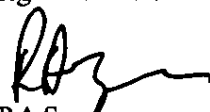
Balance sheet


31 March 2013

	Note	2013 £m	2012 £m
Fixed assets			
Tangible assets	12	1,037.0	957.9
		1,037.0	957.9
Current assets			
Stocks	13	1.2	0.8
Debtors	14		
Amounts falling due within one year		408.7	444.1
Amounts falling due after more than one year		98.9	69.1
Short term deposits		101.0	73.2
Cash at bank		1.3	9.2
		611.1	596.4
Creditors			
Amounts falling due within one year	15	(90.1)	(100.4)
Net current assets		521.0	496.0
Total assets less current liabilities		1,558.0	1,453.9
Creditors			
Amounts falling due after more than one year	15	(565.4)	(564.9)
Provisions for liabilities and charges			
Deferred tax	16	(64.9)	(67.8)
Other	16	(0.7)	(0.7)
Net assets excluding pension liability		927.0	820.5
Pension liability (net of tax)	10	(77.9)	(54.1)
Net assets including pension liability		849.1	766.4
Capital and reserves			
Called-up share capital	18	251.7	251.7
Share premium account	19	23.2	23.2
Capital redemption reserve	19	5.1	5.1
Hedging reserve	19	7.5	7.8
Profit and loss account	19	561.6	478.6
Total shareholders' funds	20	849.1	766.4

The accompanying notes are an integral part of these financial statements

The financial statements on pages 19 to 49 were approved by the Board of Directors on 10 July 2013 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 2013

	Cash flow note	£m	2013 £m	£m	2012 £m
Net cash inflow from operating activities	A		159.3		172.6
Returns on investments and servicing of finance					
Interest received		5.4		5.5	
Interest paid		<u>(36.2)</u>		<u>(36.2)</u>	
Net cash outflow from returns on investments and servicing of finance			(30.8)		(30.7)
Tax/group relief paid			(8.0)		(8.6)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(130.3)		(108.1)	
Customers' contributions received		20.9		21.8	
Sale of tangible fixed assets		<u>0.2</u>		<u>-</u>	
Net cash outflow from capital expenditure and financial investment			(109.2)		(86.3)
Equity dividends paid			<u>(19.8)</u>		<u>(41.6)</u>
Cash (outflow)/inflow before use of liquid resources and financing			(8.5)		5.4
Management of liquid resources					
(Increase)/decrease in short-term deposits		<u>(27.8)</u>		<u>17.8</u>	
Net cash (outflow)/inflow from management of liquid resources			(27.8)		17.8
Financing					
Increase/(decrease) in balances due from other WPD undertakings		<u>28.4</u>		<u>(14.3)</u>	
Net cash inflow/(outflow) from financing			28.4		(14.3)
(Decrease)/increase in cash in the year	B, C		(7.9)		8.9

The accompanying notes are an integral part of these financial statements

Notes to the statement of cash flows

For the year ended 31 March 2013

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

	2013 £m	2012 £m
Operating profit	136.8	126.9
Depreciation	26.8	24.9
Increase in stocks	(0.4)	-
(Increase)/decrease in debtors	(1.7)	19.5
(Decrease)/increase in creditors	(1.9)	2.0
Decrease in provisions	-	(0.2)
Difference between pension charge and cash contributions	(0.3)	(0.5)
Net cash inflow from operating activities	159.3	172.6

B. Reconciliation of movements in net debt

	At 1 April 2012 £m	Cash flow £m	Other non-cash movements £m	At 31 March 2013 £m
Cash at bank	9.2	(7.9)	-	1.3
Short term deposits	73.2	27.8	-	101.0
Debt due after one year				
£150m 9.25% Eurobonds 2020	(149.1)	-	(0.1)	(149.2)
£225m 4.804% bonds 2037	(219.1)	-	(0.3)	(219.4)
£200m 5.75% bonds 2040	(196.7)	-	(0.1)	(196.8)
Balances with other WPD undertakings	390.9	(28.4)	1.4	363.9
	(91.6)	(8.5)	0.9	(99.2)

Other non-cash movements (other than balances with other WPD undertakings) relate to the amortisation of bond issue costs

The other 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 2013

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

	2013 £m	2012 £m
(Decrease)/increase in cash in the year	(7.9)	8.9
Increase/(decrease) in short-term deposits	27.8	(17.8)
Change in balances with other WPD undertakings	(28.4)	14.3
(Increase)/decrease in net debt resulting from cash flows	(8.5)	5.4
Non-cash changes		
Change in balances with other WPD undertakings	1.4	1.0
Other	(0.5)	(0.4)
(Increase)/decrease in net debt in year	(7.6)	6.0
Net debt at 1 April	(91.6)	(97.6)
Net debt at 31 March	(99.2)	(91.6)

Notes to the financial statements

For the year ended 31 March 2013

1. Accounting policies

The principal accounting policies are summarised below

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. Accounting policies are prepared under United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). They have been applied consistently throughout the year and the preceding year.

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 WW Group financial statements.

Going concern

The directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future due to the strength of its balance sheet. 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

WPD 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 2013

1. Accounting policies (continued)

Pension costs

The Company participates in three defined benefit pension schemes

- the Electricity Supply Pension Scheme ("ESPS"), to which most employees in WPD 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 The Company therefore charges contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme
- the Infralec 1992 Pensions Scheme ("Infralec 92") The Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales
- the Western Power Utilities Pension Scheme ("WPUPS") However, another WW Group company, PPL WW Holdings Limited, has accepted responsibility for liabilities for WPUPS and reimburses all contributions made by the Company The liability under FRS 17 in respect of WPUPS recorded in these financial statements is offset by the reimbursement agreement

Any capital cost of ex gratia and supplementary pensions, including early retirement deficiency contributions, are charged to the profit and loss account when a detailed plan is formulated and communicated

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

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 2013

1. Accounting policies (continued)

Tangible fixed assets (continued)

Assets are depreciated on a straight line basis. Customers' contributions towards distribution network assets, which include low carbon network funding and 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 12.

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.

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.

Short-term deposits

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

Cash at bank

Cash at bank comprises 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.

Notes to the financial statements

For the year ended 31 March 2013

1. Accounting policies (continued)

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 Wales 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.

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 sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

Notes to the financial statements

For the year ended 31 March 2013

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

	2013 £m	2012 £m
Employee costs (Note 9)	31.5	33.4
Depreciation	26.8	24.9
Property rates	15.1	14.4
Other operating expenses	31.8	29.7
Operating expenses	105.2	102.4

4. Operating profit

	2013 £m	2012 £m
Operating profit is stated after charging		
Depreciation *	26.8	24.9
Operating lease rentals		
Plant, machinery and equipment	0.6	0.1
Land and buildings	0.8	0.7
Research and development **	0.1	0.2
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.1	0.2

* Depreciation is stated net of depreciation capitalised of £4.0m (2012 £2.6m) in respect of equipment consumed during the construction of the electricity network

** Research and development costs above exclude expenditure on Low Carbon Network projects which is capitalised together with associated funding received

Notes to the financial statements

For the year ended 31 March 2013

5. Interest

	2013 £m	2012 £m
Interest payable and similar charges		
On loans from other WPD undertakings	0.2	0.3
Other loans	35.9	36.2
	36.1	36.5
Interest receivable and similar income		
On loans to other WPD undertakings	(6.4)	(6.4)
Other	(0.5)	(0.6)
	(6.9)	(7.0)
Interest expense (net)	29.2	29.5

6. Other finance income

	2013 £m	2012 £m
Expected return on pension scheme assets (Notes 10(d) and 10(e))	24.2	24.2
Interest on pension scheme liabilities (Notes 10(d) and 10(e))	(20.7)	(22.2)
Movement in reimbursement agreement (Note 10(e))	(3.3)	(1.8)
Other finance income	0.2	0.2

Notes to the financial statements

For the year ended 31 March 2013

7. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2013 £m	2012 £m
Current tax		
UK corporation tax on profits for the year	15.3	8.8
Adjustment in respect of prior years	(2.2)	0.3
Total current tax (Note 7(b))	13.1	9.1
Deferred tax		
Origination and reversal of timing differences	0.2	(0.9)
Decrease in discount	1.2	11.2
Impact of change in corporation tax rate	(5.7)	(11.3)
Adjustment in respect of prior years	0.7	(0.1)
Pension scheme timing differences	0.9	11.8
Total deferred tax (Note 17)	(2.7)	10.7
Tax charge on profit on ordinary activities	10.4	19.8

(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 24% (2012 26%). The differences are explained below

	2013 £m	2012 £m
Profit on ordinary activities before tax	107.9	97.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24% (2012 26%)	25.9	25.4
Effects of		
Expenses not deductible and income not taxable for tax purposes	0.6	2.0
Timing difference between capital allowances and depreciation	(3.0)	(3.0)
Timing differences related to pension payments	2.8	3.9
Adjustment to tax charge in respect of prior years	(2.2)	0.3
Pension scheme timing differences on commitments and liabilities	(0.9)	(11.8)
Group relief surrendered at non-standard rates	(10.1)	(7.7)
Current tax charge for the year (Note 7(a))	13.1	9.1

Notes to the financial statements

For the year ended 31 March 2013

7. Tax on profit on ordinary activities (continued)

(c) Factor which will affect future tax charges

The change from 24% to 23% with effect from 1 April 2013 was enacted by the Finance Act 2012

Further reductions to 21% from 1 April 2014 and to 20% from 1 April 2015 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 20% is expected to reduce the undiscounted deferred tax liability provided at 31 March 2013 by approximately £14.6m in 2014 with a corresponding credit to the profit and loss account. The impact on the deferred tax asset on pension liability at 31 March 2013 is expected to be a reduction of approximately £3.0m with a corresponding £3.0m credit to the profit and loss account and £6.0m charge to the statement of recognised gains and losses.

8. Dividends

	2013 £m	2012 £m
Dividends on equity shares		
Interim dividends - 3.9 pence per share (2012: 8.3 pence)	19.8	41.6

9. Employee costs and numbers (including executive directors)

(a) Employee costs

	2013 £m	2012 £m
Total employee costs during the year amounted to		
Wages and salaries	40.2	39.5
Social security costs	3.8	3.6
Pension costs	24.2	24.8
Total employee costs	68.2	67.9
Less allocated to capital expenditure	(36.7)	(34.5)
Charged to the profit and loss account	31.5	33.4

(b) The average number of employees during the year was 956 (2012: 962). All employees work for the network distribution activity. The number of staff and costs shown include a proportion of WPD South West and WEM Group staff who work in part for WPD South Wales, and exclude a proportion of WPD South Wales staff who work in part for WPD South West and the WEM Group.

Notes to the financial statements

For the year ended 31 March 2013

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

(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 £1.4m (2012 £1.1m). Fair value of the SARs is determined by using the Black-Scholes option-pricing model using the assumptions noted below. In 2013, WPD recorded total charges of £0.8m (2012 £0.7m) allocated roughly equally between WPD South West, WPD South Wales, WPD East Midlands and WPD West Midlands. The total intrinsic value at 31 March 2013 was £1.4m (2012 £0.5m).

The weighted average fair value of options granted during the year was £0.58 (2012 £0.26). The range of exercise prices for options outstanding at the end of the year was £24.14 - £11.97 (2012 £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.

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding as at 1 April	1,016,479	18.41	696,463	18.68
Granted during the year	317,825	19.66	322,534	17.77
Exercised	(166,465)	16.31	(806)	11.49
Forfeited	(220)	17.32	-	-
Expired during the year	(2,852)	18.40	(1,712)	11.63

Outstanding at 31 March	1,164,767	19.05	1,016,479	18.41
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Exercisable at 31 March	570,996	19.58	677,271	19.02
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The inputs into the Black-Scholes option-pricing model were

	2013	2012
Expected volatility	18.50%	20.60%
Expected life (years)	6	6
Risk-free rate	0.750%	0.875%
Expected dividend yield	5.46%	5.00%

The risk-free interest rate reflects the yield for a US Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behaviour. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption. The dividend yield is based on several factors, including PPL's most recent dividend payment, as of the grant date and the forecasted stock price through 2013.

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(a) Introduction

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

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity industry. One segment of the ESPS relates to the WW Group as a whole and most employees of the WW Group 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 offered to new employees.

Under the guidance of FRS 17, where an entity cannot separate out its share of the scheme's assets and liabilities on a reasonable and consistent basis, the relevant entity should account for pensions as if the scheme were a defined contribution scheme. The Company therefore charges contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme. In addition, any prepayment (as occurred in 2011) is debited to the balance sheet and amortised based on the agreed funding schedule. Full FRS 17 disclosure for the ESPS is made in the consolidated financial statements of PPL WW Holdings Limited. A summary is however given below.

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

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the deficit. However, as another WW Group company (PPL WW Holdings Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. No contributions were paid by the Company and reimbursed during the year ended 31 March 2013 (2012: £37.0m). The value of the reimbursement agreement is stated in the balance sheet (Note 14) and matches the gross liability recorded under FRS 17 (Note 10(e)).

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

(b) Net liability recognised in the balance sheet

	2013 £m	2012 £m
Infralec 92 (Note 10(d))	(1.8)	(1.6)
WPUPS (Note 10(e))	(76.1)	(52.5)
Net liability recognised	(77.9)	(54.1)

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(b) Net liability recognised in the balance sheet (continued)

As stated above, WPD South Wales is reimbursed for its liability in respect of WPUPS and the value of this reimbursement agreement is shown in Note 14

(c) ESPS

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

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

	2013	2012
RPI inflation	3.00%	2.75%
CPI inflation	2.00%	2.00%
Rate of increase in salaries	4.25%	4.00%
Rate of increase to pensions in payment	2.90%	2.70%
Discount rate for scheme liabilities	4.06%	4.63%

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 26.6 years if they are male and for a further 28.9 years if they are female. For a member who retires in 2033 at age 60 the assumptions are that they will live on average for a further 27.8 years after retirement if they are male and for a further 30.1 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

	2013 £m	2012 £m
Present value of obligations	1,892.7	1,650.4
Fair value of plan assets	(1,491.1)	(1,346.9)
Deficit in the scheme	401.6	303.5
Related deferred tax asset	(92.4)	(72.8)
Net pension liability	309.2	230.7

Employer contributions paid to the ESPS in respect of the WW Group were £61.5m (2012: £5.0m). Payments in the current year include a deficit contribution of £45.0m (2012: £5.0m).

ESPS pension costs borne by WPD South Wales are the full amounts as shown in Note 9.

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(d) Infralec 92

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

	2013	2012
RPI inflation	3.00%	2.75%
CPI inflation	2.00%	2.00%
RPI linked pension increases	2.90%	2.70%
Discount rate for scheme liabilities	4.06%	4.63%

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

The amounts recognised in the balance sheet are as follows

	2013 £m	2012 £m
Present value of obligations	12.3	10.8
Fair value of plan assets	(9.9)	(8.7)
Deficit in the scheme	2.4	2.1
Related deferred tax asset	(0.6)	(0.5)
Net pension liability	1.8	1.6

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

	2013 %	2012 %
Equities	9.0	9.0
Corporate bonds	4.35	5.20
Government bonds	3.15	3.50
Cash and other	0.80	1.75
Average expected long-term rate of return	7.6	7.7

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

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(d) Infracore 92 (continued)

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

	2013 %	2012 %
Equities	78	75
Corporate bonds	4	5
Government bonds	15	16
Cash and other	3	4

Analysis of profit and loss credit	2013 £m	2012 £m
Past service cost	-	0.2
Expected return on scheme assets	0.7	0.7
Interest on scheme liabilities	(0.5)	(0.5)
Net credit recognised in profit and loss account	0.2	0.4

Changes to the present value of the defined benefit obligation are as follows	2013 £m	2012 £m
Defined benefit obligation at 1 April	10.8	10.0
Interest cost	0.5	0.5
Actuarial losses on scheme liabilities	1.4	1.0
Net benefits paid out	(0.4)	(0.5)
Past service credit	-	(0.2)
Defined benefit obligation at 31 March	12.3	10.8

Changes to the fair value of the scheme assets are as follows	2013 £m	2012 £m
Fair value of scheme assets at 1 April	8.7	8.7
Expected return on scheme assets	0.7	0.7
Actuarial gains/(losses) on scheme assets	0.6	(0.5)
Employer contributions	0.3	0.3
Net benefits paid out	(0.4)	(0.5)
Fair value of scheme assets at 31 March	9.9	8.7

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(d) Infracore 92 (continued)

Actual return on scheme assets

	2013 £m	2012 £m
Expected return on scheme assets	0.7	0.7
Actuarial gains/(losses) on scheme assets	0.6	(0.5)
Actual gains on scheme assets	1.3	0.2

Cumulative actuarial gains and losses recognised in equity

	2013 £m	2012 £m
Cumulative actuarial losses at 1 April	(2.7)	(1.2)
Net actuarial losses recognised in the year	(0.8)	(1.5)
Cumulative actuarial losses at 31 March	(3.5)	(2.7)

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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	12.3	10.8	10.0	10.1	7.5
Fair value of scheme assets	(9.9)	(8.7)	(8.7)	(8.2)	(5.8)
Deficit in the scheme	2.4	2.1	1.3	1.9	1.7
Experience (losses)/gains on scheme liabilities *					
Amount (£m)	-	(0.2)	(0.1)	(0.1)	0.1
Experience gains/(losses) on scheme assets					
Amount (£m)	0.6	(0.5)	-	1.7	(2.2)

* Does not include the effect of changes to actuarial assumptions

Contributions of £0.3m are expected to be paid to the scheme during the financial year ending 31 March 2014

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(e) WPUPS

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits to previous employees of an affiliate group and was transferred to WPD South Wales in April 2002. The assets of the scheme are held separately from those of the Company in trustee administered funds. However, another WW Group company (PPL WW Holdings Limited) has taken full financial responsibility for this scheme and reimburses WPD South Wales for contributions it pays to WPUPS. The value of the reimbursement agreement is stated in the balance sheet (Note 14) and matches the deficit in the scheme recorded under FRS 17 as shown below.

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

	2013	2012
RPI inflation	3.00%	2.75%
CPI inflation	2.00%	2.00%
RPI linked pension increases	3.05%	2.80%
CPI linked pension increases	2.10%	2.10%
Discount rate for scheme liabilities	4.06%	4.63%

The mortality assumptions are based on the recent mortality experience of members within the scheme and the assumptions also allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 26.6 years if they are male and for a further 29.0 years if they are female. For a member who retires in 2033 at age 60 the assumptions are that they will live on average for a further 28.2 years after retirement if they are male and for a further 30.7 years after retirement if they are female.

In order to eliminate the funding deficit pursuant to the March 2010 actuarial valuation, the Company agreed to pay contributions of £13.0m per annum from 1 April 2011, payable quarterly in arrears and increasing in line with the Retail Prices Index on an annual basis. A prepayment of £37.0m was made in April 2011. Payments are expected to re-commence in late 2013 / early 2014. This will be subject to review at the next formal actuarial valuation as at 31 March 2013.

The amounts recognised in the balance sheet are as follows:

	2013 £m	2012 £m
Present value of obligations	508.0	446.6
Fair value of plan assets	(409.2)	(377.5)
Deficit in the scheme	98.8	69.1
Related deferred tax asset	(22.7)	(16.6)
Net pension liability	76.1	52.5

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(e) WPUPS (continued)

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

	2013 %	2012 %
Equities	9.0	9.0
Government bonds	3.15	3.50
Corporate bonds	4.35	5.20
Other	0.80	1.75
Average expected long-term rate of return	6.5	6.5

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

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

	2013 %	2012 %
Equities	57	53
Government bonds	43	42
Corporate bonds	-	4
Other	-	1

Analysis of profit and loss charge

	2013 £m	2012 £m
Past service cost	-	5.9
Expected return on scheme assets	23.5	23.5
Interest on scheme liabilities	(20.2)	(21.7)
Movement in reimbursement agreement recognised	(3.3)	(7.7)
Total recognised in profit and loss account	-	-

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(e) WPUPS (continued)

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

	2013 £m	2012 £m
Defined benefit obligation at 1 April	446.6	407.6
Interest cost	20.2	21.7
Net benefits paid out	(20.3)	(20.6)
Actuarial losses on scheme liabilities	61.5	43.8
Past service credit	-	(5.9)
Defined benefit obligation at 31 March	508.0	446.6

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

	2013 £m	2012 £m
Fair value of scheme assets at 1 April	377.5	331.8
Expected return on assets	23.5	23.5
Contributions - employer	-	37.0
Net benefits paid out	(20.3)	(20.6)
Actuarial gains on scheme assets	28.5	5.8
Fair value of scheme assets at 31 March	409.2	377.5

Actual returns on scheme assets are

	2013 £m	2012 £m
Expected return on scheme assets	23.5	23.5
Actuarial gains on scheme assets	28.5	5.8
Actual gain on scheme assets	52.0	29.3

Cumulative actuarial gains and losses recognised in equity.

	2013 £m	2012 £m
Cumulative actuarial losses at 1 April	(110.0)	(72.0)
Net actuarial losses recognised in the year	(33.0)	(38.0)
Cumulative actuarial losses at 31 March	(143.0)	(110.0)

Notes to the financial statements

For the year ended 31 March 2013

10. Pension commitments

(e) WPUPS (continued)

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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	508.0	446.6	407.6	391.5	309.0
Fair value of scheme assets	(409.2)	(377.5)	(331.8)	(311.5)	(255.6)
Deficit in the scheme	98.8	69.1	75.8	80.0	53.4
Experience (losses)/gains on scheme liabilities *					
Amount (£m)	(1.3)	(5.6)	(4.7)	4.1	(1.5)
Experience gains/(losses) on scheme assets					
Amount (£m)	28.5	5.8	0.8	58.7	(71.1)

* Does not include the effect of changes in assumptions

There are no contributions expected to be paid to the scheme during the financial year ending 31 March 2014

(f) Other scheme

WPD also operates a defined contribution scheme. The assets of the scheme are held separately from those of WPD 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 2013 there were 262 members with deferred benefits in the scheme (2012: 271) and 5 pensioners (2012: 1). Market value of the assets was £1.8m (2012: £1.6m).

(b) a new pension arrangement available to all new employees in WPD with effect from 1 April 2010. At 31 March 2013 there were 1,300 members (2012: 929). The market value of the assets of the open section of the scheme was £5.3m (2012: £1.0m). Employer contributions to the scheme amounted to £2.3m in the year (2012: £0.8m).

Notes to the financial statements

For the year ended 31 March 2013

11. 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 WPD companies as a whole. The costs are apportioned between WPD South Wales, WPD South West, WPD West Midlands and WPD East Midlands.

	Highest paid director		Total	
	2013	2012	2013	2012
	£000	£000	£000	£000
The emoluments of the executive directors comprised				
Base salary (note i)	720	486	1,316	1,059
Performance dependent bonus (note ii)	449	440	876	861
Integration bonus (note iii)	352	352	753	753
Long term incentive plan (note iv)	408	440	997	440
Pension compensation allowance (note v)	461	839	1,049	1,805
Fees to the independent non executive directors (note vii)	-	-	64	32
	2,390	2,557	5,055	4,950

(i) Base salary also includes benefits in kind

(ii) The amount of the annual bonus is currently 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 within each of the two years shown above, which covers the period since acquisition

(iv) Under a long term incentive plan, the three executive directors receive phantom stock options. The option price is set at the quoted share price of 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 2013, three executive directors were granted options (2012: three) and three executive directors exercised options (2012: nil). In addition, WPD's Chief Executive Officer and, from 2013, WPD's Finance Director receive annually a grant of PPL Corporation shares which cannot generally be accessed for three 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.

(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 10) on 5 April 2006 and elected for enhanced protection. WPD thus no longer contributes for ongoing service to the ESPS in respect of the executive directors. Instead, WPD pays cash compensation to them individually equivalent to the value of WPD's contribution in to the fund that would have been made had they remained active members (as determined by external actuaries). 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 ESPS (see (v) above). At 31 March 2013, the highest paid director had accrued annual pension benefits of £474,730 (2012: £451,665). 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.

Notes to the financial statements

For the year ended 31 March 2013

11. Directors' emoluments (continued)

(vii) The two independent UK non executive directors are entitled to fees as determined by the appropriate Board One is a director on the Board of each of the four WPD DNOs and the other is a director of PPL WW 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

12. Tangible fixed assets

	Leasehold improvements	Distribution network	Fixtures & equipment	Vehicles & mobile plant	Deduct customers' contributions	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2012	0.2	1,729.6	20.8	-	(362.6)	1,388.0
Additions	-	115.2	6.8	-	(21.3)	100.7
Transfer from group undertakings	-	-	-	9.3	-	9.3
Disposals and retirements	-	(4.0)	(4.8)	-	-	(8.8)
At 31 March 2013	0.2	1,840.8	22.8	9.3	(383.9)	1,489.2
Depreciation						
At 1 April 2012	-	542.5	7.9	-	(120.3)	430.1
Charge for the year	-	31.1	5.2	0.5	(6.0)	30.8
Disposals and retirements	-	(4.0)	(4.7)	-	-	(8.7)
At 31 March 2013	-	569.6	8.4	0.5	(126.3)	452.2
Net book value						
At 31 March 2013	0.2	1,271.2	14.4	8.8	(257.6)	1,037.0
At 1 April 2012	0.2	1,187.1	12.9	-	(242.3)	957.9

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

	2013 £m	2012 £m
Freehold	71.1	61.9
Short leasehold	0.1	0.3

Leasehold improvements above relate to a non-network property held on a long term lease Customers' contributions relate entirely to the construction of the distribution network. Transfer from group undertakings largely relates to the transfer of vehicles from WPD South West during the year

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2013 to £8.2m (2012 £5.7m) and land at a cost of £23.0m (2012 £21.9m)

Notes to the financial statements

For the year ended 31 March 2013

13. Stocks

	2013 £m	2012 £m
Raw materials and consumables	1.2	0.7
Work in progress	-	0.1
	1.2	0.8

14. Debtors

	2013 £m	2012 £m
Amounts falling due within one year		
Trade debtors	39.8	36.1
Amounts owed by other WPD undertakings	366.4	403.6
Prepayments		
Pensions	-	1.6
Other	2.5	2.8
	408.7	444.1
Amounts falling due after more than one year		
Reimbursement agreement re WPUPS (Note 10(e))	98.8	69.1
Prepayments	0.1	-
	98.9	69.1

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

Notes to the financial statements

For the year ended 31 March 2013

15. Creditors

	2013 £m	2012 £m
Amounts falling due within one year		
Payments received on account	10.8	11.5
Trade creditors	3.5	3.6
Amounts owed to other WPD undertakings	2.5	12.7
UK corporation tax	45.7	40.6
Other taxation and social security	10.0	10.5
Other creditors	0.2	0.4
Accruals and deferred income	17.4	21.1
	90.1	100.4
Amounts falling due after more than one year		
Unsecured borrowings repayable after more than five years		
£150m 9.25% Eurobonds 2020	149.2	149.1
£225m 4.804% bonds 2037	219.4	219.1
£200m 5.75% bonds 2040	196.8	196.7
	565.4	564.9

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

Unsecured borrowings are stated net of unamortised issue costs of £7.9m (2012: £8.3m). These costs together with the interest expense are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount.

16. Provisions for liabilities and charges

	Deferred taxation (Note 17) £m	Other £m	Total £m
At 1 April 2012	67.8	0.7	68.5
Released during the year	(2.9)	-	(2.9)
At 31 March 2013	64.9	0.7	65.6

Other provisions at 31 March 2013 substantially relate to uninsured losses and an expected settlement of liabilities to the Electricity Association Technology Limited ("EATL") of £0.4m relating primarily to a pension deficit in that company. The liability in respect of the EATL is being settled over a period of approximately 9 years; the directors expect the remaining provisions to be settled within the next two years.

Notes to the financial statements

For the year ended 31 March 2013

17. Deferred tax

	2013 £m	2012 £m
Accelerated capital allowances	113.7	114.5
Other timing differences	(2.7)	0.1
Undiscounted provision for deferred tax	111.0	114.6
Discount	(46.1)	(46.8)
Discounted provision for deferred tax (Note 16)	64.9	67.8
Deferred tax asset on pension liability (Note 10)	(23.3)	(17.1)
Provision at end of year including deferred tax on pension liability	41.6	50.7
	2013 £m	2012 £m
Provision for deferred tax at 1 April	50.7	47.4
Deferred tax (credit)/charge in profit and loss account (Note 7(a))	(2.7)	10.7
Credited to statement of total recognised gains and losses	(6.4)	(7.4)
Provision for deferred tax at 31 March	41.6	50.7

18. Called-up share capital

	2013 £	2012 £
Allotted, called-up and fully paid:		
503,442,224 ordinary shares of 50p each	251,721,112	251,721,112

Notes to the financial statements

For the year ended 31 March 2013

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2012	23.2	5.1	7.8	478.6
Actuarial loss on pension schemes (Note 10)	-	-	-	(33.8)
Movement on deferred tax relating to actuarial loss recognised above	-	-	-	8.1
Impact of tax rate change on cumulative actuarial gains	-	-	-	(2.0)
Reimbursement agreement relating to WPUPS pension scheme (Note 10(e))	-	-	-	33.0
Cash flow hedges transfer to net profit (net of tax)	-	-	(0.3)	-
Profit for the financial year	-	-	-	97.5
Dividends paid	-	-	-	(19.8)
At 31 March 2013	23.2	5.1	7.5	561.6

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

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

20. Reconciliation of movements in equity shareholders' funds

	2013 £m	2012 £m
Profit for the financial year	97.5	77.8
Dividends on equity shares	(19.8)	(41.6)
Net movement in hedging reserve	(0.3)	(0.3)
Other recognised gains and losses relating to the year	5.3	5.6
Net increase in shareholders' funds	82.7	41.5
Opening equity shareholders' funds	766.4	724.9
Closing equity shareholders' funds	849.1	766.4

Notes to the financial statements

For the year ended 31 March 2013

21. Capital and other commitments

a) There are annual commitments under operating leases (land and buildings) which

	2013 £m	2012 £m
In the second to fifth year	0.1	-
Over five years	0.1	0.1

b) Fixed asset expenditure contracted but not provided for in the financial statements at 31 March 2013 was £1.6m (2012 £2.7m)

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

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