Western Power Distribution (South Wales) plc

Regulatory Financial Statements

for the year ended 31 March 2009

WESTERN POWER DISTRIBUTION

Serving the South West and Wales

Western Power Distribution (South Wales) plc

Regulatory Financial Statements

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1 Foreword

The main activity of Western Power Distribution (South Wales) plc ("WPD South Wales" or the "Company") is the distribution of electricity within its service area of South and West Wales. It is one of twelve licensed distribution network operators ("DNOs") within England and Wales.

Each DNO is a natural monopoly regulated by the Gas and Electricity Markets Authority (known as "Ofgem"). It is therefore subject to control on the prices it can charge. The principal legislation governing the structure of the electricity industry in Great Britain is the Electricity Act 1989, as amended by the Utilities Act 2000 and the Energy Act 2004. This legislation provides for a licence framework in which the operations of the DNOs are regulated, pursuant to which income generated is subject to an allowed revenue regulatory framework that provides economic incentives to minimise operating, capital and financing costs consistent with the DNOs providing an acceptably reliable distribution network and meeting their legal responsibilities. This licence framework is overseen by Ofgem.

Licences which govern DNOs require each DNO to produce regulatory accounts. These comprise two documents:

- Regulatory Financial Statements; and

- Regulatory Reporting Pack ("RRP").

The purpose of the *Regulatory Financial Statements* is to provide financial information on the same basis as that under the normal financial policies of the DNO. The financial statements themselves are in a similar format to a company's statutory accounts prepared under the Companies Act. This document contains these audited Regulatory Financial Statements.

The RRP was largely developed during the price review which concluded in November 2004. The RRP should better monitor performance against assumptions used in the last price review, and better inform the current price review. The level of detail should highlight the cost drivers within a DNO and thus ensure that the regulated allowance better reflects this.

2 Operating and Financial Review for the year to 31 March 2009

Introduction

Western Power Distribution Holdings Limited is the parent of a group ("WPD" or "Group") whose principal activity is undertaken by WPD South Wales and Western Power Distribution (South West) plc ("WPD South West").

WPD South Wales distributes electricity to approximately 1.1 million end-users over an area of 11,900 square kilometres in the South and West of Wales. It has a resident population of approximately 2.2 million.

Electricity distribution is the transport at a regional level of electricity at reducing voltages from national grid bulk supply points to final end users. A limited volume of electricity also enters the distribution network from embedded generation within WPD South Wales' area, such as windfarms and small hydro-electric plants.

The 1.1 million end-users are registered with licensed electricity suppliers, who in turn pay WPD South Wales for using its network.

WPD South Wales' network comprises 18,146 kilometres of overhead line, 16,799 kilometres of underground cable, service lines into customer premises, and 40,401 transformers.

During 2008/09, the maximum demand recorded was 2,109 megawatts (2007/08: 2,179 megawatts).

Overview

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

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

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

Overview (continued)

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

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

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

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

Safety

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

The number of lost time accidents to staff working in WPD South Wales was four in the financial year 2008/9. This compares with zero reported in 2007/8. Non lost time accidents for the WPD Group fell from 43 to 36, a reduction of 16.3%. This is the lowest number of accidents (lost time and non lost time) ever recorded within WPD.

Safety (continued)

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

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

No formal notices were received from Local Authorities, Department of Energy and Climate Change ("DECC") or the Health & Safety Executive ("HSE") during 2008/9. WPD continues to work in a constructive, collaborative manner with the HSE and DECC, an example being new guidance regarding the reporting of 'Near Misses' under Reg. 31 of the Electricity Safety, Quality and Continuity Regulations ("ESQCR"), which was drafted by the WPD Safety & Training Manager and has now been accepted by the HSE and the Energy Networks Association as the national standard.

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

Network performance

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

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

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

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

2 Operating and Financial Review for the year to 31 March 2009

Network performance (continued)

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

	Total	Target
Minutes lost per customer 2008/09	39.5	
Excluded events	(2.7)	
IIS Performance 2008/09	**36.8**	**72.2**
IIS Performance 2007/08	41.9	72.2
Interruptions per 100 customers 2008/09	69.1	
Excluded events	(3.0)	
IIS Performance 2008/09	**66.1**	**95.3**
IIS Performance 2007/08	77.7	95.3

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, 88.5% of customers off supply in South Wales as the result of a high voltage ("HV") fault were restored within one hour of the fault occurring. We believe that the WPD Group has the best one hour restoration performance of any DNO.

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

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

2 Operating and Financial Review for the year to 31 March 2009

Network performance (continued)

Subject to Ofgem confirmation, our IIS CML and CI of 36.8 customer minutes lost and 66.1 interruptions per 100 customers for the year are within our targets of 72.2 and 95.3 respectively. The low level of CML relative to the target set by Ofgem is particularly gratifying as it shows the results of our focus on operational excellence and has been achieved in a year when we faced a number of operational challenges related to restoring customers in difficult working conditions.

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

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

Customer service

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

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

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

Customer service (continued)

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

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

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

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

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

Social and community issues

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

- WPD tree scheme has been running for over 17 years and is one of our main community environmental initiatives. We work in partnership with British Trust for Conservation Volunteers and Silvanus Trust and use their expertise to help schools and community groups to improve and appreciate their environment through the planting of thousands of trees and shrubs each year across the WPD region.

Social and community issues (continued)

- WPD's Charitable Trust supports community groups, often identified by staff, that help disadvantaged children and young adults. This year we helped:
  - a centre in North Devon that supports people suffering from the effects of social exclusion and deprivation.
  - a group in South Devon that provides training and work experience for people with disabilities.
  - a centre in West Wales that provides help and advice for disabled people.
  - a group in Somerset which promotes independence and equality for people with learning disabilities.
  - a community group in Bristol run by parents of disabled children and young adults.
  - a primary school in Bristol with literacy resources to support children with English as a second language.

- One of the main social impacts of our network is to keep the public safe from the potential hazards of our equipment. Our main focus with children is to raise awareness of electricity safety. We deliver our safety message to over 50,000 children each year at over 30 events across our region. We work with local authorities and emergency services to support a number of joint safety initiatives such as Crucial Crew, Junior Life skills, Hazard Alley and the Safety Zone. Our operational staff and apprentices attend many of these events. As well as the safety benefit, our safety message also has a business benefit by reducing vandalism to our substations and equipment, therefore reducing supply interruptions for our customers. Where incidents have occurred, we will work with local schools to target our safety message to prevent further incidents.

Capital investment

Gross capital investment (before customers' contributions) during the year was £86.3m across the WPD South Wales region and included the replacement of both overhead lines and switchgear together with the introduction of new technology.

A number of significant projects were tackled during the year:

- In the last few years WPD has made tremendous progress and gained valuable experience from overhead automation to enable it to now concentrate on its underground network. During the year a new project was launched to put high-tech fault detection equipment on WPD's underground power network in towns and cities. The use of radio controlled systems capable of providing information via the network control system ENMAC linked to our control centre at Lamby Way in Cardiff will ensure that if a fault is detected, an automatic sequence operates that can enable at least half of the circuit to get back on supply quickly. The aim is for this sequence of events to take place in less than three minutes. The investment in WPD South Wales of £2m during the current year to tackle 75 HV circuits will increase the security of supplies to customers still further.

- Morriston Grid is an existing grid site which sits at the centre of the lower Swansea valley urban redevelopment zone and feeds much of the industrial, commercial and domestic load in this area. Demand has increased and the existing 132/11kV 30MVA transformer units were in need of support to meet load growth. The project entailed the installation of two new 132/11kV 30MVA transformer units along with a new 11kV switchboard, and extensive 11kV reorganisation to allow equitable customer distribution across the network.

Capital investment (continued)

- The Cardiff West site is situated next to the Cardiff Bay link road and sits adjacent to a major redevelopment area which includes a new Cardiff City football stadium and numerous large commercial outlets. As a consequence load growth has accelerated in this area, and this project was initiated to replace the two 60MVA transformer units with two new 90MVA units fitted with low maintenance "vacu tap" tap changers. This £800,000 scheme completes proposals to improve security and reliability to the area, which began in 2005 with a major gas cable overlay scheme between Cardiff West and Wood Street in Cardiff city centre.

Staff

The average number of employees during the year was 869 (2008: 878). These exclude a proportion of WPD South Wales staff who work in part for WPD South West, and include a proportion of WPD South West staff who work in part for WPD South Wales.

The WPD Group's policies on equal opportunities and employee consultation are set out within the Directors' Report (section 4). WPD believes that its relations with its employees are good.

Regulatory issues

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

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

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

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

As discussed previously, the incentive scheme can lead to an increase or a reduction in revenue of up to 3% depending on performance. Subject to confirmation of the declared year-end results by Ofgem'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 2010.

2 Operating and Financial Review for the year to 31 March 2009

Environment

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

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

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

Fluid filled cables

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

	Fluid losses (litres) WPD Group
2005/06	6,778
2006/07	2,053
2007/08	3,880
2008/09	4,532

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

SF6 gas

Sulphur hexafluoride (SF6) is a manmade gas which has had widespread use such as in double glazing, tennis balls, training shoes as well as a number of industrial applications including high voltage switchgear. Unfortunately it is also a strong greenhouse gas, with a global warming potential 23,900 times greater than C02.

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

Environment (continued)

SF6 gas (continued)

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

Electric and magnetic fields ("EMFs")

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

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

General

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

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

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

Insurance arrangements

The WPD Group has a wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey. Depending on the nature of the risk, WPD South Wales carries all or an element of the risk itself ("self insured") or it underwrites insurance with a combination of Aztec and external insurers.

Insurance arrangements in place as at 31 March 2009 relating to the WPD Group's key risks were as follows:

- the distribution network is self insured.

- offices and depots including their contents and stock are self insured up to £500,000 for each claim and externally insured above that, subject to an annual maximum of £50.0m.

- combined liability covers employers' liability, public and product liability, and professional indemnity. The first £10,000 of each claim is self insured, Aztec cover the next £1.0m of any claim up to a maximum of £3.5m in any one year, and the excess is externally insured subject to certain limits.

- on motor related claims, damage to own vehicles is self insured, as is the first £5,000 of each third party claim. Any excess is covered by Aztec up to a maximum of £1.0m for any claim and £1.3m in aggregate; beyond that is externally insured subject to certain limits.

- claims relating to death or injury to employees whilst on WPD business or travelling on business are externally insured subject to various limits.

- external insurance is also in place (subject to limits) for loss of money, securities or property through dishonest acts by employees and for wrongful acts by pension scheme trustees. Insurance in respect of directors and officers is maintained by the WPD Group's US parent, PPL Corporation.

Insurance arrangements are reviewed in detail annually.

Treasury related matters

Risk management

The WPD Group does not undertake transactions in financial derivative instruments for speculative purposes. The Group's debt is substantially long term and at fixed interest rates thus limiting exposure to interest rate fluctuations. All debt at WPD South Wales is denominated in sterling and therefore there is no currency risk exposure.

Credit rate risk

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

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

Interest rate risk

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

Treasury related matters (continued)

Liquidity and going concern

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

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

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

After consideration, the directors of the Company have concluded that the Company has sufficient resources available to enable it to continue in existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. This consideration included the availability of facilities as set out above, including the recent replacement of WPD South West's committed credit facilities, 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.

WPD South Wales debt

At 31 March 2009, WPD South Wales had £367.2m (2008: £366.9m) of external debt outstanding (net of issue costs) as shown on its balance sheet with £150m nominal maturing in 2020 and £225m nominal maturing in 2037.

£50.0m 7% cumulative preference shares are held by another WPD Group company (31 March 2008: £50.0m). These preference shares are classified as liabilities as opposed to equity.

At 31 March 2009 and excluding both the preference shares and pension reimbursement agreement, WPD South Wales was owed net £287.5m by other WPD Group companies (31 March 2008: £299.8m).

Dividend policy

The WPD Group is structured such that a proportion of WPD Group's debt is issued by Group companies other than WPD South West and WPD South Wales. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WPD South Wales and WPD South West.

The Memorandum and Articles of Association of the WPD Group's parent, WPDHL, place restrictions on dividends or other value which can be paid to the WPD Group's owners. An independent director has been appointed to oversee this: he in turn may seek financial advice from an independent expert. No payment or transfer of value can be made without the independent director first certifying that certain financial tests have been met.

In 2008/09, dividends paid by WPD South Wales comprised £34.9m (2008: £6.0m) on equity shares.

2 Operating and Financial Review for the year to 31 March 2009

Regulatory financial statements

The regulatory financial statements within this document are prepared in a format which closely follows that which would apply for statutory accounts.

Profit and loss account (Section 6.3)
Profit before tax for 2008/09 was £82.6m compared with £82.2m for the previous year, an increase of £0.4m. Turnover increased by £1.8m. Operating expenses were £6.3m lower. Cost of sales fell by £3.3m primarily due to lower levels of rechargeable engineering work. Network expenses fell by £0.6m and other operating expenses by £2.4m. Net interest expense increased by £7.6m due to higher average debt.

The tax charge has increased by £7.2m compared with 2007/08; this is explained within 'Taxation' below.

Balance sheet (Section 6.5)
Total net assets including pension liability at 31 March 2009 were £572.7m, an increase of £34.9m on the previous year. Fixed assets increased by £42.3m reflecting the fact that capital expenditure exceeds the historical cost depreciation charge.

Cash flow statement (Section 6.6)
There was a cash inflow before financing activities of £3.1m compared with £30.9m in the previous year. The cash inflow from operating activities improved by £8.2m. Net interest paid fell by £13.2m, largely reflecting the movement on inter-company balances. There were tax payments of £16.7m (2008: nil), which reflects the timing of payments to other WPD Group companies for group relief. Net capital expenditure was £3.6m higher. Equity dividends paid increased by £28.9m; these are used largely to settle interest on external borrowings by other companies in the Group.

Taxation

An analysis of the tax charge is given in Note 6 to the Regulatory Financial Statements. The overall tax charge has increased by £7.2m from £17.7m in 2008 to £24.9m in 2009. Current tax fell by £3.4m whereas deferred tax increased by £10.6m.

Current tax
Of the reduction in the current tax charge in 2009 over that in 2008, the impact of timing between taxable and accounting profits has given a benefit of £1.5m although this is offset in deferred tax below. The reduction in the tax rate to 28% was worth £1.7m, and the combined effect of pension and preference dividend payments has given a £2.0m net benefit. These gains are offset by £1.7m lower group relief at beneficial rates and £0.1m due to higher profit before tax.

Deferred tax
Deferred tax is provided for under Financial Reporting Standard 19 ("FRS19") "Deferred tax"'. This recognises the timing differences between the accounting and tax treatment of certain categories of expenditure, both capital and revenue. The main element of the provision relates to the differences between depreciation charged in the accounts and the tax allowances applicable to that expenditure. WPD has adopted the policy of discounting allowable under FRS19. Following the change in the rate of corporation tax to 28% effective 1 April 2008, deferred tax was reduced by £9.1m benefiting 2008. The timing between taxable and accounting profits had an adverse impact of £1.5m; this is offset in current tax above.

Taxation (continued)

Effective rate
The effective tax rate is the implied rate shown by dividing the tax charge in the profit and loss account by the profit on ordinary activities before tax as shown in that statement. For 2009, this was 30% for WPD South Wales (2008: 22%). For 2008, this was lower than would have been expected mainly due to the impact of the rate reduction on deferred tax.

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 current review period ends on 31 March 2010.

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

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

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

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

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

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

Principal risks and uncertainties (continued)

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

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

Environment
Certain environmental issues are discussed above. 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.

Treasury
The risks associated with the treasury activity, including the ability to raise funding to meet the Company's capital expenditure programme, are discussed in the 'Treasury related matters' section above.

Financial
Risks associated with financial processes are discussed in Section 3 'Corporate Governance'.

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

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

3 Corporate Governance

The Company is committed to the highest standards of corporate governance.

The Company is indirectly owned by one US-based corporate shareholder, PPL Corporation ("PPL" - see Section 4). The Company is thus not governed by the Listing Rules of the Financial Services Authority ('The Combined Code') and many of its requirements are not applicable to the Company. However, condition 44 of the Distribution Licence under which the Company operates requires it to publish a corporate governance statement.

Board of directors

The Board of the Company comprises three executive directors and one non-executive director. Details of the Board members are set out below.

The Board of the Company has not formally appointed a Chairman. However Rick Klingensmith, who is the non-executive director of the Company, has been appointed the Chairman of the holding company of the WPD Group. Rick Klingensmith is the President of PPL Global the main operating activity of which is undertaken by the WPD Group; his time is thus substantially devoted to the WPD Group. His role has not changed during the year.

The Board of Western Power Distribution Holdings Limited ("WPDHL"), the holding company for the WPD Group, meets formally at least four times per annum. The Chairman is appointed by the Board. This Board comprises the same members as the Board of the Company together with two further PPL non-executive directors and one independent non-executive director.

The independent non-executive director has responsibilities under WPDHL's constitution relating to the ability of WPDHL to transfer value to other PPL group members, such as the declaration of a dividend. Until retirement, the independent director was a Senior Partner with Osborne Clarke, a large firm of solicitors.

The Board of WPDHL has set the parameters by which the WPD Group is managed. These have been cascaded to all subsidiaries. The directors are however fully aware of their duties under the Companies Act 2006. Each director acts in good faith in a way considered to be most likely to promote the success of the Company for the benefit of the members as a whole.

WPDHL needs to give its consent as indirect shareholder to the following:

- Group business and strategic plans.
- establishing and setting the Terms of Reference for Sub-Committees of the Board.
- setting the financial limits of the Chief Executive and approving transactions above those limits.
- the issuance, sale or exchange of any debt or equity securities together with the approval of guarantees relating thereto.
- policies and practices to be followed in managing financial risk, including the use of derivatives and other hedging techniques.
- third party financing facilities in excess of £2m.
- the acquisition of stock in another company in excess of £2m.
- dividend payments (subject to independent director certification).
- the settlement of legal disputes in excess of £1m.
- annual financial accounts and directors' report.
- material capital projects.
- internal audit operational plan.

3 Corporate Governance (continued)

Board of directors (continued)

The Board has also set out a framework of authority levels within which the executive directors may operate. In addition, the WPD Group’s executive directors, non-executive directors and other shareholder representatives informally discuss the Company’s operations on a regular basis.

Rick Klingensmith, as President of PPL Global, is an executive officer of PPL Corporation and thus attends their Board meetings. He can thus communicate the views of PPL Corporation as the indirect 100% shareholder in the Company.

There were 15 meetings of the Board of the Company for the year ended 31 March 2009. Actual attendance was:

RA Symons, Chief Executive	15
DG Harris, Resources and External Affairs Director	15
DCS Oosthuizen, Finance Director	15
RL Klingensmith, non-executive director and President PPL Global	1

Attendance includes participation by telephone.

WPD's executive directors together with senior managers at PPL receive a detailed monthly group financial report. In addition, WPD's executive directors formally report both financial and non-financial performance for all operating companies at the WPDHL Board meetings.

Board committees

Due to the nature of the ownership of the Company, there are no requirements for formal Nomination and Remuneration Committees. In particular, executive directors’ remuneration has been set directly by PPL. The WPD Group’s operations are subject to internal audit examination and the results reported to both the WPDHL Board and to PPL's Audit Committee.

The responsibility for audit is assumed by the Board as opposed to being delegated to a sub committee. As set out below, copies of all WPD Corporate Audit reports were submitted to the General Manager of PPL Corporate Audit Services at PPL during the year.

The Executive Committee comprises the executive directors and meets on a monthly basis. Matters requiring disclosure at Board level are defined within the Company's policy document 'Standards and Management'. The Company Secretary ensures that all relevant items are disclosed.

Responsibilities of the directors and external auditors in respect of the accounts

The respective responsibilities of the directors and of the external auditors are set out in Sections 6.1 and 6.2 respectively of this report.

3 Corporate Governance (continued)

Going concern basis

The financial statements have been prepared on a going concern basis as the directors consider that the Company has sufficient financial and other resources to continue in business for the foreseeable future.

More information is given under the 'Treasury related matters' heading of Section 2 'Operating and financial review for the year to 31 March 2009'.

In addition, the directors of the Company are obliged under condition 30 of its licence to prepare a certificate annually which states that there are sufficient financial resources in place that will enable the Company to carry on the distribution business for 12 months from the date of signing that certificate. The external auditors then review this and report to the regulator, Ofgem.

Internal control environment

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

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

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

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

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

As the WPD Group is owned by a US publicly quoted company, it is subject to the requirements of the US Sarbanes-Oxley Act of 2002. There are two main components of the Act, SOX302 and SOX 404.

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

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

Internal control environment (continued)

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

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

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

Identification and evaluation of risks and control objectives

The Company's strategy is to follow an appropriate risk policy, which effectively manages exposures related to the achievement of business objectives.

Key stakeholders are responsible for identifying and assessing the key business risks associated with achieving the corporate objectives. Any actions required to further enhance the control environment are identified along with the person responsible for the management of the specific risk. Periodically a review of key risks is undertaken from which an operational plan is created and used by Internal Audit to assess the risks and the appropriateness of the controls which are in place to manage the risk. The progression of this operational plan is communicated to the owners on a quarterly basis as are all key observations. This method encourages the key stakeholders to actively manage the risks within their areas on a proactive basis.

The Internal Audit and Business Controls department helps to ensure that the risk management and internal control system is consistently adopted, updated and embedded into the business processes.

Individual risk assessment reports highlight the most significant risks affecting the business process, the actions being taken to mitigate these, and also ensures that individuals are responsible for the management of these risks. This information is provided to the Board, the US owner's audit department, and also the external auditors.

A risk management methodology has been produced and shared with the senior management team in order to ensure a consistent and co-ordinated approach to risk management is undertaken within the business. This methodology is available to all staff within the corporate electronic library.

Further comment is given in Section 2 under 'Principal risks and uncertainties'.

3 Corporate Governance (continued)

Auditor independence

As mentioned above, PPL is subject to the US Sarbanes-Oxley Act of 2002. This Act not only requires documentation and review of internal controls but also details how audit committees, management, and auditors carry out their respective responsibilities and interact with each other. Its purpose is to build and restore confidence in public financial reporting within the US. The Act lays out specific requirements for each of these parties as it relates to corporate responsibilities, auditor regulation and independence, and financial reporting.

As a wholly owned entity of PPL, the requirements of the Sarbanes-Oxley Act of 2002 extend to WPD. One of the main elements of the Act is concerned with registered public auditing firms being unable to undertake non-auditing services if they are performing auditing services for the group. However a public accounting firm may engage in non-audit services, including tax services, for an audit client, but only if the activity is approved in advance (pre-approved) by the audit committee of the parent company. Therefore any non-auditing services required by WPD, other than those regarded as de-minimis, are detailed to PPL in advance and require their approval. There were no material non-audit services provided to the Company during the year.

PPL has adopted a policy of tendering for its world-wide audit services at least every seven years. This is to ensure that best practice is followed in relation to corporate governance and that fees are competitive. Following a tender exercise during 2005, PPL selected Ernst & Young LLP to replace PricewaterhouseCoopers LLP during 2006 for their various world-wide audits.

Code of Ethics and Legal Compliance Statement

WPD has developed a formal "Code of Ethics" that defines the standards of personal behaviour to which individual Board members and all employees are required to subscribe. This is subject to annual revision and frequent communication to all employees.

Similarly, WPD has a "Legal Compliance Programme – Statement of Policy" which is also issued periodically to employees. This states that WPD "is dedicated to conducting its business with honesty, integrity and fairness". It also states that WPD will not tolerate retaliation against any employee who reports any illegal act by the Company or by a fellow employee. Any such reports may be made to a line manager or to a named Compliance Office within Human Resources, and may be made anonymously.

Code of conduct on fair competition

To ensure that the Company complies with it's Distribution Licence and the Competition Act 1998, WPD has issued a "Code of conduct on fair competition". This has recently been updated and reissued to all staff; a copy is given to all new employees. It also applies to agents who work for WPD.

Political donations and expenditure

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

4 Directors' Report

Principal activities

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

Ownership

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

Business review

This is contained in Section 2 to this document.

Results and dividends

The profit for the financial year 2009 was £57.7m (2008: £64.5m). Profit on ordinary activities before tax is £82.6m (2008: £82.2m).

Dividends paid by the Company on equity shares totalled £34.9m (2008: £6.0m) during the year. The WPD Group is structured such that certain of the debt outstanding is owed by a holding company. Dividend payments from the Company include those used to enable the holding company to make interest payments.

Payment of creditors

The WPD Group's policy in respect of its suppliers (other than those providing electricity utility supplies and services) is to require suppliers to accept our terms which are displayed on our official orders unless alternative terms of mutual benefit can be agreed. The average length of time for the payment of creditors during the year was 17 days (2008: 15 days).

Charitable donations

During the year ended 31 March 2009, donations of £29,000 were made by the Company to community organisations of which £6,000 was donated to charities. In addition, WPD South West established a charitable foundation in 1996 with a £1.0m donation and, in May 2001, an affiliate donated a further £1.0m to the foundation. The foundation made donations of £27,000 to organisations in South Wales in 2008/09.

Political donations and expenditure

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

Equal opportunities

The WPD Group is committed to equality of opportunity in employment and this is reflected in its equal opportunities policy and employment practices. Employees are selected, treated, and promoted according to their abilities and merits and to the requirements of the job. Applications for employment by people with disabilities are fully considered, and in the event of members of staff becoming disabled, every effort is made to ensure that their employment with the WPD Group continues by way of making adjustments to their role and/or working environment or through retraining arranged as appropriate. It is the policy of the WPD Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

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

Directors and their interests

The directors who served during the year were as follows:

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

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

Insurance in respect of directors and officers is maintained by the WPD Group parent, PPL Corporation. The insurance is subject to the conditions set out in the companies acts and remains in force at the date of signing the Regulatory Financial Statements.

Corporate governance

A discussion of corporate governance in WPD is given in Section 3 to this report.

4 Directors' Report (continued)

Statement of disclosure to auditors

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

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

(b) the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this 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.

5 Statement on link between directors' pay and performance

Introduction

The directors' bonus arrangement includes both financial and non financial performance criteria. Set out below are the non financial criteria relating to customer service and network performance.

The executive directors' bonus arrangements contain a substantial incentive to maintain and improve customer service and network reliability standards as well as ensuring that safety levels are maintained:

- goals for each element of performance are determined by the owner (PPL) at the beginning of each calendar year, specifying target and maximum goals together with associated target and maximum bonus amounts;

- following the end of the calendar year, results are compared with the goals, with the maximum amount paid if the maximum goals are met or exceeded; one half of the maximum if the target goals are met; or no payment if the target goals are not met.

Bonus payments are made annually based on a calendar year, with payment usually in the March following the calendar year end.

Year to 31 December 2008 goals

For the calendar year 2008, set out below are the maximum bonus amounts related to standards of performance included in the annual bonus programme as determined at the beginning of the year:

	Maximum Bonus Amount (% of base pay)		
	Chief Executive	Finance Director	Resources and External Affairs Director
Standard of performance goal:			
Network reliability			
Minutes lost per customer	9.00%	8.00%	7.00%
Customer interruptions	6.75%	6.00%	5.25%
Customer impact	6.75%	6.00%	5.25%
Contact Centre performance			
Total	**22.50%**	**20.00%**	**17.50%**

The above relates to the WPD Group as a whole.

Note:
(i) ‘Minutes lost per customer’ and ‘customer interruptions’ are defined as per Ofgem's Information and Incentives Scheme ("IIS") definitions.

(ii) 'Contact Centre performance' relates to the time taken to answer telephone calls from customers who have lost supply.

5 Statement on link between directors' pay and performance (continued)

Year to 31 December 2008 results

WPD’s results in 2008 not only met or exceeded all of Ofgem's IIS targets (on a pro rata basis for the calendar year) but also met or exceeded WPD’s maximum goals specified for these standards. Also, the Company achieved its highest level target of answering within 20 seconds at least 98% of calls from customers who had lost supply.

Accordingly the annual bonus payment made in March 2009 to each director in respect of 2008 performance included the maximum amounts for standards of service as specified in the above table.

2009 Goals

The same basic bonus structure has been retained in the 2009 annual bonus programme for each director. However, no bonuses are paid to directors unless the PPL consolidated group achieves a threshold level of earnings.

6.1 Statement of directors' responsibilities in respect of the Regulatory Financial Statements

Each DNO is a natural monopoly regulated by Ofgem. It is therefore subject to control on the prices it can charge and the quality of supply it must provide. The principal legislation governing the structure of the electricity industry in Great Britain is the Electricity Act 1989, as amended by the Utilities Act 2000 and the Energy Act 2004. This legislation provides for a licence framework in which the operations of the DNOs are regulated, pursuant to which income generated is subject to an allowed revenue regulatory framework that provides economic incentives to minimise operating, capital and financing costs consistent with the DNOs providing an acceptably reliable distribution network and meeting their legal responsibilities. This licence framework is overseen by Ofgem.

Licences which govern DNOs require each DNO to produce regulatory accounts. One of the documents which comprise the regulatory accounts is the Regulatory Financial Statements. This document contains the Regulatory Financial Statements, which are subject to audit.

The Regulatory Financial Statements are prepared on a similar basis to financial statements which a company is required to produce under UK generally accepted accounting practice. This requires the directors to prepare financial statements for each financial year which fairly present the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently:

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the Regulatory Financial Statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

6.2 Independent auditors' report to the Director General of the Gas and Electricity Markets Authority (the "Regulator") and to Western Power Distribution (South Wales) plc

We have audited the Regulatory Financial Statements for the year ended 31 March 2009 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 statement of cash flows A to C, and the related notes 1 to 22.

This report is made, on terms that have been agreed, solely with the Company and the Regulator in order to meet the requirements of the regulatory licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the regulatory licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report or for the opinions we have formed.

Basis of preparation

The Regulatory Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, and in accordance with Condition 44 of the Company's regulatory licence and the accounting policies set out in Note 1.

The Regulatory Financial Statements are separate from the statutory financial statements of the Company.

Respective responsibilities of the Regulator, the directors and auditors

The nature, form and content of the Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The directors' responsibilities for preparing the Regulatory Financial Statements in accordance with Condition 44 of the regulatory licence are set out in the Statement of directors' responsibilities in respect of the Regulatory Financial Statements.

Our responsibility is to audit the Regulatory Financial Statements having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*'.

We report our opinion as to whether the Regulatory Financial Statements present fairly, in accordance with Condition 44 of the Company's regulatory licence and the accounting policies set out in Note 1, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained within the Regulatory Financial Statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Regulatory Financial Statements. The other information comprises only the foreword, the operating and financial review, the corporate governance statement, the directors' report, and the statement on link between directors' pay and standards of performance.

6.2 Independent auditors' report to the Director General of the Gas and Electricity Markets Authority (the "Regulator") and to Western Power Distribution (South Wales) plc (continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Financial Statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Regulatory Financial Statements, and of whether the accounting policies are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Financial Statements are free from material mis-statement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Financial Statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Our opinion on the Regulatory Financial Statements is separate from our opinion on the statutory accounts of the Company on which we reported on July 2009, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Opinion

In our opinion the Regulatory Financial Statements fairly present, in accordance with Condition 44 of the Company's regulatory licence and the accounting policies set out in Note 1, the state of the Company's affairs at 31 March 2009 and of its profit and cashflow for the year then ended, and have been properly prepared in accordance with that condition and those accounting policies.

Ernst & Young LLP
Registered Auditor
Bristol

July 2009

6.3 Profit and loss account

For the year ended 31 March 2009

	Note	**2009** **£m**	2008 £m
Turnover	2	**186.6**	184.8
Operating expenses	3	**(89.7)**	(96.0)
Operating profit	3	**96.9**	88.8
Profit on disposal of fixed assets		**-**	0.1
Profit on ordinary activities before interest and tax		**96.9**	88.9
Interest receivable and similar income	4	**16.7**	26.7
Interest payable and similar charges	4	**(31.1)**	(33.5)
Other finance income	5	**0.1**	0.1
Profit on ordinary activities before tax	2	**82.6**	82.2
Tax on profit on ordinary activities	6	**(24.9)**	(17.7)
Profit for the financial year		**57.7**	64.5

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 Regulatory Financial Statements.

6.4 Statement of total recognised gains and losses

For the year ended 31 March 2009

	Note	**2009 £m**	2008 £m
Profit for the financial year		**57.7**	64.5
Actuarial (loss)/gain recognised in the Infralec 92 pension scheme	9(d)	**(1.7)**	0.7
Movement on deferred tax relating to the Infralec 92 pension scheme		**0.5**	(0.2)
Actuarial (loss)/gain recognised in the WPUPS pension scheme	9(e)	**(48.7)**	8.9
Movement recognised on WPUPS reimbursement agreement	9(e)	**48.7**	(8.9)
Movement on deferred tax relating to the WPUPS pension scheme		**13.7**	(3.5)
Movement on hedging reserve (net of tax)	19	**(0.4)**	(0.2)
Total recognised gains and losses for the year		**69.8**	61.3

The accompanying notes are an integral part of these Regulatory Financial Statements.

6.5 Balance sheet
31 March 2009

	Note	**2009 £m**	2008 £m
Fixed assets			
Tangible assets	11	**798.0**	755.7
		798.0	755.7
Current assets			
Stocks	12	**0.7**	0.9
Debtors	13		
Amounts falling due within one year		**379.6**	403.8
Amounts falling due after more than one year		**51.8**	9.0
		432.1	413.7
Creditors			
Amounts falling due within one year	14	**(134.1)**	(141.3)
Net current assets		**298.0**	272.4
Total assets less current liabilities		**1,096.0**	1,028.1
Creditors			
Amounts falling due after more than one year	14	**(417.2)**	(416.9)
Provisions for liabilities and charges	15	**(66.5)**	(62.3)
Net assets excluding pension liability		**612.3**	548.9
Pension liability (net of tax)	9	**(39.6)**	(11.1)
Net assets including pension liability		**572.7**	537.8
Capital and reserves			
Called-up share capital	17	**201.7**	201.7
Share premium account	19	**23.2**	23.2
Capital redemption reserve	19	**5.1**	5.1
Hedging reserve	19	**8.9**	9.3
Profit and loss account	19	**333.8**	298.5
Total shareholders' funds	18	**572.7**	537.8

The accompanying notes are an integral part of these Regulatory Financial Statements.

The Regulatory Financial Statements on pages 30 to 59 were approved by the Board of Directors on 14 July 2009 and were signed on its behalf by:

RA Symons, Chief Executive

DCS Oosthuizen, Finance Director

6.6 Statement of cash flows

For the year ended 31 March 2009

	Cash flow note	**£m**	**2009 £m**	£m	2008 £m
Net cash inflow from operating activities	A		**121.0**		112.8
Returns on investments and servicing of finance					
Interest received		**28.9**		19.4	
Interest paid		**(24.7)**		(24.8)	
Issue costs on new long-term loans		**-**		(0.1)	
Preference share dividends paid to shareholders		**(3.5)**		(7.0)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			**0.7**		(12.5)
Tax paid			**(16.7)**		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(84.4)**		(90.2)	
Customers' contributions received		**17.4**		26.6	
Sale of tangible fixed assets		**-**		0.2	
Net cash outflow from capital expenditure and financial investment			**(67.0)**		(63.4)
Equity dividends paid			**(34.9)**		(6.0)
Cash inflow before financing			**3.1**		30.9
Financing					
Movement in balances with Group undertakings		**(3.1)**		(30.9)	
Net cash outflow from financing			**(3.1)**		(30.9)
Movement in cash in the year	B, C		**-**		-

The accompanying notes are an integral part of these Regulatory Financial Statements.

6.6 Notes to the statement of cash flows

For the year ended 31 March 2009

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

	2009 **£m**	2008 £m
Operating profit	**96.9**	88.8
Depreciation	**21.5**	22.7
Decrease in stocks	**0.2**	1.0
Decrease in debtors	**4.4**	3.2
Decrease in creditors	**(1.3)**	(2.6)
Decrease in provisions	**(0.4)**	-
Difference between pension charge and cash contributions	**(0.3)**	(0.3)
Net cash inflow from operating activities	**121.0**	112.8

B. Analysis of changes in net debt

	At 1 April 2008 £m	Cash flow £m	Other non-cash movements £m	**At 31 March 2009 £m**
Debt due after one year :				
£150m 9.25% Eurobonds 2020	(148.7)	-	(0.1)	**(148.8)**
£225m 4.804% bonds 2037	(218.2)	-	(0.2)	**(218.4)**
7% preference shares issued to a Group undertaking	(50.0)	-	-	**(50.0)**
Other balances with Group undertakings	299.8	3.1	(15.4)	**287.5**
	(117.1)	3.1	(15.7)	**(129.7)**

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

	2009 **£m**	2008 £m
Change in balances with Group undertakings:		
Non-cash changes	**(15.4)**	5.2
Cash flow changes	**3.1**	30.9
Amortisation of finance costs	**(0.3)**	(0.3)
(Increase)/decrease in net debt in year	**(12.6)**	35.8
Net debt at 1 April	**(117.1)**	(152.9)
Net debt at 31 March	**(129.7)**	(117.1)

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

1. Accounting policies

The principal accounting policies are summarised below.

Basis of preparation

The Regulatory Financial Statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. Accounting policies are prepared under United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). They have been applied consistently throughout the year and the preceding year except where changes have been made to previous policies on adoption of new accounting standards.

Changes in accounting policy

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

Going concern

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This is discussed further under 'Treasury related matters' within Section 2.

Turnover

Turnover is stated net of value added tax. Sales relating to electricity distributed during the year include an estimate of the sales value of units distributed to customers based on billing subsequent to the year end. Remaining sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

Pension costs

The Company participates in three defined benefit pension schemes:

- the Electricity Supply Pension Scheme ("ESPS"), to which most employees in the Group belong. Under the guidance of Financial Reporting Standard ("FRS") 17 "Retirement Benefits", where an entity cannot separate out its share of the scheme's assets and liabilities on a reasonable and consistent basis, the relevant entity should account for pensions as if the scheme were a defined contribution scheme, and charge contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme. This applies in these Regulatory Financial Statements.
- the Infralec 1992 Pensions Scheme ("Infralec 92"). The Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by WPD South Wales.
- the Western Power Utilities Pension Scheme ("WPUPS"). However, another WPD Group company, Western Power Distribution Holdings Limited, has accepted responsibility for liabilities for WPUPS and reimburses all contributions made by the Company. The liability under FRS 17 in respect of WPUPS recorded in these Regulatory Financial Statements is offset by the reimbursement agreement.

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

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

1. Accounting policies (continued)

Share based payments

The Company operates a cash-settled phantom share option scheme for executive directors and senior managers.

The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established initially at the grant date and at each balance sheet date thereafter 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 for the liability are recognised in profit or loss for the period.

No performance conditions are included in the fair value calculations. The expected volatility is based on historical volatility. The expected life is the average expected period to exercise. The risk free rate of return is based on US Treasury bonds available at the date of grant and of a similar duration.

Leases

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

Research

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

Interest costs

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

Tangible fixed assets

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

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

Freehold land is not depreciated.

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

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

1. Accounting policies (continued)

Tangible fixed assets (continued)

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

Assets are depreciated on a straight line basis. Customers' contributions towards distribution network assets, which include capital grants, are credited to the profit and loss account over the estimated useful lives of the related assets. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 1985 requirements which require fixed assets to be included at their purchase price or production cost and hence the unamortised amount of contributions would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view. The value of unamortised contributions is shown in Note 11.

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

Property

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

Stocks

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

Provisions

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

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the Regulatory 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.

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

1. Accounting policies (continued)

Taxation (continued)

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued asset and the gain or loss expected to arise on sale has been recognised in the Regulatory Financial Statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

Financial assets

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

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

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

Financial liabilities

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

Derivative financial instruments

WPD South Wales currently do not have derivative financial instruments. However, gains in relation to forward interest rate swaps terminated prior to a previous debt issuance, that are deferred in the hedging reserve, are being recycled to the Profit and loss account over the term of the bond. These swaps were designated as cash flow hedges, where they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset, liability or forecasted transaction.

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

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 1985.

	2009 £m	2008 £m
Cost of sales	**8.8**	12.1
Distribution network expenses	**61.5**	62.1
Other operating expenses	**19.4**	21.8
Operating expenses	**89.7**	96.0

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

	2009 £m	2008 £m
Operating profit is stated after charging:		
Depreciation	**21.5**	22.7
Operating lease rentals:		
Plant, machinery and equipment	**0.1**	0.1
Land and buildings	**0.7**	0.7
Research and development	**0.2**	0.2
Auditors' remuneration:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.2**	0.2
Fees payable for non audit services	**-**	-

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

4. Interest

	2009 £m	2008 £m
Interest payable and similar charges:		
On loans from Group undertakings	**3.2**	5.6
Dividends payable on 7% preference shares	**3.5**	3.5
Other loans	**24.4**	24.4
	31.1	33.5
Interest receivable and similar income:		
On loans to Group undertakings	**(16.7)**	(26.7)
Interest expense (net)	**14.4**	6.8

5. Other finance income

	2009 £m	2008 £m
Expected return on pension scheme assets (Notes 9(d) and 9(e))	**22.4**	25.9
Interest on pension scheme liabilities (Notes 9(d) and 9(e))	**(22.5)**	(19.8)
Movement in reimbursement agreement (Note 9(e))	**0.2**	(6.0)
Other finance income	**0.1**	0.1

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

6. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2009 £m	2008 £m
Current tax:		
UK corporation tax on profits for the year	**17.8**	21.3
Adjustment in respect of prior years	**(0.7)**	(0.8)
Total current tax (Note 6(b))	**17.1**	20.5
Deferred tax:		
Origination and reversal of timing differences	**1.8**	0.3
Decrease in discount	**3.8**	4.4
Adjustment in respect of prior years	**(0.8)**	0.1
Pension scheme timing differences	**3.0**	2.7
Reversal of timing differences in respect of industrial buildings	**-**	(1.2)
Impact of change in corporation tax rate	**-**	(9.1)
Total deferred tax (Note 16)	**7.8**	(2.8)
Tax charge on profit on ordinary activities	**24.9**	17.7

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

The current tax assessed for the year is different to the standard rate of corporation tax in the UK of 28% (2008: 30%). The differences are explained below:

	2009 £m	2008 £m
Profit on ordinary activities before tax	**82.6**	82.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)	**23.1**	24.7
Effects of:		
Expenses not deductible and income not taxable for tax purposes	**0.9**	2.7
Timing difference between capital allowances and depreciation	**(3.3)**	(2.0)
Other timing differences	**1.5**	1.7
Adjustment to tax charge in respect of prior years	**(0.7)**	(0.8)
Pension scheme timing differences	**(3.0)**	(2.7)
Group relief surrendered at non-standard rates	**(1.4)**	(3.1)
Current tax charge for the year (Note 6(a))	**17.1**	20.5

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

7. Dividends

	2009 £m	2008 £m
Dividends paid on equity shares:		
Interim dividends (8.7 pence per share (2008: 1.5 pence))	**34.9**	6.0

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

8. Employee costs and numbers (including executive directors)

(a) Employee costs

	2009 £m	2008 £m
Total employee costs during the year amounted to:		
Wages and salaries	**31.4**	31.3
Severance	**-**	0.3
Social security costs	**2.6**	2.6
Pension costs - severance related	**0.3**	0.5
Pension costs - other	**20.3**	20.1
Total employee costs	**54.6**	54.8
Less allocated to capital expenditure	**(25.5)**	(24.6)
Charged to the profit and loss account	**29.1**	30.2

(b) The average number of employees during the year was 869 (2008: 878). The number of staff and costs shown include a proportion of WPD South West staff who work in part for WPD South Wales, and exclude a proportion of WPD South Wales staff who work in part for WPD South West.

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

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

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

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

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

9. Pension commitments

(a) Introduction
The Company participates in three defined benefit schemes, the Western Power Distribution Group segment of the Electricity Supply Pension Scheme ("ESPS"), the 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 WPD Group as a whole and most employees of the Group are members of the ESPS. The assets are held in a trustee administered fund. Under the guidance of FRS 17, where an entity cannot separate out its share of the scheme's assets and liabilities on a reasonable and consistent basis, the relevant entity should account for pensions as if the scheme were a defined contribution scheme, and charge contributions to the profit and loss account and capital expenditure as they become payable in accordance with the rules of the scheme; this has been applied to WPD South Wales. Full FRS 17 disclosure for the ESPS is made in the consolidated financial statements of Western Power Distribution Holdings Limited. A summary is however given below.

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 Regulatory Financial Statements reflect Infralec 92 as a defined benefit scheme and full FRS 17 disclosures are given in this note.

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

9. Pension commitments (continued)

(a) Introduction (continued)

WPD South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). WPD South Wales will fund the deficit. However, as another WPD Group company (Western Power Distribution Holdings Limited) has taken full financial responsibility for this scheme, WPD South Wales will be reimbursed for these payments. Contributions of £10.5m were paid by the Company and reimbursed during the year ended 31 March 2009 (2008: £2.9m). The value of the reimbursement agreement is stated in the balance sheet (Note 13) and matches the gross liability recorded under FRS 17 (Note 9(e)).

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

(b) Net liability recognised in the balance sheet

	2009	2008
	£m	£m
Infralec 92 (Note 9(d))	**(1.2)**	(0.3)
WPUPS (Note 9(e))	**(38.4)**	(10.8)
Net liability recognised	**(39.6)**	(11.1)

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

(c) ESPS

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

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

	2009	2008
Rate of increase in salaries	**4.0%**	4.55%
Rate of increase to pensions in payment	**2.8%**	3.3%
Discount rate	**7.0%**	6.9%
Inflation	**2.75%**	3.3%

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

9. Pension commitments (continued)

(c) ESPS (continued)

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

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

	2009 **£m**	2008 £m
Present value of obligations	**1,167.7**	1,251.9
Fair value of plan assets	**(896.4)**	(1,180.1)
Deficit in the scheme	**271.3**	71.8
Related deferred tax asset	**(76.0)**	(20.1)
Net pension liability	**195.3**	51.7

Employer contributions paid to the ESPS in respect of the WPD Group were £52.7m (2008: £39.9m). ESPS pension costs borne by WPD South Wales are the full amounts as shown in Note 8. Employer contributions expected to be paid to the ESPS during the year ending 31 March 2010 amount to £53.1m in respect of the WPD Group.

(d) Infralec 92

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

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

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.

9. Pension commitments (continued)

(d) Infralec 92 (continued)

The amounts recognised in the balance sheet are as follows:

	2009	2008
	£m	£m
Present value of obligations	**7.5**	8.0
Fair value of plan assets	**(5.8)**	(7.6)
Deficit in the scheme	**1.7**	0.4
Related deferred tax asset	**(0.5)**	(0.1)
Net pension liability	**1.2**	0.3

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

	2009	2008
	%	%
Equities	**9.0**	9.0
Corporate bonds	**8.0**	6.9
Government bonds	**4.25**	4.5
Cash and other	**2.0**	6.0
Average expected long-term rate of return	**7.8**	7.8

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

	2009	2008
	%	%
Equities	**66**	70
Corporate bonds	**13**	2
Government bonds	**17**	23
Cash and other	**4**	5

9. Pension commitments (continued)

(d) Infralec 92 (continued)

Analysis of profit and loss credit:

	2009 £m	2008 £m
Expected return on scheme assets	**0.6**	0.6
Interest on scheme liabilities	**(0.5)**	(0.5)
Credit recognised in profit and loss account	**0.1**	0.1

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

	2009 £m	2008 £m
Defined benefit obligation at 1 April	**8.0**	9.2
Interest cost	**0.5**	0.5
Actuarial gains on scheme liabilities	**(0.5)**	(1.4)
Net benefits paid out	**(0.5)**	(0.3)
Defined benefit obligation at 31 March	**7.5**	8.0

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

	2009 £m	2008 £m
Fair value of scheme assets at 1 April	**7.6**	7.7
Expected return on scheme assets	**0.6**	0.6
Actuarial losses on scheme assets	**(2.2)**	(0.7)
Employer contributions	**0.3**	0.3
Net benefits paid out	**(0.5)**	(0.3)
Fair value of scheme assets at 31 March	**5.8**	7.6

9. Pension commitments (continued)

(d) Infralec 92 (continued)

Actual return on scheme assets:

	2009	2008
	£m	£m
Expected return on scheme assets	**0.6**	0.6
Actuarial losses on scheme assets	**(2.2)**	(0.7)
Actual losses on scheme assets	**(1.6)**	(0.1)

Cumulative actuarial gains and losses recognised in equity:

	2009	2008
	£m	£m
Cumulative actuarial gains at 1 April	**1.1**	0.4
Net actuarial (losses)/gains recognised in the year	**(1.7)**	0.7
Cumulative actuarial (losses)/gains at 31 March	**(0.6)**	1.1

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

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Present value of defined benefit obligations	**7.5**	8.0	9.2	8.9	8.4
Fair value of scheme assets	**(5.8)**	(7.6)	(7.7)	(7.4)	(5.9)
Deficit in the scheme	**1.7**	0.4	1.5	1.5	2.5
Experience gains and (losses) on scheme liabilities * :					
Amount (£m)	**-**	0.1	(0.3)	-	0.1
Experience gains and (losses) on scheme assets:					
Amount (£m)	**(2.2)**	(0.7)	(0.2)	0.9	0.3

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

The contributions expected to be paid to the scheme during the financial year ended 31 March 2010 amount to £0.6m.

9. Pension commitments (continued)

(e) WPUPS

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

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

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

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

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

The amounts recognised in the balance sheet are as follows:

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

9. Pension commitments (continued)

(e) WPUPS (continued)

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

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

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

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

Analysis of profit and loss charge:

	2009	2008
	£m	£m
Expected return on scheme assets	**21.8**	25.3
Interest on scheme liabilities	**(22.0)**	(19.3)
Movement in reimbursement agreement recognised	**0.2**	(6.0)
Total recognised in profit and loss account	**-**	-

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

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

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

9. Pension commitments (continued)

(e) WPUPS (continued)

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

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

Actual returns on scheme assets are:

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

Cumulative actuarial gains and losses recognised in equity:

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

9. Pension commitments (continued)

(e) WPUPS (continued)
History of present value of liabilities, asset values, deficit in scheme and experience gains and losses:

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

* Does not include the effect of changes in assumptions.

The contributions expected to be paid to the scheme during the financial year ended 31 March 2010 amount to £1.6m; in December 2008, the Company made an advance payment of £4.5m in respect of the year ended 31 March 2010. These are subject to reimbursement under a reimbursement agreement with another Group company.

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

10. Directors' emoluments

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

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

(i) Base salary also includes benefits in kind.

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

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

(iv) In anticipation of the change in tax applicable to UK pensions effective 6 April 2006, the executive directors resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 9) on 5 April 2006 and elected for enhanced protection. WPD thus no longer contributes for ongoing service to the ESPS in respect of the executive directors. Instead, WPD pays cash compensation to them individually equivalent to the value of WPD’s contribution in to the fund that would have been made had they remained active members (as determined by external actuaries).

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

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

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

11. Tangible fixed assets

	Leasehold improvements	Distribution network	Fixtures & equipment	Deduct: customers' contributions	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2008	0.2	1,407.9	19.6	(292.6)	1,135.1
Additions	-	82.8	3.5	(20.0)	66.3
Disposals	-	(29.5)	(2.5)	0.1	(31.9)
At 31 March 2009	0.2	1,461.2	20.6	(312.5)	1,169.5
Depreciation					
At 1 April 2008	-	472.1	8.6	(101.3)	379.4
Charge for the year	-	24.1	4.3	(4.4)	24.0
Disposals	-	(29.5)	(2.5)	0.1	(31.9)
At 31 March 2009	-	466.7	10.4	(105.6)	371.5
Net book value					
At 31 March 2009	**0.2**	**994.5**	**10.2**	**(206.9)**	**798.0**
At 1 April 2008	0.2	935.8	11.0	(191.3)	755.7

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

	2009	2008
	£m	£m
Freehold	**44.8**	38.8
Short leasehold	**0.2**	0.2

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2009 to £5.0m (2008: £6.7m) and land at a cost of £16.8m (2008: £11.9m).

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

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

12. Stocks

	2009 £m	2008 £m
Raw materials and consumables	**0.6**	0.7
Work in progress	**0.1**	0.2
	0.7	0.9

13. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Trade debtors	**26.8**	31.0
Amounts owed by Group undertakings	**350.0**	365.4
Other debtors	**0.2**	0.3
Prepayments	**1.0**	1.1
Reimbursement agreement re WPUPS (Note 9(e))	**1.6**	6.0
	379.6	403.8
Amounts falling due after more than one year:		
Reimbursement agreement re WPUPS (Note 9(e))	**51.8**	9.0

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

14. Creditors

	2009	2008
	£m	£m
Amounts falling due within one year:		
Trade creditors	**3.0**	2.7
Amounts owed to Group undertakings	**62.5**	65.6
UK corporation tax	**39.1**	38.7
Other creditors	**14.0**	18.6
Accruals and deferred income	**15.5**	15.7
	134.1	141.3
Amounts falling due after more than one year:		
Unsecured borrowings repayable after more than five years:		
£150m 9.25% Eurobonds 2020	**148.8**	148.7
£225m 4.804% bonds 2037	**218.4**	218.2
50,000,000 preference shares (7% net) of £1 each	**50.0**	50.0
	417.2	416.9

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

Unsecured borrowings are stated net of unamortised issue costs of £7.8m (2008: £8.1m). These costs together with the interest expense are allocated to the profit and loss account over the term of the bonds at a constant rate on the carrying amount.

Preference shares

The number of shares authorised and allotted at both 31 March 2009 and 2008 was 50,000,000 at £1 each. They are held by another WPD Group company and carry a fixed dividend. Dividends are payable every six months, in arrears, on 31 March and 30 September. Payment can be delayed but any dividends outstanding must be settled before dividends on ordinary shares can be paid. The shares have no redemption entitlement. On a winding up, the holders have priority before all other classes of shares to receive repayment of capital plus any arrears of dividend. The holders have no voting rights unless the dividend is in arrears.

15. Provisions for liabilities and charges

	Deferred taxation (Note 16)	Other	Total
	£m	£m	£m
At 1 April 2008	61.4	0.9	62.3
Arising/(released) during the year	4.6	(0.3)	4.3
Utilised during the year	-	(0.1)	(0.1)
At 31 March 2009	**66.0**	**0.5**	**66.5**

15. Provisions for liabilities and charges (continued)

Other provisions at 31 March 2009 relate to an expected settlement of a liability to the Electricity Association Limited and Electricity Association Technology Limited relating primarily to a pension deficit in those companies. These liabilities are being settled over periods of approximately 1 and 8 years, respectively.

16. Deferred tax

	2009 £m	2008 £m
Accelerated capital allowances	**124.9**	122.1
Other timing differences	**1.0**	2.7
Undiscounted provision for deferred tax	**125.9**	124.8
Discount	**(59.9)**	(63.4)
Discounted provision for deferred tax (Note 15)	**66.0**	61.4
Deferred tax asset on pension liability (Note 9)	**(15.5)**	(4.3)
Provision at end of year including deferred tax on pension liability	**50.5**	57.1

	2009 £m	2008 £m
Provision for deferred tax at 1 April	**57.1**	56.7
Deferred tax charge/(credit) in profit and loss account (Note 6(a))	**7.8**	(2.8)
(Credited)/charged to statement of total recognised gains and losses	**(14.4)**	3.2
Provision for deferred tax at 31 March	**50.5**	57.1

17. Called-up share capital

	2009 £	2008 £
Authorised:		
405,000,000 ordinary shares of 50p each	**202,500,000**	202,500,000
One special rights redeemable preference share of £1	**1**	1
Allotted, called-up and fully paid:		
403,442,224 ordinary shares of 50p each	**201,721,112**	201,721,112

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

18. Reconciliation of movements in shareholders' funds

	2009 **£m**	2008 £m
Profit for the financial year	**57.7**	64.5
Dividends on equity shares	**(34.9)**	(6.0)
Net movement in hedging reserve	**(0.4)**	(0.2)
Other recognised gains and losses relating to the year	**12.5**	(3.0)
Net increase in shareholders' funds	**34.9**	55.3
Opening equity shareholders' funds	**537.8**	482.5
Closing equity shareholders' funds	**572.7**	537.8

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Profit & loss account £m
At 1 April 2008	23.2	5.1	9.3	298.5
Actuarial loss recognised in pension schemes (Note 9)	-	-	-	(50.4)
Movement on deferred tax relating to actuarial loss recognised above	-	-	-	14.2
Reimbursement agreement relating to WPUPS pension scheme (Note 9(e))	-	-	-	48.7
Cash flow hedges transfer to net profit (net of tax)	-	-	(0.4)	-
Profit for the financial year	-	-	-	57.7
Dividends on equity shares	-	-	-	(34.9)
At 31 March 2009	**23.2**	**5.1**	**8.9**	**333.8**

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.

6.7 Notes to the Regulatory Financial Statements

For the year ended 31 March 2009

20. Capital and other commitments

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

	2009	2008
	£m	£m
Over five years - land and buildings	**0.1**	0.1

b) Fixed asset expenditure contracted but not provided for in the Regulatory Financial Statements at 31 March 2009 was £1.3m (2008: £1.1m).

21. Related party transactions

The Company, a wholly-owned subsidiary undertaking, has taken the exemption available from related party disclosure requirements of FRS 8 as the financial statements of a parent company are available to the public (Note 22).

22. Ultimate parent undertaking

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

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

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

Registered office:
Western Power Distribution (South Wales) plc
Avonbank
Feeder Road
Bristol BS2 0TB

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