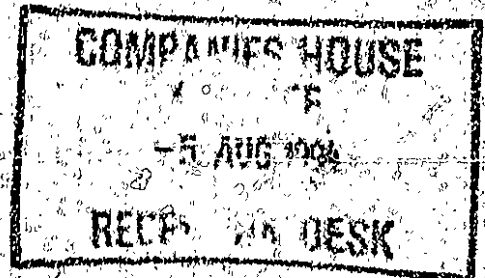


DWR CYMRU CYFYNGEDIG

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Registered No. 2366777

CONTENTS	
DIRECTORS AND ADVISORS	1
REPORT OF THE DIRECTORS	2
DIRECTORS' RESPONSIBILITIES	5
REPORT OF THE AUDITORS	5
ACCOUNTING POLICIES	6
ACCOUNTS	9



DWR CYMRU CYFYNGEDIG

DIRECTORS AND ADVISORS

**G A Hawker
B H Charles
J W Morgan
N C Annett
M P Brooker
T G Jones
J D R Williams**

**Chairman
Managing Director
Finance Director
Director of Planning
Divisional Director (South East)
Divisional Director (South West)
Divisional Director (Northern)**

COMPANY SECRETARY AND REGISTERED OFFICE

**R G Curtis, LLB ACIS
Plas y Ffynnon, Cambrian Way, Brecon, Powys, LD3 7HP**

AUDITORS

Coopers & Lybrand

SOLICITORS

Edwards Geldard

PRINCIPAL BANKERS

National Westminster Bank Plc

DWR CYMRU CYFYNGEDIG
REPORT OF THE DIRECTORS

The Directors submit their Report together with the financial statements for the year ended 31 March 1994.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the supply of water and the treatment and disposal of waste water under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

TRADING RESULTS

Profit on ordinary activities before taxation amounted to £149.0m (1993 £139.0m). The profit attributable to shareholders amounted to £139.6m (1993 £140.7m) which, after dividends of £98.0m (1993 £74.7m) resulted in a transfer to reserves of £41.6m (1993 £66.0m).

DIVIDEND

The Directors recommend payment of a final dividend of £30 million making a total dividend for the year of £98 million.

SHARE CAPITAL

Details of the Authorised and Issued share capital are reported on page 26.

DIRECTORS' INTERESTS

The Directors who have held office during the year ended 31 March 1994 and their interests in the share capital of Welsh Water PLC as the Company's ultimate parent are shown below. No directors have an interest in the share capital of the Company itself.

Messrs G A Hawker and B H Charles are also Directors of Welsh Water PLC and their interests are disclosed in the Director's Report of that Company.

Messrs P J Twamley and N R Hufton resigned as Directors on 26 April 1993.

	Ordinary Shares of £1		Executive Share Options		Sharesave Options	
	31.3.93	31.3.94	31.3.93	31.3.94	31.3.93	31.3.94
N C Annett	620	620	20,942	28,442	1,613	1,613
Dr M P Brooker	28,733	28,733	9,899	9,899	5,776	5,776
T G Jones	34,362	27,062	7,967	7,967	6,136	6,136
J W Morgan	-	-	23,456	30,956	4,719	4,719
J D R Williams	16,986	8,759	10,529	10,529	7,749	7,749

Executive options are held at prices between 340p and 623p per share.

Sharesave options are held at prices between 176p and 409p per share.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and Officers' liability insurance is arranged on behalf of the Company, directors and certain specified managers. This policy is renewed annually.

DŴR CYMRU CYFYNGEDIG
REPORT OF THE DIRECTORS

FIXED ASSETS

An analysis of capital expenditure is reported on pages 18 and 19.

EMPLOYEE INFORMATION

The success of the Company lies in its ability to manage and develop the skills and potential of the 3386 people it now employs. This process depends on effective communication, ongoing training and development opportunities for all, as well as direct involvement of employees in mainstream business activities.

As the Company grows there is a greater need for direct and responsive systems of communication. Efforts are being made to focus employees' attention on items directly relevant to their area of operation whilst maintaining a general interest in the activities of fellow subsidiary companies of Welsh Water plc. In-house magazines and videos continue to provide employees with a wide range of information but as technology advances, electronic mailing is becoming a more direct method of communicating messages of common interest simultaneously to large numbers of employees. Team briefings, workshops and roadshows combine to provide an open and participative approach to communication where questions can be answered and ideas exchanged.

The Company continues to work with its employee representatives to communicate matters jointly both at local and at regional levels.

The Company is committed to achieving a balanced workforce by recruiting and developing employees in a fair and equitable way. Joining Opportunity 2000 is part of that commitment and the Company is seeking to combine this approach in a broader sense with initiatives already in place to achieve a better balance in its workforce. Working more closely with organisations in the community the Company is seeking to create opportunities for training and work experience for disabled people and seeking to encourage more active participation from people from ethnic minority backgrounds. This is in addition to work in place to assist employees with special needs who are already in the Company's employment.

Direct participation in Welsh Water as a business can be demonstrated by the number of employees owning or saving for shares in Welsh Water plc. All of the Company's employees participate in a profit related pay scheme, designed to reflect the relationship between performance and profit.

CONTRIBUTIONS FOR CHARITABLE AND POLITICAL PURPOSES

There have been no political donations during the year and charitable donations amounted to £46000 (1993 - nil).

RESEARCH AND DEVELOPMENT

Research and development remains an important element in the continuing improvement in operational efficiency made by the Company and to the achievement of both national and international standards for potable water and sewage effluent and sludge.

REGULATORY ACCOUNTS

Condition F of the Instrument of Appointment under which Dŵr Cymru Cyfyngedig operates requires specified accounting statements to be published. Copies of these accounts will be available from the Company Secretary after 30 September 1994.

DWR CYMRU CYFYNGEDIG
REPORT OF THE DIRECTORS

AUDITORS

Coopers & Lybrand have signified their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

By order of the Board

R.G. Curtis

R G Curtis, LLB ACIS
Company Secretary

8 June 1994

Registered Office: Plas y Ffynnon, Cambrian Way, Brecon, Powys, LD3 7HP

Company Number: 2366777

DWR CYMRU CYFYNGEDIG

STATEMENTS OF RESPONSIBILITY AND AUDITORS' REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit, total recognised gains and cashflows of the Company for the year. In preparing the financial statements, the directors ensure that appropriate accounting policies have been adopted and applied consistently, that applicable accounting standards have been followed and that reasonable and prudent judgements have been made.

In addition the directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume the company will continue in business.

It is also the directors' responsibility to maintain adequate accounting records and to institute and maintain systems and controls designed to safeguard the assets of the Company and hence to prevent and detect fraud and other irregularities.

By order of the Board

R.G. Curtis
R G Curtis, LLB ACIS
Company Secretary

8 June 1994

REPORT OF THE AUDITORS TO THE MEMBERS OF DWR CYMRU CYFYNGEDIG

We have audited the financial statements on pages 6 to 29.

Respective responsibilities of directors and auditors

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 1994 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cardiff

8 June 1994

DWR CYMRU CYFYNGEDIG
PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom and, except for the treatment of certain grants and contributions, complies with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act 1985 is given in the "Grants and Contributions" section below. A summary of the principal accounting policies which have been consistently applied, except for the change in policy to adopt FRS4, is shown below.

CHANGES IN ACCOUNTING POLICIES AND PRESENTATION OF FINANCIAL INFORMATION

Since the previous Annual Report the Accounting Standards Board has issued the Financial Reporting Standard FRS4 - Capital Instruments. These financial statements comply with the Standard and no restatement of comparative figures was required.

BASIS OF ACCOUNTING

These financial statements have been prepared under the historical cost convention.

TURNOVER

Turnover represents the income receivable in the ordinary course of business for services provided and excludes Value Added Tax.

EXCEPTIONAL ITEMS

Exceptional items are those that need to be disclosed by virtue of their size and incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Company, or profits or losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets comprise :

- (i) infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- (ii) other assets (including properties, overground plant and equipment and fixtures and fittings).

INFRASTRUCTURE ASSETS

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

DŴR CYMRU CYFYNGEDIG

PRINCIPAL ACCOUNTING POLICIES

TANGIBLE FIXED ASSETS AND DEPRECIATION (CONTINUED)

OTHER ASSETS

Other assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated useful economic lives, which are principally as follows:

Leasehold buildings	over the period of the lease
Freehold buildings	30-60 years
Operational structures	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant and equipment	4 -16 years

Assets in the course of construction are not depreciated until commissioned.

LEASED ASSETS

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful life and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are charged to the profit and loss account in the year to which they relate.

GRANTS AND CONTRIBUTIONS

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets. Grants, contributions and infrastructure charges relating to infrastructure assets, which are non-depreciating assets, have been offset against fixed assets (see note 8).

INVESTMENTS

Long term investments held as fixed assets are stated at cost less amounts written off or provided to reflect permanent diminutions in value. Those held as current assets are stated at the lower of cost and net realisable value.

STOCKS AND WORK IN PROGRESS

Stocks are stated at the lower of cost and net realisable value which takes account of any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and directly attributable overheads.

PENSION COSTS

Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. Contribution rates are based on the advice of a professionally qualified actuary. Any difference between the charge to the profit and loss account and contributions paid is shown as an asset or liability in the balance sheet.

DWR CYMRU CYFYNGEDIG
PRINCIPAL ACCOUNTING POLICIES

FOREIGN CURRENCIES

All exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit for the year.

RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

DEFERRED TAXATION

Deferred taxation is provided to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for taxation purposes to the extent that it is probable that a liability for taxation will crystallise as a result of the reversal of those timing differences.

DWR CYMRU CYFYNGEDIG
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1994

	Note	1994 £m	1993 £m
Turnover			
Continuing operations		396.2	362.9
Discontinued operations		-	0.2
		<u> </u>	<u> </u>
Total turnover	2	<u>396.2</u>	<u>363.1</u>
Net operating costs	3	<u>(243.1)</u>	<u>(230.6)</u>
Operating profit			
Continuing operations		153.1	132.3
Discontinued operations		-	0.2
		<u> </u>	<u> </u>
Total operating profit		<u>153.1</u>	<u>132.5</u>
Profit on disposal of fixed assets		0.3	2.2
		<u> </u>	<u> </u>
Profit on ordinary activities before interest		<u>153.4</u>	<u>134.7</u>
Interest receivable		8.5	16.3
Interest payable	5	(12.9)	(12.0)
		<u> </u>	<u> </u>
Profit on ordinary activities before taxation		<u>149.0</u>	<u>139.0</u>
Taxation	6	(9.4)	1.7
		<u> </u>	<u> </u>
Profit on ordinary activities after taxation		<u>139.6</u>	<u>140.7</u>
Dividends	7	(98.0)	(74.7)
		<u> </u>	<u> </u>
Retained profit for the year	20	<u>41.6</u>	<u>66.0</u>

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

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

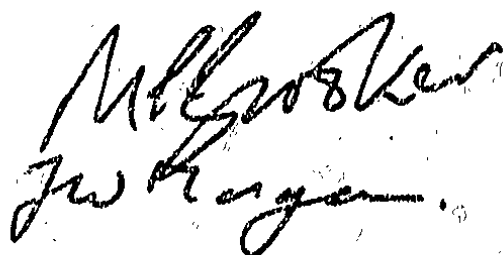
DWR CYMRU CYFYNGEDIG
BALANCE SHEET AT 31 MARCH 1994

	Note	1994 £m	1993 £m
Fixed assets			
Tangible assets	8	1162.6	1045.3
Investments	9	0.1	0.3
		<u>1162.7</u>	<u>1045.6</u>
Current assets			
Stocks and work in progress	10	5.1	6.0
Debtors	11	78.9	80.0
Current asset investments	12	217.9	99.7
Cash at bank and in hand		3.2	-
		<u>305.1</u>	<u>185.7</u>
Current liabilities			
Creditors: amounts falling due within one year	13(a)	(198.0)	(141.5)
Net current assets		<u>107.1</u>	<u>44.2</u>
Total assets less current liabilities		<u>1269.8</u>	<u>1089.8</u>
Creditors: amounts falling due after more than one year	13(b)	(267.7)	(133.8)
Provisions for liabilities and charges	18	(48.8)	(44.3)
Net assets		<u>953.3</u>	<u>911.7</u>
Capital and reserves			
Called up share capital	19	276.1	276.1
Reserves	20	677.2	635.6
Shareholders' funds		<u>953.3</u>	<u>911.7</u>

The financial statements on pages 6 to 29 were approved by the Board of Directors on 8 June 1994 and were signed on its behalf by:

M P Brooker
Director

J W Morgan
Director



DWR CYMRU CYFYNGEDIG
CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1994

	Note	1994 £m	1993 £m
Operating activities			
Net cash inflow from continuing operating activities	21	195.5	158.2
Returns on investments and servicing of finance			
Interest received		12.5	16.4
Interest paid		(11.9)	(3.3)
Interest element of finance leases		(0.1)	(0.1)
Dividends paid		(96.8)	(73.0)
Net cash outflow from returns on investments and servicing of finance		(96.3)	(60.0)
Taxation			
Group relief repaid/(paid)		1.2	(7.6)
Investing activities			
Purchase of tangible fixed assets		(155.2)	(178.6)
Sale of tangible fixed assets		2.0	3.2
Purchase of fixed asset investments		-	(0.2)
Sale of fixed asset investments		0.2	0.1
Grants and contributions received		15.2	10.7
Net cash outflow from investing activities		(137.8)	(164.8)
Net cash outflow before financing		(37.4)	(74.2)
Financing			
Loan received from parent undertaking		5.1	-
Long term loan received from subsidiary undertaking		122.3	-
Long term loans repaid		(0.9)	(1.1)
New finance leases		16.4	25.3
Capital payments under finance leases		(0.3)	(0.3)
(Increase)/decrease in deposits and other money market investments	24	(92.0)	71.8
Net cash inflow from financing	22 & 24	50.6	95.7
Increase in cash and cash equivalents	23	13.2	21.5

DWR CYMRU CYFYNGEDIG

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 1994**

	1994 £m	1993 £m
Total recognised gains and losses for the year	139.6	140.7
Dividends	(98.0)	(74.7)
Net increase in shareholders' funds	<u>41.6</u>	<u>66.0</u>
At 1 April	911.7	845.7
At 31 March	<u>953.3</u>	<u>911.7</u>

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

1 Consolidated Financial Statements

The Company has taken advantage of Section 228 (1) of the Companies Act 1985 not to produce consolidated accounts as it is a wholly owned subsidiary of Welsh Water PLC.

2 Segmental analysis by class of business

Turnover	Total turnover £m	Intra segment turnover £m	Inter segment turnover £m	External turnover £m
Year ended 31 March 1994:				
<u>Continuing operations:</u>				
Regulated water and sewerage activities	390.9	-	1.3	389.6
Non regulated activities	34.9	0.2	28.1	6.6
	-----	-----	-----	-----
	425.8	0.2	29.4	396.2
	-----	-----	-----	-----
Year ended 31 March 1993:				
<u>Continuing operations:</u>				
Regulated water and sewerage activities	358.0	-	-	358.0
Non regulated activities	4.9	-	-	4.9
	-----	-----	-----	-----
	362.9	-	-	362.9
<u>Discontinued operations:</u>				
Non regulated activities	0.2	-	-	0.2
	-----	-----	-----	-----
	363.1	-	-	363.1
	-----	-----	-----	-----

DWR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

2. Segmental analysis by class of business (continued)

Profit on ordinary activities before taxation	1994 £m	1993 £m
<u>Regulated water and sewerage activities:</u>		
Operating profit - continuing operations	148.5	131.9
Interest (payable)/receivable	(2.4)	4.3
Profit on disposal of fixed assets	0.2	2.2
	-----	-----
	146.3	138.4
 <u>Non regulated activities:</u>		
Operating profit - continuing operations	4.6	0.4
- discontinued operations	-	0.2
Interest (payable)	(2.0)	-
Profit on disposal of fixed assets	0.1	-
	-----	-----
	2.7	0.6
	-----	-----
	149.0	139.0
	-----	-----
 Net assets		
Regulated water and sewerage activities	944.7	905.8
Non regulated activities	8.6	5.9
	-----	-----
	953.3	911.7
	-----	-----

Substantially all turnover and profit before taxation, by origin and destination, was attributable to the UK.

Turnover and profit before taxation for non regulated activities prior to 1 April 1993 do not include the Information Technology and Transport Services businesses which were formed on that date, but which were previously included in regulated water and sewerage activities.

DŴR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

3	Net operating costs	Note	1994 £m	1993 £m
	<u>Continuing operations:</u>			
	Change in stocks and work in progress		0.9	0.3
	Infrastructure renewals expenditure	18(b)	22.2	21.7
	Staff costs		73.2	71.4
	Depreciation:			
	Own assets		31.7	28.0
	Assets held under finance leases		2.4	2.1
	Research and development		1.0	0.8
	Rentals under operating leases:			
	Hire of plant and equipment		-	1.1
	Land and buildings		0.5	0.3
	Other		2.1	1.7
	Fees paid to auditors:			
	Audit services		0.1	0.1
	Consultancy services		0.1	0.2
	Other operating charges		127.4	127.5
	Amortisation of grants and contributions	18(c)	(1.0)	(3.1)
	Other operating income:			
	Net rents receivable		(0.4)	(0.2)
			-----	-----
	Own costs capitalised		260.2	251.9
			(17.1)	(21.3)
			-----	-----
	Total net operating costs		243.1	230.6
			-----	-----

The comparative net operating costs for 1993 in respect of staff costs and other operating charges have been restated to show total gross costs for the Company before an elimination of own costs capitalised which have now been shown separately.

4 Directors and employees

(a) Directors' remuneration

Executive directors' remuneration represents salary plus a bonus based on the profitability of the Company. The basis of remuneration is fixed by the Welsh Water Group Remuneration Committee after taking independent specialist advice.

The combined emoluments of the directors of Dŵr Cymru Cyfyngedig for their services as directors of the Company are set out below:

	1994 £000	1993 £000
Contributions to pension schemes	58	57
Emoluments (including benefits in kind)	488	485
	-----	-----
	546	542
	-----	-----

Included in the above are amounts (excluding pension contributions) paid to:

The Chairman

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

4. (a) Directors' remuneration (continued)

	1994 £m	1993 £m
The highest paid director	104	88

The emoluments (excluding pension contributions) were in the following ranges:

	1994 Number	1993 Number
£ 0 - £ 5,000	1	4
£ 5,001 - £ 10,000	1	-
£ 20,001 - £ 25,000	1	-
£ 60,001 - £ 65,000	-	3
£ 65,001 - £ 70,000	3	2
£ 70,001 - £ 75,000	1	-
£ 75,001 - £ 80,000	-	1
£ 80,001 - £ 85,000	1	-
£ 85,001 - £ 90,000	-	1
£100,001 - £105,000	1	-

(b) Staff costs

	1994 £m	1993 £m
Wages and salaries	61.4	60.3
Social security costs	5.2	4.9
Pension costs	6.6	6.2
	73.2	71.4

Of the above, £7.9m (1993 £11.3m) has been charged to capital.

(c) Average weekly number of employees during the year

	1994 Number	1993 Number
Regulated water and sewerage activities	3102	3481
Non regulated activities	284	-
	3386	3481

DWR CYMRU CYFYNGEDIG
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

5	Interest payable	1994	1993
		£m	£m
	On bank loans, overdrafts and other loans		
	- repayable within five years, not by instalments	0.7	0.6
	- repayable wholly or partly in more than five years	8.5	8.4
		<u>9.2</u>	<u>9.0</u>
	On finance leases	3.7	3.0
		<u>12.9</u>	<u>12.0</u>

Included in "repayable within five years, not by instalments" is an amount payable to parent and fellow subsidiary undertakings of £0.4m (1993 - £0.2m)

6	Taxation	1994	1993
		£m	£m
	Based on the results for the year:		
	UK corporation tax at 33%	4.8	6.1
	Group relief payable	4.6	-
		<u>9.4</u>	<u>6.1</u>
	Prior year adjustments:		
	Corporation tax	-	(7.8)
		<u>9.4</u>	<u>(1.7)</u>

The tax charge has been reduced by £41.0m (1993 £40.0m) in respect of excess tax allowances over depreciation and other timing differences on which, in accordance with the Company's accounting policy, no deferred tax has been provided. The tax liability for the year and previous years is still subject to negotiation with the Inland Revenue.

7	Dividends	1994	1993
		£m	£m
	Interim paid	68.0	45.9
	Final proposed of	30.0	28.8
		<u>98.0</u>	<u>74.7</u>

DWR CYMRU CYFYNGEILIG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

8 (c) Tangible fixed asset - Analysis by Type

	Freehold land and buildings £m	Infra structure assets £m	Vehicles plant and equipment £m	Operational structures £m	Total £m
Cost					
At 1 April 1993	47.0	421.5	163.4	647.5	1279.4
Reclassification	(0.2)	2.7	(3.6)	1.1	-
	<u>46.8</u>	<u>424.2</u>	<u>159.8</u>	<u>648.6</u>	<u>1279.4</u>
Additions	0.6	56.0	10.3	98.5	165.4
Transfers from fellow subsidiary undertakings	-	-	0.9	-	0.9
Grants and contributions	-	(13.2)	-	-	(13.2)
Disposals	-	-	(2.1)	-	(2.1)
Transfers to fellow subsidiary undertakings	-	-	-	(1.4)	(1.4)
	<u>47.4</u>	<u>467.0</u>	<u>168.9</u>	<u>745.7</u>	<u>1429.0</u>
Accumulated depreciation					
At 1 April 1993	10.8	-	77.6	145.7	234.1
Charge for the year	0.9	-	15.8	17.4	34.1
Disposals	-	-	(1.8)	-	(1.8)
	<u>11.7</u>	<u>-</u>	<u>91.6</u>	<u>163.1</u>	<u>266.4</u>
Net book value					
At 31 March 1994	35.7	467.0	77.3	582.6	1162.6
At 31 March 1993	36.2	421.5	85.8	501.8	1045.3
Utilisation at 31 March 1994					
Owned	35.7	467.0	77.1	520.1	1099.9
Held under finance leases	-	-	0.2	62.5	62.7
	<u>35.7</u>	<u>467.0</u>	<u>77.3</u>	<u>582.6</u>	<u>1162.6</u>

DWR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

8 (b) Tangible fixed asset - analysis by service

	Water services £m	Sewerage services £m	Other trading activities £m	General £m	Total £m
Cost					
at 1st April 1993	589.6	553.1	1.9	134.8	1279.4
Additions	94.1	64.5	-	6.8	165.4
Transfers from fellow subsidiary undertakings	-	-	-	0.9	0.9
Grants & contributions	(7.4)	(5.8)	-	-	(13.2)
Disposals	-	-	-	(2.1)	(2.1)
Transfers to fellow subsidiary undertakings	-	-	(1.4)	-	(1.4)
At 31 March 1994	676.3	611.8	0.5	140.4	1429.0
Accumulated Depreciation					
at 1st April 1993	84.3	93.1	-	56.7	234.1
Charge for the year	10.2	10.2	-	13.7	34.1
Disposals	-	-	-	(1.8)	(1.8)
At 31 March 1994	94.5	103.3	-	68.6	266.4
Net Book Value					
at 31 March 1994	581.8	508.5	0.5	71.8	1162.6
at 31 March 1993	505.3	460.0	1.9	78.1	1045.3
Utilisation at 31 March 1994					
Owned	537.0	490.8	0.5	71.6	1099.9
Held under Finance Leases	44.8	17.7	-	0.2	62.7
	581.8	508.5	0.5	71.8	1162.6

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

8 (c) Tangible fixed asset

- (i) Tangible fixed assets at 31 March 1994 include £184.5m (1993 £125.2m) of assets in the course of construction, which are not depreciated until commissioned.
- (ii) Re-classification has arisen as a result of the Company's continuing refinement of its historical fixed asset information.
- (iii) The accounting treatment for grants, contributions and infrastructure charges in respect of infrastructure assets is described in the Principal Accounting Policies on page 7. This treatment is not in accordance with Schedule 4 to the Companies Act 1985 which requires fixed assets to be shown at the purchase price or production cost and hence grants and contributions would be presented under the Act as deferred income. The treatment explained on page 7 has been adopted in accordance with section 226(5) of the Companies Act 1985 in order to show a true and fair view as in the opinion of the directors, it is not appropriate to treat grants, contributions and infrastructure charges on infrastructure assets as deferred income. The fixed assets to which they relate are not depreciated and accordingly no basis exists on which to recognise such contributions as deferred income. The contributions relate directly to investment in infrastructure assets and are therefore deducted directly from their purchase or production cost. As a consequence the net book value for fixed assets is £92.2m (1993 £79.0m) lower than it would have been had this treatment not been adopted.

9 Fixed asset investments

	Interests in fellow subsidiary undertakings £m	Unlisted investments £m	Total £m
Cost and net book value			
At 1 April 1993	0.2	0.1	0.3
Transfer to fellow subsidiary undertakings	(0.2)	-	(0.2)
At 31 March 1994	-	0.1	0.1

The Company holds equity in the following company:-

	Country of Incorporation	Description of Holding	Proportion Held
Welsh Water Utilities Finance Plc	Great Britain	£1 ordinary shares	100%

Welsh Water Utilities Finance Plc was acquired on 8 February 1994. The Company is an investment company providing long term funding for Dwr Cymru Cyfyngedig. The share capital and reserves of that company at 31 March 1994 were:-

	£
Share capital	50000
Reserves	726

	50726

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

9 Fixed asset investments (continued)

The company holds equity of less than 10% in the following unlisted company:-

	Nature of Business	Country of Incorporation	Description of Holding
Water Research Centre (1989) Plc	Water Research	Great Britain	"B" Ordinary Shares of £1

In addition, the Company holds 5% Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) Plc.

Subsidiary undertakings are listed in note 29 on page 29.

10 Stocks and work in progress

	1994 £m	1993 £m
Consumable stores	4.1	4.4
Work in progress	1.0	1.6
	<u>5.1</u>	<u>6.0</u>

11 Debtors

	1994 £m	1993 £m
Amounts falling due within one year:		
Trade debtors	41.2	32.7
Amounts due from parent and fellow subsidiary undertakings	0.5	6.0
Other debtors	13.5	9.8
Prepayments and accrued income	22.1	31.2
	<u>77.3</u>	<u>79.7</u>
Amounts falling due after more than one year:		
Other debtors	1.6	0.3
	<u>78.9</u>	<u>80.0</u>

DŴR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

12 Current asset investments

	1994 £m	1993 £m
Fixed term and call deposits	207.9	99.7
Other money market investments	10.0	-
	217.9	99.7
Original maturity periods are as follows:		
	1994 £m	1993 £m
Within three months and regarded as cash equivalents in the cashflow statement	58.4	32.2
Over three months	159.5	67.5
	217.9	99.7

Of the above amounts, with an original maturity of over three months, £30.0m (1993 nil) matures more than one year after the balance sheet date.

The market value of investments is not significantly different from cost.

Investments are managed on behalf of Dŵr Cymru Cyfyngedig by Welsh Water Plc under an agency agreement.

13 Creditors

	Note	1994 £m	1993 £m
(a) Amounts falling due within one year:			
Bank loans and overdrafts		25.2	9.0
Other loans	14	2.8	0.9
Obligations under finance leases	15	1.7	0.3
Trade creditors		62.5	49.2
Amounts due to parent and fellow subsidiary undertakings		18.6	10.1
Amounts due to subsidiary undertakings		0.3	0.2
Dividend proposed		30.0	28.8
Corporation tax		3.5	2.0
Other taxation and social security		1.1	1.5
Other creditors		51.8	39.0
Accruals and deferred income		0.5	0.5
		198.0	141.5
(b) Amounts falling due after more than one year:			
Other loans	14	78.6	81.4
Obligations under finance leases	15	63.8	49.1
Amounts due to subsidiary undertakings		122.3	-
Other creditors:			
Between one and five years		3.0	3.3
		267.7	133.8

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

13 Creditors (Continued)

During the year ended 31 March 1994 Welsh Water Utilities Finance PLC, a subsidiary undertaking, issued Eurobonds to finance the capital programme of the Company which is outlined in Note 16. The Company has guaranteed the principal and interest payments of its subsidiary undertaking due under the terms of the bonds.

Details of the Eurobond are as follows:-

	Interest rate %	Net proceeds £m	Net issue cost £m	Nominal value £m
Eurobonds 2004	7.125	99.1	0.9	100.0
Eurobonds 2014 (part paid)	7.625	<u>23.2</u>	<u>1.8</u>	<u>100.0</u>
		122.3	2.7	200.0

The Eurobonds 2004 were issued on 17 March 1994, and the Eurobonds 2014 were issued on 21 March 1994. The Eurobond 2014 is partly paid. The final instalment of £75 per £100 nominal is receivable on 15 December 1994.

The consideration for the issues was £126.9m. The difference of £2.7m between net proceeds and the nominal bond value, represents premium and issue expenses.

The net proceeds arising from the issue were loaned to the Company at a variable interest rate and £122.3m is included in amounts due to subsidiary undertaking in respect of this loan. The interest rate charged for the period was 7.7%.

14. Loans

	1994 £m	1993 £m
Other Loans		
Repayable by instalments after five years	81.4	82.3
Due for repayment as follows:		
Within one year	2.8	0.9
Between one and two years	2.7	2.7
Between two and five years	12.3	8.0
After more than five years	<u>63.6</u>	<u>70.7</u>
	81.4	82.3

Interest rates on these loans range between 6.7% and 11.4%.

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

15. Finance leases

Amounts due under finance leases are payable as follows:

	1994 £m	1993 £m
Within one year	1.7	0.3
Between one and two years	0.5	0.2
Between two and five years	-	-
After five years	63.3	48.9
	65.5	49.4

The Company has arranged a long dated interest rate swap which has the effect of fixing the rate of interest at 7.8% on sterling borrowing which reduces from £64.6m over a term of 20 years (1993 - nil).

16 Capital commitments

	1994 £m	1993 £m
Contracted for but not provided in the financial statements	74.4	67.6
Authorised but not yet contracted for	41.9	47.3

Apart from these commitments, in order to meet regulatory and service standards, the Company has longer term capital expenditure obligations totalling approximately £2.0 billion at current prices over the next ten years, which include investments to meet shortfalls in performance and condition, and to provide for new demands and growth.

17 Leasing commitments

	Land and buildings		Other	
	1994 £m	1993 £m	1994 £m	1993 £m
At 31 March 1994 there were revenue commitments, in the ordinary course of business in the next year to the payment of rentals on non cancellable operating leases expiring:				
Between two and five years	0.2	-	1.2	1.2
After five years	0.3	0.4	-	-
	0.5	0.4	1.2	1.2

DWR CYMRU CYFYNGEDIG
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

18 Provisions for liabilities and charges

	Note	1994 £m	1993 £m
Infrastructure maintenance provision	(b)	13.4	9.9
Deferred income	(c)	35.4	34.4
		<u>48.8</u>	<u>44.3</u>

(a) Deferred taxation

No provision is required for deferred taxation in accordance with the policy described in the Principal Accounting Policies on page 7. The full potential liability for deferred taxation comprises:

	1994 £m	1993 £m
Accelerated capital allowances	155.5	128.3
Other timing differences	(1.2)	(5.0)
	<u>154.3</u>	<u>123.3</u>

(b) Infrastructure maintenance provision

	1994 £m	1993 £m
At 1 April	9.9	15.5
Charge for the year	22.2	21.7
Expenditure in the year	(18.7)	(27.3)
	<u>13.4</u>	<u>9.9</u>

As part of their obligations to the Director General of Water Services the directors have determined a programme of expenditure for the maintenance and enhancement of the infrastructure asset system. This programme is set out in an Asset Management Plan effective from 1 April 1989. The above provision represents the difference between the annual anticipated expenditure requirement in the Asset Management Plan for infrastructure maintenance and that actually incurred.

DWR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

18 Provision for liabilities and charges (continued)

(c) Deferred income

	1994 £m	1993 £m
At 1 April	34.4	35.9
Receivable during the year	2.0	1.6
Released to profit and loss account	(1.0)	(3.1)
At 31 March	<u>35.4</u>	<u>34.4</u>

Deferred income represents grants and contributions received in respect of investment in non-infrastructure fixed assets. These grants are amortised to the profit and loss account over the estimated useful economic life of the related assets.

19 Called up share capital

	1994 £m	1993 £m
Authorised: 301050000 Ordinary shares of £1 each	301.1	301.1
Allotted, called up and fully paid: 276050000 Ordinary shares of £1 each	276.1	276.1

20 Reserves

Profit and loss account

	£m
At 1 April 1993	635.6
Profit retained for the year	41.6
At 31 March 1994	<u>677.2</u>

DWR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994

21	Net cash inflow from operating activities	1994 £m	1993 £m
	Continuing operations:		
	Operating profit	153.1	132.5
	Depreciation of tangible fixed assets	34.1	30.1
	Amounts written off tangible fixed assets	-	0.3
	Infrastructure maintenance accrual	3.5	(5.6)
	Amortisation of grants and contributions	(1.6)	(3.1)
	Net decrease in stocks	0.9	0.3
	Net (increase) in debtors	(8.7)	(4.1)
	Net increase in creditors	13.6	7.8
	Net cash inflow from continuing operating activities	195.5	158.2

22	Analysis of changes in financing in the year			
	Share capital		Long term loans & finance lease obligations	
	1994 £m	1993 £m	1994 £m	1993 £m
	276.1	276.1	131.7	107.8
	Loan received from parent undertakings	-	5.1	-
	Loan received from subsidiary undertakings	-	122.3	-
	New finance leases	-	16.4	25.3
	Loan repayments	-	(0.9)	(1.1)
	Finance lease repayments	-	(0.3)	(0.3)
	276.1	276.1	274.3	131.7

23	Analysis of changes in cash and cash equivalents in the year	Note	1994 £m	1993 £m
	At 1 April	25	23.2	1.7
	Net cash inflow		13.2	21.5
	At 31 March	25	36.4	23.2

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

24 Analysis of changes in deposits and investments in the year

	At 31 March 1994 £m	At 1 April 1993 £m	Change in year £m
Fixed term and call deposits and other money market investments	159.5	67.5	92.0

Current asset investments which are not treated as cash and cash equivalents are available to finance future capital investment and are therefore treated as a financing activity, rather than an investing activity, in the cashflow statement.

25 Analysis of cash and cash equivalents

	1994 £m	1993 £m
Cash at bank and in hand	3.2	-
Short term deposits and investments	58.4	32.2
Bank loans and overdrafts	(25.2)	(9.0)
	----- 36.4	----- 23.2

26 Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons subsisted during the year or were outstanding at the end of the year.

27 Pension schemes

Welsh Water Plc operates as principal employer two funded, defined benefit schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS), for the benefit of all eligible employees of the Welsh Water Group. The assets of the schemes are held separately from the assets of the Group and are administered by independent trustees.

The employer's contributions and the pension cost have been assessed in accordance with the advice of William M. Mercer Limited using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose the main actuarial assumptions used are based upon investment growth of 9% per annum and pay growth of 7% per annum and increases to pensions in payment and deferred pensions of 5% per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1993. The market value of the assets at the valuation date for the WMIS Scheme was £51.8m. Using the assumptions adopted for the Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs", the actuarial value of assets represented 107% of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the surplus in the scheme is being recognised by a reduction in employers' contribution rates which were implemented on 1 April 1994.

DWR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1994

27 Pension schemes (continued)

The market value of the assets at the valuation date for the WPS Scheme was £132.4m. Using the assumptions adopted for SSAP24, the actuarial value of the assets represented 95% of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the deficiency in the scheme is being spread over the working lifetime of the existing members by way of increased employers' contribution rates which were implemented on 1 April 1994.

The total pension cost for the period was £6.6m (1993 - £6.2m).

28 Efan Aqueduct

In 1984 Welsh Water Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7m, representing the consideration for the conditional sale, has been invested in a Trust Fund. The principal function of the Fund was to provide an income to Welsh Water Authority, whilst preserving the capital value of the Fund in real terms. Welsh Water Authority's interest in this Fund was vested in Dwr Cymru Cyfyngedig under the provisions of the Water Act 1989. The assets of the Fund are not included in these financial statements.

29 Principal subsidiary undertakings

	Country of Incorporation or Registration	Shareholding
Welsh Water Utilities Finance Plc	England and Wales	100%

30 Holding Company

The ultimate Holding Company is Welsh Water PLC which is registered in England and Wales.

The financial statements of Welsh Water PLC can be obtained from the Company Secretary of Welsh Water PLC at P.O. Box 295, Alexandra Gate, Rover Way, Cardiff, CF2 2UE.

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1994**

Five year summary

	Year ended 31 March				
	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m
Turnover	255.0	287.6	334.0	363.1	396.2
Operating profit	64.1	95.9	121.6	132.5	153.1
Profits on disposal of fixed assets		0.3	1.4	2.2	0.3
Net interest receivable/(payable)	(23.8)	31.8	16.8	4.3	(4.4)
Profit on ordinary activities before taxation	40.3	128.0	139.8	139.0	149.0
Taxation	-	-	(10.0)	1.7	(9.4)
Profit on ordinary activities after taxation	40.3	128.0	129.8	140.7	139.6
Dividends	(38.7)	(74.5)	(108.4)	(74.7)	(98.0)
Retained profit for the year	1.6	53.5	21.4	66.0	41.6
Fixed assets	667.6	779.6	911.8	1045.6	1162.7
Net current assets	162.2	111.6	95.4	44.2	107.1
Total assets less current liabilities	829.8	891.2	1007.2	1089.8	1269.8
Creditors : amounts falling due after more than one year	(19.7)	(18.8)	(110.1)	(123.8)	(267.7)
Provisions for liabilities and charges	(39.3)	(48.1)	(51.4)	(44.3)	(48.8)
Net assets	770.8	824.3	845.7	911.7	953.3
Capital and reserves					
Called up share capital	276.1	276.1	276.1	276.1	276.1
Reserves	494.7	548.2	569.6	635.6	677.2
Shareholders' funds	770.8	824.3	845.7	911.7	953.3

- (a) Grants and contributions on non-infrastructure assets are credited to deferred income in compliance with the Companies Act 1989 and Statement of Standard Accounting Practice No.4 (revised) "Accounting for Government Grants". Grants and contributions and infrastructure charges relating to infrastructure assets, which are non-depreciating assets, have been offset against fixed assets and the figures for 1990 and 1991 are restated to take account of the change in accounting policy relating to non-infrastructure assets.
- (b) Prior year figures have been restated to reflect subsequent changes in accounting policies as noted in the Principal Accounting Policies on page 6.