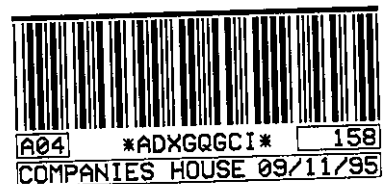


DŴR CYMRU CYFYNGEDIG

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995
Registered No. 2366777**

Registered address:

Plas y Ffynnon
Cambrian Way
Brecon
Powys
LD3 7HP



DŴR CYMRU CYFYNGEDIG

DIRECTORS AND ADVISORS

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

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

SECRETARY AND REGISTERED OFFICE

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

REGISTERED AUDITORS

Coopers & Lybrand

SOLICITORS

Edwards Geldard

PRINCIPAL BANKERS

National Westminster Bank Plc

DŴR CYMRU CYFYNGEDIG

Directors' Report and Financial Statements for the year ended 31 March 1995

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DŴR CYMRU CYFYNGEDIG
REPORT OF THE DIRECTORS

The directors present their report together with the financial statements for the year ended 31 March 1995.

FUTURE DEVELOPMENT

The directors expect that the present level of activity will be sustained in the foreseeable future.

PRINCIPAL ACTIVITY

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 £142.2m (1994 £149.0m). The profit attributable to shareholders amounted to £138.2m (1994 £139.6m) which, after dividends of £65.0m (1994 £98.0m) resulted in a transfer to reserves of £73.2m (1994 £41.6m).

The directors recommend payment of a final dividend for the year ended 31 March 1995 of £32.6m making the total dividend for the year £65.0m.

SHARE CAPITAL

Details of the Authorised and Issued share capital are reported on page 25.

DIRECTORS

The directors who held office during the year were:-

G A Hawker	
B H Charles	
J W Morgan	
N C Annett	
C J Thomas	(appointed 01.10.94)
M P Brooker	
M J Harrington	(appointed 01.10.94)
J D R Williams	
T G Jones	(resigned 30.09.94)

DIRECTORS' INTERESTS

No director has an interest in the capital of the Company.

The interests of directors at 31 March 1995 in the share capital of the Company's parent company, Welsh Water PLC, are as below:

B H Charles and G A Hawker are directors of Welsh Water PLC and their interests are disclosed in the Directors' Report of that company.

	Ordinary Shares of £1		Executive Share Options		Sharesave Options	
	31.3.95	31.3.94	31.3.95	31.3.94	31.3.95	31.3.94
J W Morgan	-	-	30,956	30,956	4,719	4,719
N C Annett	420	620	7,500	28,442	3,676	1,613
C J Thomas	2,331	286 *	5,904	2,948 *	2,857	3,568 *
M P Brooker	18,960	28,733	9,899	9,899	3,902	5,776
M J Harrington	8,092	1,956 *	5,522	2,462 *	1,613	7,749 *
J D R Williams	12,267	8,759	10,529	10,529	1,613	7,749

DŴR CYMRU CYFYNGEDIG
REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS (CONTINUED)

* as at date of appointment

Executive options are held at prices between 340p and 623p per share. Sharesave options are held at option prices between 248p and 502p per share.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

FIXED ASSETS

An analysis of capital expenditure is reported on pages 17 to 18.

Land and buildings are carried in the accounts at historical cost at a net book value of £35.1m (£35.7m 1994). In the opinion of the directors there was no significant difference between book values of property capable of disposal within the foreseeable future and market values.

EMPLOYEE INFORMATION

The success of the Company lies in its ability to manage and develop the skills and potential of the 3230 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. Being members of 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. Charitable donations amounted to £57,673 (1994 £46,000).

DŴR CYMRU CYFYNGEDIG
REPORT OF THE DIRECTORS

RESEARCH AND DEVELOPMENT

Research and development remains central to the Company's achievements in improving operational efficiency and to the achievement of both national and international standards for potable water, 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 1995.

AUDITORS

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

By order of the Board



R G Curtis, LLB ACIS
Company Secretary

5th June 1995

Registered Office: Plas y Ffynnon, Cambrian Way, Brecon, Powys, LD3 7HP
Company Number: 2366777

DŴR CYMRU CYFYNGEDIG

STATEMENTS OF RESPONSIBILITY AND AUDITORS' REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are required by UK Company law 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 or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1995. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, to safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

R G Curtis, LLB ACIS
Company Secretary



5th June 1995

REPORT OF THE AUDITORS TO THE MEMBERS OF DŴR CYMRU CYFYNGEDIG

We have audited the financial statements on pages 5 to 28.

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.

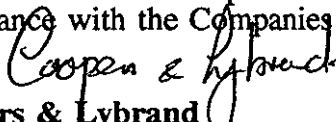
Basis of opinion

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 1995 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
Chartered Accountants and Registered Auditors
Cardiff

7th June 1995

DŴR 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, 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 FRS5 - Reporting the Substance of Transactions, FRS6 - Acquisitions and Mergers and FRS7 - Fair Values in Acquisition Accounting. In addition the Urgent Issues Tasks Force ("UITF") has issued a number of abstracts in the year. Where relevant these financial statements comply with the standards and UITF abstracts and no restatement of comparative figures was required.

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with 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, CONTRIBUTIONS AND INFRASTRUCTURE CHARGES

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 9c).

INTEREST RATE SWAPS

Interest differentials, under swap arrangements used to manage interest rate exposure of borrowings and current asset investments, are recognised by adjusting interest payable or receivable as appropriate.

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.

DŴR CYMRU CYFYNGEDIG
PRINCIPAL ACCOUNTING POLICIES

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 an independent 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.

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

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

DŴR CYMRU CYFYNGEDIG
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1995

	Note	1995 £m	1994 £m
Turnover		415.5	396.2
Net operating costs	3	(262.7)	(243.1)
Operating profit		<u>152.8</u>	<u>153.1</u>
Continuing operations		169.8	153.1
Exceptional items	4	(17.0)	-
Operating profit		<u>152.8</u>	<u>153.1</u>
Profit on disposal of fixed assets		0.2	0.3
Profit on ordinary activities before interest		<u>153.0</u>	<u>153.4</u>
Interest receivable		14.6	8.5
Interest payable	6	(25.4)	(12.9)
Profit on ordinary activities before taxation		<u>142.2</u>	<u>149.0</u>
Taxation	7	(4.0)	(9.4)
Profit on ordinary activities after taxation		<u>138.2</u>	<u>139.6</u>
Dividends	8	(65.0)	(98.0)
Retained profit for the year	21	<u>73.2</u>	<u>41.6</u>

All operations are continuing.

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.

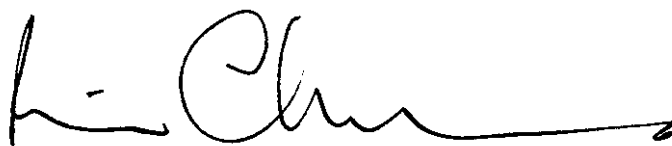
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical equivalents.

DWR CYMRU CYFYNGEDIG
BALANCE SHEET AT 31 MARCH 1995

	Note	1995 £m	1994 £m
Fixed assets			
Tangible assets	9	1304.9	1162.6
Investments	10	0.1	0.1
		-----	-----
		1305.0	1162.7
Current assets			
Stocks and work in progress	11	5.7	5.1
Debtors	12	79.5	78.9
Current asset investments	13(a)	271.4	217.9
Cash at bank and in hand		3.2	3.2
		-----	-----
		359.8	305.1
Current liabilities			
Creditors: amounts falling due within one year	14(a)	(212.3)	(198.0)
		-----	-----
Net current assets		147.5	107.1
		-----	-----
Total assets less current liabilities		1452.5	1269.8
		-----	-----
Creditors: amounts falling due after more than one year	14(b)	(358.7)	(267.7)
		-----	-----
Provisions for liabilities and charges	19	(67.3)	(48.8)
		-----	-----
Net assets		1026.5	953.3
		=====	=====
Capital and reserves			
Called up share capital	20	276.1	276.1
Reserves	21	750.4	677.2
		-----	-----
Equity shareholders' funds		1026.5	953.3
		=====	=====

The financial statements on pages 5 to 28 were approved by the Board of Directors on 5th June 1995 and were signed on its behalf by:

B H Charles
Director



J W Morgan
Director



DŴR CYMRU CYFYNGEDIG
CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1995

	Note	1995 £m	1994 £m
Operating activities			
Net cash inflow from continuing operating activities	22	208.2	195.5
Returns on investments and servicing of finance			
Interest received		12.8	12.5
Interest paid		(20.6)	(11.9)
Interest element of finance leases		(6.4)	(0.1)
Dividends paid		(62.4)	(96.8)
Net cash outflow from returns on investments and servicing of finance			
		(76.6)	(96.3)
Taxation			
Group relief (paid)/received		(7.9)	1.2
Investing activities			
Purchase of tangible fixed assets		(182.5)	(155.2)
Sale of tangible fixed assets		0.4	2.0
Assets purchased from Group companies		(0.1)	-
Assets sold to Group companies		0.6	0.2
Grants and contributions received		13.3	15.2
Net cash outflow from investing activities			
		(168.3)	(137.8)
Net cash outflow before financing and treasury activities			
		(44.6)	(37.4)
Financing and treasury activities			
Loan received from parent undertaking		8.3	5.1
Long term loan received from subsidiary undertaking		75.0	122.3
Long term loan received		10.0	-
Long term loans repaid		(2.7)	(0.9)
New finance leases		8.1	16.4
Capital payments under finance leases		(0.2)	(0.3)
(Increase) in deposits and other money market investments	25	(68.0)	(92.0)
Net cash inflow from financing and treasury activities			
		30.5	50.6
(Decrease)/increase in cash and cash equivalents			
	24	(14.1)	13.2

DŴR CYMRU CYFYNGEDIG

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS FOR THE YEAR ENDED 31 MARCH 1995

	1995 £m	1994 £m
Profit for the financial year attributable to shareholders	138.2	139.6
Dividends	(65.0)	(98.0)
Net increase in shareholders' funds	<u>73.2</u>	<u>41.6</u>
At 1 April	953.3	911.7
At 31 March	<u>1026.5</u>	<u>953.3</u>

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

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 1995:				
Regulated water and sewerage activities	409.2	-	1.1	408.1
Non regulated activities	38.1	0.4	30.3	7.4
	----- 447.3	----- 0.4	----- 31.4	----- 415.5
	=====	=====	=====	=====
Year ended 31 March 1994:				
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
	=====	=====	=====	=====

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

2. Segmental analysis by class of business (continued)

	1995	1994
	£m	£m
Profit on ordinary activities before taxation		
<u>Regulated water and sewerage activities:</u>		
Operating profit *	148.8	148.5
Interest payable	(8.9)	(2.4)
Profit on disposal of fixed assets	-	0.2
	-----	-----
	139.9	146.3
<u>Non regulated activities:</u>		
Operating profit	4.0	4.6
Interest payable	(1.9)	(2.0)
Profit on disposal of fixed assets	0.2	0.1
	-----	-----
	2.3	2.7
	-----	-----
	142.2	149.0
	=====	=====
* Operating results as disclosed above, are after deducting exceptional items of £17.0m (see note 4). The operating profit, prior to deducting the exceptional items, is set out below:		
Operating profit	165.8	148.5
	=====	=====
Net assets		
Regulated water and sewerage activities	1015.6	944.7
Non regulated activities	10.9	8.6
	-----	-----
	1026.5	953.3
	=====	=====

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

DWR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

5 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:

	1995 £000	1994 £000
Contributions to pension schemes	62	58
Emoluments (including benefits in kind)	508	488
Compensation for loss of office and other termination payments	47	-
	617	546

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

The Chairman. (In 1994 £21,000 was paid to the parent company in respect of the services of the Chairman provided to the Company. The comparative has been restated to reflect this charge)

	22	21
	1995 £'000	1994 £'000

The highest paid director

	96	104

The number of directors (including the chairman and highest paid director) who received fees and other emoluments, (excluding pension contributions) in the following ranges was:

	1995 Number	1994 Number
£ 0 - £ 5,000	-	1
£ 5,001 - £ 10,000	-	1
£ 20,001 - £ 25,000	1	1
£ 30,001 - £ 35,000	3	-
£ 65,001 - £ 70,000	2	3
£ 70,001 - £ 75,000	1	1
£ 80,001 - £ 85,000	1	1
£ 95,001 - £100,000	1	-
£100,001 - £105,000	-	1

(b) Staff costs

	1995 £m	1994 £m
Wages and salaries	61.1	61.4
Social security costs	4.8	5.2
Pension costs	6.5	6.6
	72.4	73.2

Of the above, £8.4m (1994 £7.9m) has been charged to capital.

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

(c) **Average weekly number of employees during the year**

	1995 Number	1994 Number
Regulated water and sewerage activities	2972	3102
Non regulated activities	310	284
	3282	3386

6		1995 £m	1994 £m
	Interest payable		
	On bank loans, overdrafts and other loans		
	- repayable within five years, not by instalments	0.8	0.7
	- repayable wholly or partly in more than five years	19.8	8.5
		20.6	9.2
	On finance leases	4.8	3.7
		25.4	12.9

Included in "repayable within five years, not by instalments" is an amount payable to parent and fellow subsidiary undertakings of £nil (1994 - £0.4m)

Included in "repayable wholly or partly in more than five years" are amounts payable to subsidiary undertakings and to parent and fellow subsidiary undertakings of £11.1m and £0.7m respectively (1994 £ nil).

7		1995 £m	1994 £m
	Taxation		
	Based on the results for the year:		
	UK corporation tax at 33% (1994 33%)	12.8	4.8
	Group relief payable	1.5	4.6
		14.3	9.4
	Prior year adjustments:		
	Corporation tax	(8.2)	-
	Group relief receivable	(2.1)	-
		4.0	9.4

The tax charge has been reduced by £34.1m (1994 £41.0m) in respect of excess tax allowances over depreciation and other timing differences, for which no provision is made. Although the tax liability for some previous years is still under negotiation with the Inland Revenue, a number of material issues have been resolved, as a result of which a prior year credit has arisen.

8		1995 £m	1994 £m
	Dividends		
	Interim paid	32.4	68.0
	Final proposed	32.6	30.0
		65.0	98.0

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

9 (a) 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 1994	47.4	467.0	168.9	745.7	1429.0
Reclassification	-	(0.8)	0.8	-	-
	-----	-----	-----	-----	-----
	47.4	466.2	169.7	745.7	1429.0
Additions					
Transfers from fellow subsidiary undertakings	1.2	61.5	15.1	112.6	190.4
Grants and contributions	0.1	-	-	-	0.1
Disposals	-	(11.3)	-	-	(11.3)
Transfers to fellow subsidiary undertakings	-	-	(2.1)	-	(2.1)
	-----	-----	-----	-----	-----
At 31 March 1995	48.5	516.4	182.7	858.2	1605.8
	=====	=====	=====	=====	=====
Accumulated depreciation					
At 1 April 1994	11.7	-	91.6	163.1	266.4
Charge for the year	1.0	-	15.0	19.4	35.4
Written off in year	0.7	-	-	-	0.7
Disposals	-	-	(1.6)	-	(1.6)
	-----	-----	-----	-----	-----
At 31 March 1995	13.4	-	105.0	182.5	300.9
	=====	=====	=====	=====	=====
Net book value					
At 31 March 1995	35.1	516.4	77.7	675.7	1304.9
	=====	=====	=====	=====	=====
At 31 March 1994	35.7	467.0	77.3	582.6	1162.6
	=====	=====	=====	=====	=====
Analysis of net book value at 31 March 1995					
Owned	35.1	516.4	77.6	607.0	1236.1
Held under finance leases	-	-	0.1	68.7	68.8
	-----	-----	-----	-----	-----
	35.1	516.4	77.7	675.7	1304.9
	=====	=====	=====	=====	=====

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

9 (b) Tangible fixed assets - analysis by service

	Water services £m	Sewerage services £m	Other trading activities £m	General £m	Total £m
Cost					
at 1st April 1994	676.3	611.8	0.5	140.4	1429.0
Additions	98.4	76.2	-	15.8	190.4
Transfers from fellow subsidiary undertakings	-	-	-	0.1	0.1
Grants & contributions	(6.6)	(4.8)	-	0.1	(11.3)
Disposals	-	-	-	(2.1)	(2.1)
Transfers to fellow subsidiary undertakings	(0.1)	-	(0.2)	-	(0.3)
At 31 March 1995	<u>768.0</u>	<u>683.2</u>	<u>0.3</u>	<u>154.3</u>	<u>1605.8</u>
Accumulated Depreciation					
at 1st April 1994	94.5	103.3	-	68.6	266.4
Charge for the year	10.9	11.3	-	13.2	35.4
Written off in year	-	-	-	0.7	0.7
Disposals	-	-	-	(1.6)	(1.6)
At 31 March 1995	<u>105.4</u>	<u>114.6</u>	<u>-</u>	<u>80.9</u>	<u>300.9</u>
Net Book Value					
At 31 March 1995	<u>662.6</u>	<u>568.6</u>	<u>0.3</u>	<u>73.4</u>	<u>1304.9</u>
At 31 March 1994	<u>581.8</u>	<u>508.5</u>	<u>0.5</u>	<u>71.8</u>	<u>1162.6</u>
Analysis of net book value at 31 March 1995					
Owned	614.9	547.6	0.3	73.3	1236.1
Held under finance leases	47.7	21.0	-	0.1	68.8
	<u>662.6</u>	<u>568.6</u>	<u>0.3</u>	<u>73.4</u>	<u>1304.9</u>

DŴR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1995

9 (c) Tangible fixed asset

- (i) Tangible fixed assets at 31 March 1995 include £188.5m (1994 £184.5m) of assets in the course of construction, which are not depreciated until commissioned.
- (ii) Reclassification 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 6. 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 6 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 £103.5m (1994 £92.2m) lower than it would have been had this treatment not been adopted.

10 Fixed asset investments

The Company has fixed asset investments of £0.1m (1994 £0.1m) as follows:-

Equity in the following subsidiary company:-

	Country of Registration	Description of shares held	Proportion Held
Welsh Water Utilities Finance Plc	England and Wales	£1 ordinary shares	100%

Welsh Water Utilities Finance Plc is an investment company providing long term funding for Dŵr Cymru Cyfyngedig. The share capital and reserves of that company at 31 March 1995 were:-

	£'000
Share capital	50
Reserves	156

	206
	=====

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

10 Fixed asset investments (continued)

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.

11 Stocks and work in progress

	1995 £m	1994 £m
Consumable stores	5.0	4.1
Work in progress	0.7	1.0
	<u>5.7</u>	<u>5.1</u>

12 Debtors

	1995 £m	1994 £m
Amounts falling due within one year:		
Trade debtors	39.8	41.2
Amounts owed by parent and fellow subsidiary undertakings	0.3	0.5
Other debtors	13.0	13.5
Prepayments and accrued income	21.4	22.1
	<u>74.5</u>	<u>77.3</u>
Amounts falling due after more than one year:		
Other debtors	5.0	1.6
	<u>79.5</u>	<u>78.9</u>

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

13 Current asset investments

	1995 £m	1994 £m
(a) Investments:		
Fixed term and call deposits	256.4	207.9
Other money market investments	15.0	10.0
	-----	-----
	271.4	217.9
Original maturity periods are as follows:		
Within three months and regarded as cash equivalents in the cashflow statement		
Over three months	43.9	58.4
	227.5	159.5
	-----	-----
	271.4	217.9
	=====	=====

Of the above amounts, with an original maturity of over three months, £13.0m (1994 £30.0m) matures more than one year after the balance sheet date.

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

(b) Interest rate swaps:

The Company has entered into interest rate swap arrangements in order to manage the interest rate exposure of the Company and not for trading or speculative purposes.

Outstanding interest rate swap arrangements are summarised as follows:-

	Notional principal balance £m	Termination dates	Interest rates receivable
At 31 March 1995	120.0	Sept 95 - Jan 97	6.525% - 7.420%

The company had no interest rate swap arrangements at 31 March 1994.

14 Creditors

	Note	1995 £m	1994 £m
(a) Amounts falling due within one year:			
Bank loans and overdrafts		24.8	25.2
Other loans	15	2.8	2.8
Obligations under finance leases	16	-	1.7
Trade creditors		74.9	62.5
Amounts owed to parent and fellow subsidiary undertakings		18.2	18.6
Amounts owed to subsidiary undertaking		0.5	0.3
Dividend proposed		32.6	30.0
Corporation tax		6.5	3.5
Other taxation and social security		1.9	1.1
Other creditors		49.6	51.8
Accruals and deferred income		0.5	0.5
		-----	-----
		212.3	198.0
		=====	=====

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

(b) **Amounts falling due after more than one year:**

Other loans	15	85.9	78.6
Obligations under finance leases	16	73.4	63.8
Amounts owed to subsidiary undertaking		197.3	122.3
Other creditors:			
Between one and five years		2.1	3.0
		<u>358.7</u>	<u>267.7</u>

Amount owed to subsidiary undertaking comprises loans of £99.1m and £98.2m at interest rates of 7.125% and 7.625% and are repayable after 2004 and 2014 respectively.

15 Loans

	1995 £m	1994 £m
Other Loans		
Repayable by instalments after five years	88.7	81.4
	<u>88.7</u>	<u>81.4</u>
Due for repayment as follows:		
Within one year	2.8	2.8
Between one and two years	2.7	2.7
Between two and five years	16.7	12.3
After more than five years	66.5	63.6
	<u>88.7</u>	<u>81.4</u>

Interest rates on these loans range between 6.7% and 11.2%.

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

16 Finance leases

Amounts due under finance leases are payable as follows:

	1995 £m	1994 £m
Within one year	-	1.7
Between one and two years	-	0.5
After five years	73.4	63.3
	-----	-----
	73.4	65.5
	=====	=====

As a consequence of the rescheduling of finance leases in 1995, amounts reported as falling due within one year and between one and two years in 1994 has been reprofiled as falling due after five years.

The Company arranged a long dated interest rate swap on 1st April 1994 which had the effect of fixing the rate of interest at 7.8% on floating rate sterling finance lease obligations of £63.6m, which reduces over a term of 20 years.

17 Capital commitments

	1995 £m	1994 £m
Contracted for but not provided in the financial statements	76.2	74.4
	=====	=====
Authorised but not yet contracted for	83.2	41.9
	=====	=====

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.

18 Leasing commitments

	Land and buildings		Other	
	1995 £m	1994 £m	1995 £m	1994 £m
At 31 March 1995 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	0.2	0.3	1.2
After five years	0.5	0.3	-	-
	-----	-----	-----	-----
	0.7	0.5	0.3	1.2
	=====	=====	=====	=====

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

19 Provisions for liabilities and charges

	Note	1995 £m	1994 £m
Infrastructure maintenance provision	(b)	23.9	13.4
Deferred income	(c)	33.3	35.4
Restructuring provision	(d)	10.1	-
		67.3	48.8
		67.3	48.8

(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 amount unprovided of the total potential liability for deferred taxation comprises:

	Amount unprovided	
	1995 £m	1994 £m
Tax effect of timing difference		
Excess of tax allowances over depreciation	193.9	155.5
Other timing differences	(1.7)	(1.2)
	192.2	154.3
	192.2	154.3

(b) Infrastructure maintenance provision

	1995 £m	1994 £m
At 1 April	13.4	9.9
Charge for the year	23.4	22.2
Expenditure in the year	(12.9)	(18.7)
	23.9	13.4
At 31 March	23.9	13.4

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. The above provision represents the difference between the annual anticipated expenditure for infrastructure maintenance and that actually incurred.

Acer Services Limited

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1995

Registered no: 2220702

Registered Address:

Acer House
Medawar Road
Surrey Research Park
Guildford
Surrey
GU2 5AR

Acer Services Limited

**Directors' Report and Financial Statements
for the year ended 31 March 1995**

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Directors' report	1
Balance sheet	2

Report of the Directors

The directors present their report and the financial statements for the year ended 31 March 1995.

Principal Activity

The Company was dormant throughout the whole of the financial period. There has been no income or expenditure and therefore the Company made neither a profit or a loss.

Directors

The directors who served during the year were as follows:

S E Hamilton-Eddy
P J Twamley

Directors' interests

No director had any interest in the share capital of the Company.

Details of P J Twamley's interests in the share capital of the ultimate holding company, Welsh Water PLC, are disclosed in the Directors' Report of that Company.

Details of S E Hamilton-Eddy's interests in the share capital of the ultimate holding company, Welsh Water PLC, are disclosed in the Directors' Report of Acer Group Limited.

By order of the board



R G Curtis
Secretary

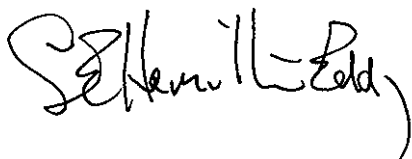
7 June 1995

**Balance sheet
at 31 March 1995**

	31 March 1995 £'000	31 March 1994 £'000
Current assets		
Amounts owed to group undertakings	<u>10</u>	<u>10</u>
Capital and reserves		
Called up share capital		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

The directors confirm that the Company was dormant within the meaning of section 250 of the Companies Act 1985 throughout the accounting period ended 31 March 1995.

Approved by the board of directors on 7 June 1995 and were signed on its behalf by:



Director

Notes

- 1 The company's ultimate holding company is Welsh Water PLC, which is registered in England and Wales. Copies of the Report and Accounts of Welsh Water PLC are available from: The Company Secretary, PO Box 295, Alexandra Gate, Rover Way, Cardiff, CF2 2UE.

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

19 Provision for liabilities and charges (continued)

(c) Deferred income

	1995 £m	1994 £m
At 1 April	35.4	34.4
Received during the year	2.0	2.0
Released to profit and loss account	(4.1)	(1.0)
At 31 March	<u>33.3</u>	<u>35.4</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.

(d) Restructuring provision

	1995 £m	1994 £m
At 1 April	-	-
Provision made in the year	17.0	-
Utilised in the year	(6.9)	-
At 31 March	<u>10.1</u>	<u>-</u>

20 Called up share capital

	1995 £m	1994 £m
Authorised: 301,050,000 Ordinary shares of £1 each	<u>301.1</u>	<u>301.1</u>
Allotted, called up and fully paid: 276,050,000 Ordinary shares of £1 each	<u>276.1</u>	<u>276.1</u>

21 Reserves

Profit and loss account

	1995 £m	1994 £m
At 1 April	677.2	635.6
Profit retained for the year	73.2	41.6
At 31 March	<u>750.4</u>	<u>677.2</u>

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

22	Net cash inflow from operating activities		1995 £m	1994 £m
	<u>Continuing operations:</u>			
	Operating profit		152.8	153.1
	Depreciation of tangible fixed assets		35.4	34.1
	Tangible fixed assets written off		0.7	-
	Infrastructure maintenance accrual		10.5	3.5
	Amortisation of grants and contributions		(4.1)	(1.0)
	Restructuring provision		10.1	-
	Net (increase)/decrease in stocks		(0.6)	0.9
	Net decrease/(increase) in debtors		1.2	(8.7)
	Net increase in creditors		2.2	13.6
	Net cash inflow from continuing operating activities		208.2	195.5
			208.2	195.5
23	Analysis of changes in financing in the year			
				Long term loans & finance lease obligations
			1995 £m	1994 £m
	At 1 April		274.3	131.7
	Long term loan received		10.0	-
	Loan received from parent undertakings		8.3	5.1
	Loan received from subsidiary undertakings		75.0	122.3
	New finance leases		8.1	16.4
	Loan repayments		(2.7)	(0.9)
	Finance lease repayments		(0.2)	(0.3)
	At 31 March		372.8	274.3
			372.8	274.3
24	Analysis of changes in cash and cash equivalents in the year			
		Note	1995 £m	1994 £m
	At 1 April			
	Net cash (outflow)/inflow	26	36.4 (14.1)	23.2 13.2
	At 31 March	26	22.3	36.4
			22.3	36.4

DŴR CYMRU CYFYNGEDIG

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995**

25 Analysis of changes in deposits and investments in the year

	1995 £m	1994 £m	1995 Change in year £m	1994 Change in year £m
Fixed term and call deposits and other money market investments	227.5	159.5	68.0	92.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 and treasury activity, rather than an investing activity, in the cashflow statement.

26 Analysis of cash and cash equivalents

	1995 £m	1994 £m	1995 Change in year £m	1994 Change in year £m
Cash at bank and in hand	3.2	3.2	-	3.2
Short term deposits and investments	43.9	58.4	(14.5)	26.2
Bank loans and overdrafts	(24.8)	(25.2)	0.4	(16.2)
	----- 22.3	----- 36.4	----- (14.1)	----- 13.2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

27 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.

28 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 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.

DŴR CYMRU CYFYNGEDIG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1995

28 Pension schemes (continued)

The market value of the assets at the valuation date for the WPS 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 £6.5m (1994 - £6.6m).

29 Elan 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 Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989. The assets of the Fund are not included in these financial statements.

30 Contingent liabilities

The Company has provided guarantees in respect of the principal and interest payments relating to Eurobonds issued by its subsidiary undertaking, Welsh Water Utilities Finance PLC, amounting to £200m (1994 £125m).

31 Ultimate 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.

DŴR CYMRU CYFYNGEDIG
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1995

Five year summary

	Year ended 31 March				
	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m
Turnover	287.6	334.0	363.1	396.2	415.5
Operating profit	95.9	121.6	132.5	153.1	152.8
Profits on disposal of fixed assets	0.3	1.4	2.2	0.3	0.2
Net interest receivable/(payable)	31.8	16.8	4.3	(4.4)	(10.8)
Profit on ordinary activities before taxation	128.0	139.8	139.0	149.0	142.2
Taxation	-	(10.0)	1.7	(9.4)	(4.0)
Profit on ordinary activities after taxation	128.0	129.8	140.7	139.6	138.2
Dividends	(74.5)	(108.4)	(74.7)	(98.0)	(65.0)
Retained profit for the year	53.5	21.4	66.0	41.6	73.2
Fixed asset	779.6	911.8	1045.6	1162.7	1305.0
Net current assets	111.6	95.4	44.2	107.1	147.5
Total assets less current liabilities	891.2	1007.2	1089.8	1269.8	1452.5
Creditors : amounts falling due after more than one year	(18.8)	(110.1)	(133.8)	(267.7)	(358.7)
Provisions for liabilities and charges	(48.1)	(51.4)	(44.3)	(48.8)	(67.3)
Net assets	824.3	845.7	911.7	953.3	1026.5
Capital and reserves					
Called up share capital	276.1	276.1	276.1	276.1	276.1
Reserves	548.2	569.6	635.6	677.2	750.4
Equity shareholders' funds	824.3	845.7	911.7	953.3	1026.5

- (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 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.